

**BRITISH ENERGY GROUP PLC**  
**NINE MONTHS INCLUDING THIRD QUARTER TO 31 DECEMBER 2006**  
**OF THE FINANCIAL YEAR ENDING 31 MARCH 2007**

**Key Points**

- British Energy Group plc (British Energy) has delivered an improvement in financial performance for the nine months ended 31 December 2006 (the period) compared with the nine months ended 1 January 2006 (the comparable period), having benefited from higher achieved electricity prices, despite nuclear output being impacted by technical issues at a number of our stations.

	Nine months ended 31 December 2006 (FY 2006/07)	Nine months ended 1 January 2006 (FY 2005/06)
Adjusted EBITDA* (£m)	<b>775</b>	<b>462</b>
Operating profit before NLF Cash Sweep Payment (£m)	<b>626</b>	<b>347</b>
Net profit before NLF Cash Sweep Payment (£m)	<b>360</b>	<b>173</b>

<i>Basic earnings per share</i>	<b>63.2p</b>	<b>30.6p</b>
<i>Adjusted earnings per share after taking account of NLF Cash Sweep economic interest at 64.23%**</i>	<b>27.1p</b>	<b>13.6p</b>

- The results for the period reflect the benefit of higher electricity prices with an operating margin increased to £14.0/MWh for the period from £6.4/MWh in the comparable period.
- Realised price was £40.8/MWh for the period, up £11.8/MWh (41%) from the comparable period.
- Unit operating costs increased to £26.8/MWh for the period from £22.6/MWh in the comparable period, reflecting lower output and increases in controllable operating costs due to cost pressure in the second half of the financial year 2006/07 in line with previous guidance and as a result of boiler issues. This includes approximately £25m (£6m for the period) increase in investment in plant in the financial year 2006/07 as a result of boiler issues.
- Operating cash inflow was £448m for the period. Net cash increased in the period by £264m to a net positive cash position of £451m including collateral of £170m. Cash and cash equivalents and restricted cash were £1,077m as at 31 December 2006 (£844m as at 31 March 2006).
- Total output for the period was 44.0TWh (nuclear 38.9TWh, coal 5.1TWh), down from 48.7TWh for the comparable period (nuclear 43.9TWh, coal 4.8TWh).
- Total output for the period was lower than the comparable period primarily due to losses incurred in connection with boiler issues at Hinkley Point B and Hunterston B and repairs to cast iron pipework at Hartlepool and reflects nuclear unplanned capability loss factor of 20% for the period, up from 13% for the comparable period. Nuclear unplanned capability loss factor, excluding boiler issues, was 14% for the period (nuclear unplanned capability loss factor for the corresponding period, excluding losses attributable to boiler closure unit inspections at Hartlepool and Heysham 1 was 10%).
- Please refer to the Operational Review for an update of boiler issues at Hinkley Point B and Hunterston B.
- Total output for the period to 4 February 2007 for the financial year 2006/07 was 50.1TWh (nuclear 43.9TWh, coal 6.2TWh) after total nuclear unplanned losses for the period to 4 February 2007 of 16.6TWh (being unplanned losses of 10.5TWh excluding boiler issues and unplanned losses of 6.1TWh due to boiler issues). Subject to any further work arising as a result of ongoing discussions with the NII regarding boiler issues at Hunterston B and Hinkley Point B, nuclear unplanned losses due to boiler issues for the financial year 2006/07 (including boiler losses to 4 February 2007) are expected to be around 9TWh.

- Investment in plant projects, major repairs and strategic spares is expected to be toward the higher end of the range £250m to £300m for the financial year ending 31 March 2007 excluding approximately £25m incurred in connection with boiler issues at Hunterston B and Hinkley Point B. The Company expects to continue to invest toward the higher end of the range £250m to £300m in financial year 2007/08. Investment in plant over the medium term is likely to be affected by the outcome of the Company's boiler management strategy and life extension decisions for Hinkley Point B and Hunterston B and as a result may increase.
- As at 4 February 2007, the Company had fixed price contracts in place for approximately all of its planned output for the financial year 2006/07 at an average contract price of approximately £44/MWh including the impact of approximately 5TWh of capped contracts.
- In addition, as at 4 February 2007, the Company had fixed price contracts in place for approximately 46TWh for the financial year 2007/08 at an average price of approximately £44/MWh excluding approximately 5TWh of capped contracts at around £30/MWh. The capped contracts are for delivery of 5TWh per annum up to March 2011.
- As at 4 February 2007, the Company had 70.9TWh of zero/capped collateral trades that will deliver over the period to April 2012 at fixed prices (excluding power already delivered under these contracts), up from 62.0TWh at 12 November 2006 for delivery over the period to April 2011. The Company has extended the weighted average life of its structured contract portfolio from around 16 months as at the beginning of this financial year to around 19 months as at 4 February 2007.
- Nuclear, industrial, radiological and environmental safety remains our overriding priority.
- The Company is launching a process to invite potential partners to submit proposals for new nuclear generation projects in the UK.

The NLF Cash Sweep percentage was 64.23% as at 31 December 2006, down from 64.63% at 31 March 2006 as a result of the exercise of approximately 1.9 million of the Company's Warrants and the Cash Sweep adjustment of approximately 0.3% due to the NLF Cash Sweep Payment in September 2006.

No accrual for any potential NLF Cash Sweep Payment in respect of the financial year 2006/07 has been made in these interim financial statements in line with the Group's accounting policy. An accrual will be made at 31 March 2007 for any NLF Cash Sweep Payment in respect of the financial year 2006/07.

The Secretary of State for Trade and Industry stated on 20 July 2006 that the Government is actively considering a sale of part of its stake in British Energy via a capital markets transaction.

Bill Coley, CEO of British Energy, said:

"We have today launched a process to invite potential partners for new nuclear generation projects in the UK. Construction of new nuclear power stations is critical to meeting the UK's security of supply and climate change objectives. Electricity is essential to continued economic growth, jobs and quality of life for the people of the UK today and into the future. As the major UK nuclear generator, British Energy has capabilities and assets important to providing the electricity we need. British Energy can make a valuable contribution to the country through a new nuclear generation programme and, in the process, create more UK jobs and drive shareholder value. This is an exciting opportunity for our Company."

	Nine months ended 31 December 2006 (FY 2006/07)	Nine months ended 1 January 2006 (FY 2005/06)
Revenue (£m)	2,113	1,704
Operating and energy costs (£m)	(1,338)	(1,242)
<b>Adjusted EBITDA * (£m)</b>	<b>775</b>	<b>462</b>
Depreciation and amortisation (£m)	(155)	(140)
Other operating income (£m)	52	55
Other exceptional operating expenses (£m)	(17)	-
Unrealised net losses on financial instruments and commodity contracts (£m)	(29)	(30)
<b>Operating profit before NLF Cash Sweep Payment (£m)</b>	<b>626</b>	<b>347</b>
<b>Net profit before NLF Cash Sweep Payment (£m)</b>	<b>360</b>	<b>173</b>
NLF Cash Sweep Payment ** (£m)	-	-
Net profit for the period attributable to shareholders (£m)	360	173

Realised price (£/MWh)	40.8	29.0
Unit operating cost (£/MWh)	26.8	22.6
Operating margin (£/MWh)	14.0	6.4

<b>Adjusted operating profit (excluding certain items)*** (£m)</b>	<b>620</b>	<b>322</b>
<b>Adjusted net profit (excluding certain items)*** (£m)</b>	<b>432</b>	<b>208</b>
<b>Adjusted earnings per share (excluding certain items)*** after taking account of NLF Cash Sweep economic interest at 64.23% ** (p)</b>	<b>27.1p</b>	<b>12.9p</b>

Nuclear unplanned capability loss factor (%)	20	13
Total output (TWh)	44.0	48.7
Nuclear (TWh)	38.9	43.9
Coal (TWh)	5.1	4.8

	As at 31 December 2006	As at 1 January 2006	As at 31 March 2006
Cash and cash equivalent (excluding restricted cash) (£m)	902	362	638
Debt (£m)	(626)	(676)	(626)
Present value of NLF fixed decommissioning payments**** (£m)	(218)	(224)	(221)
Net cash/(debt) less present value of fixed decommissioning payments (excluding restricted cash) (£m)	58	(538)	(209)

Restricted cash (£m)	175	249	206
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\*Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net gains/(losses) on financial instruments and commodity contracts, NLF Cash Sweep Payment, other exceptional operating expenses and other operating income/(costs). The Directors believe that the adjusted measure provides a better indication of underlying business performance.

*\*\*The amount of the NLF Cash Sweep Payment and the net profit attributable to equity shareholders in any given financial year does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. As described in note 6 to the financial statements, the computation of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves.*

*The Directors believe that a more appropriate measure of earnings per share can be computed on the basis of Net Profit before the NLF Cash Sweep Payment, adjusted for the impact of the NLF Cash Sweep Payment on taxation, divided by the enlarged number of shares that would have been in issue had the NLF fully converted its interest at 31 December 2006. This would result in an adjusted earnings per share of 27.1 pence for the nine months ended 31 December 2006 (comparable period: 13.6 pence).*

*\*\*\*Results for the nine months ended 31 December 2006 have been adjusted to exclude unrealised net gains/(losses) on financial instruments and commodity contracts, NLF Cash Sweep Payment, other operating income/(costs) and other exceptional operating expenses and include where appropriate the corresponding adjustments to taxation and revaluation thereon.*

*\*\*\*\*The Group makes fixed decommissioning payments to the NLF which, though not interest bearing, have some characteristics similar to debt including the benefit of a charge over the Group's nuclear power stations and the right to prepayment in certain circumstances if the Bonds are prepaid.*

*Certain defined terms used in these results are contained in the Glossary at the back of this statement.*

### **Management Presentation and Conference Call**

Management will host a conference call and webcast for analysts, institutional investors and bondholders at 9:15am (UK time) today, 13 February 2007 and dial in facilities can be accessed by dialling:

UK dial in: 0845 146 2004  
International dial in: +44 (0) 1452 569 393

There will be a replay facility for 7 days:

UK dial in: 0845 245 5205  
International dial in: +44 (0) 1452 550 000  
PIN (access) no: 6276400

Management will host a further conference call at 2:00pm (UK time), 13 February 2007. The conference can be accessed by dialling:

UK dial in: 0845 146 2004  
International dial in: +44 (0) 1452 569 393

There will be a replay facility for 7 days:

UK dial in: 0845 245 5205  
International dial in: +44 (0) 1452 550 000  
PIN (access) no: 6331209

For further information please contact:

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A copy of this release and a copy of the presentation in pdf file format can be found on the Company's website at [www.british-energy.com](http://www.british-energy.com).

## **UK Energy Review**

The Energy Review Report stated that the Government believes that nuclear “has a role to play” in the future UK generating mix “because of its contribution to increased diversity of energy supplies and its role as a source of low carbon generation”. The report also launched a consultation on this view and a proposed regulatory framework for new nuclear power stations. The Government proposed, subject to this consultation, to confirm its policy on new nuclear power stations in a White Paper due to be published in Spring 2007.

In the short term, the Company intends to conduct preliminary work with a view to confirming and enhancing the value of the Group’s assets, including site studies and dialogue with industry suppliers. The Company will also review and consider various options for the development, financing, construction and operation of new nuclear stations, and will concurrently evaluate partnership structures involving joint ventures and other arrangements in order to identify those that offer best value for its shareholders.

Over time, the Company’s intent is to develop a position at the heart of new nuclear generation activity that protects the integrity of its existing operations, makes full use of the Group’s assets (people, sites and reputation) and maximises value for its shareholders.

## **British Energy to invite potential partners for new nuclear generation projects**

British Energy is launching a process to invite potential partners to submit proposals for new nuclear generation projects in the UK. Potential partners will be asked to indicate the nature and scale of their interest and how they wish to work with British Energy in developing, building and operating new nuclear stations and/or their interest in the electrical output. British Energy intends to work with potential partners whose proposals offer the prospect of maximum value creation.

If the Government confirms its policy support for new nuclear as part of the Energy White Paper that is expected this Spring, selection of any proposals and the start of any work would take place after that confirmation.

The Company believes that it brings capabilities and assets which are scarce in the UK and which will add significant value in any programme of new nuclear generation. These include staff with relevant operational and maintenance experience, site consenting and nuclear licensing processes and expertise, established working relationships with government agencies, companies and other stakeholders in new nuclear generation projects and experience and ownership of candidate sites.

British Energy owns land next to its stations and a further site (Bradwell, adjacent to the decommissioning Magnox nuclear plant). This land may be well-suited to new nuclear generation due to the physical site characteristics, established relations with local communities and existing access to electrical grid connections and to cooling water.

The partnerships the Company intends to establish will have the objective of developing new capacity on one or more of its sites. It is intended that selection of specific sites will take into account:-

- site environmental analysis, community support for new nuclear generation, job creation and economic impact and engineering and economic analyses to be undertaken over the next 18-24 months
- any Strategic Siting Assessment undertaken by Government after publication of the Energy White Paper.

## OPERATIONAL REVIEW

### Plant Output and Performance

Total output for the period was 44.0TWh (nuclear 38.9TWh, coal 5.1TWh), down from 48.7TWh for the comparable period (nuclear 43.9TWh, coal 4.8TWh). Nuclear output for the period was lower than the comparable period primarily due to losses incurred in connection with boiler issues at Hinkley Point B and Hunterston B and repairs to cast iron pipework at Hartlepool and reflects nuclear unplanned capability loss factor of 20% for the 9 month period, up from 13% for the comparable 9 month period. Nuclear unplanned capability loss factor, excluding boiler issues, was 14% for the 9 month period.

Total output to 4 February 2007 for the current financial year ending 31 March 2007 was 50.1TWh (nuclear 43.9TWh, coal 6.2TWh) after total nuclear unplanned losses for the period to 4 February 2007 of 16.6TWh (being unplanned losses of 10.5TWh excluding boiler issues and unplanned losses of 6.1TWh due to boiler issues).

Subject to any further work arising regarding boiler issues at Hunterston B and Hinkley Point B, nuclear unplanned losses due to boiler issues for the financial year 2006/07 (including boiler losses to 4 February 2007) are expected to be around 9TWh.

Nuclear output losses for the financial year ending 31 March 2008 due to the impact of planned non-routine events, excluding the impact of boiler issues at Hinkley Point B and Hunterston B power stations, are expected to be approximately 1.5TWh. The impact of losses due to boiler issues is now expected to be approximately 6TWh. In addition, the historical range of small and large unplanned losses per annum over the previous six financial years has been between 9TWh and 18TWh with a mean of 12TWh.

#### *Boiler issues update*

The Company has completed all boiler inspections at Hunterston B and Hinkley Point B. Required repair work has been completed at Hinkley Point B and will be completed next month at Hunterston B.

The Company has submitted the necessary safety cases to the NII for the return to service of all four units at around 70% load factor. The Company is making good progress with the NII and providing appropriate supporting information so that the Company and the NII can be satisfied as to the integrity of the boilers. The Company believes that these safety case issues will be resolved in February and March 2007.

As previously indicated we brought forward certain work that had been planned for a planned two unit Outage at Hunterston B in April 2007. Part of the work to be accomplished during this Outage was inspection of the reserve cooling water feed tanks. These inspections have shown that repairs are needed to these tanks before returning the two units at Hunterston B to service. These repairs, which are of a conventional structural nature, are unconnected to the boiler safety case work and are expected to be completed during March and April 2007.

The Company is making good progress and now expects, subject to agreement of safety cases by the NII, boiler issues at two units at Hunterston B and two units at Hinkley Point B to be resolved during February and March 2007 thereby clearing boilers as the gating item for return to service. The two units at Hinkley Point B are expected to return to service in March 2007. The work brought forward on the repair of reserve cooling water feed tanks at Hunterston B may entail the return to service of one or potentially two units at Hunterston B being delayed to April 2007.

With the aim of maximising value, the Company will undertake an assessment regarding operating these four units at higher Capacity subject to the analysis of the inter relationship with boiler life, station life and safety cases. It is likely that any increase in Capacity would involve further inspections, additional repair work and modifications over the medium term. The Company intends to undertake further inspections over the next two financial years to provide further data to support Capacity and lifetime decisions. As a result, the impact of operating at around 70% load factor and these further inspections are now expected to give rise to losses due to boiler issues in the financial year 2007/08 of approximately 6TWh.

A decision on life times for these stations is expected to be made by the Company by 31 March 2008. It is expected that the work related to boilers will make this schedule challenging. Any decision to increase Capacity would be based on economics and maximising value, incorporating the Company's lifetime boiler management programme. Life extension of these two stations could be economically unjustifiable, depending on projected operating capacity and forecasts of electricity prices, along with all other factors considered in the life extension decision.

The NII has informed the Company that its decision on the periodic safety reviews for Hinkley Point B and Hunterston B has been delayed to April 2007. This is in part due to the additional work load at the NII arising from the boiler issues and their resource constraints. This work will form one part of an overall assessment of life extension for these stations.

#### *Hartlepool Update*

Both units at Hartlepool returned to service in December 2006 following repairs to cast iron pipework related to the cooling water system. Additional work will be performed within the next planned statutory Outage in financial year 2007/08.

#### *Dungeness B Update*

Dungeness B returned to service on 14 January 2007 following an extended refuelling associated with the fuel plug unit long term Safety Case. The Safety Case identified that there was a risk of failure of certain welds in the fuel plug unit under certain fault conditions during refuelling. As a result, the refuelling procedures at Dungeness B power station were modified in October 2006. These modified refuelling procedures will result in refuelling Outages taking approximately three times longer to complete until further modifications can be made. It is intended to undertake these modifications and return to normal refuelling Outage durations during the course of the next financial year.

One unit at Dungeness B has recently been shut down to undertake work in relation to a steam leak in one of its boilers. This is unrelated to the boiler issues at Hinkley Point B and Hunterston B. This problem has been encountered before at Dungeness B and its resolution well understood. Return to service is expected shortly.

#### *Heysham 2*

As part of the current routine refuelling machine Outage, the Company is undertaking inspection to determine the cause of a potential fault in the refuelling machine at Heysham 2. Return to service of the refuelling machine is dependent on further inspection and safety case work so as to be satisfied as to the integrity of the refuelling system. Torness has a similar design refuelling machine to Heysham 2 however initial assessment has indicated it is not affected by the issue referred to above.

#### **Continuous Improvement**

The Company's principal business objective remains improving operational reliability through: strategic investment in plant and people; enhanced maintenance and repair regimes; increasing the availability of strategic spares; improving human performance. The Company aims to achieve greater reliability and produce more electricity from its nuclear power stations. The Company has made progress with many key performance areas, including unplanned automatic trips, non-outage defect inventory, nuclear reportable events, lost time accidents and environmental events, and have seen underlying improvement in unplanned capability loss factor at a number of our stations although we have been impacted by a number of technical issues at other stations. These issues are an indication of the challenges presented by the improvement programme and it is expected to take longer to rectify under-investment in prior years. We remain pleased with the operating record of Sizewell B, which over the past two years is performing on par with other PWRs worldwide.

There were seven unplanned automatic trips in the period (comparable period: nine). Non-outage defect inventory at 31 December 2006 was 529 defects (comparable period: 1,774).

During the period, it was announced that the posts of Chief Nuclear Officer and Deputy Chief Nuclear Officer would be replaced by the introduction of a Chief Technical Officer and three Regional Chief Nuclear Officers all of whom report to the Chief Executive. The Regional Chief Nuclear Officers focus on specific plants grouped by technology so as to further focus on station operations, performance improvement and station life extensions. The relevant regulatory consents to the new posts have now been obtained.

#### *Investment*

Statutory Outages have been completed at Torness, Dungeness B, Sizewell B and Hartlepool. Units at Hunterston B and Hinkley Point B have remained shutdown following statutory Outages for inspection and repair of boiler tube components.

Significant investment in plant in the period includes the replacement of the reactor pressure vessel head and upgrade of the refuelling machine at Sizewell B, repair of cast iron pipework at Hartlepool and boiler tube inspection and repair at Hunterston B and Hinkley Point B.

Investment in plant projects, major repairs and strategic spares is targeted to sustain and improve operational performance and improve the prospects for life extension. In the financial years 2005/06 and 2006/07 a high proportion of nuclear investment has been directed to regulatory and essential works. As part of the 2007/08 financial year's annual planning, the Company expects the proportion of spend directed toward maintenance to increase, lowering the amount it expects to capitalise. A significant proportion of the Company's nuclear investment (including regulatory and essential works, strategic spares and investment in connection with lifetime extensions) cannot be expected to directly improve the reliability of the nuclear power stations.

Investment in plant projects, major repairs and strategic spares is expected to be toward the higher end of the range £250m to £300m for the financial year ending 31 March 2007 excluding approximately £25m incurred in connection with boiler issues at Hunterston B and Hinkley Point B. The Company expects to continue to invest toward the higher end of the range £250m to £300m in financial year 2007/08. Investment in plant over the medium term is likely to be affected by the outcome of the Company's boiler management strategy and life extension decisions for Hinkley Point B and Hunterston B and as a result may increase.

Total investment in plant projects, major repairs and strategic repairs in the period was £213m (including £18m PIP staff costs) up from £170m in the corresponding period (including £18m PIP staff costs).

Investment in plant includes:

- regulatory and essential works (including work required to sustain safety cases),
- maintenance costs associated with maintaining reliability (including for emergent work),
- costs incurred in connection with a view to enhancing the prospects of accounting lifetime extensions of nuclear power stations,
- cost incurred following decisions taken to extend the accounting lives of nuclear power stations,
- acquisition of strategic spares, and
- staff costs associated with the performance improvement programme.

The larger proportion of investment in plant projects, major repairs and strategic spares is considered to be of a recurring nature representing the ongoing investment requirements associated with the Company's power stations.

### **Safety and Environmental Performance**

Our overriding priority is to ensure that the nuclear, industrial, radiological and environmental safety of our operations is effectively managed and assured. Our focus on industrial safety has resulted in a significant improvement in contractor safety performance throughout 2006. During the quarter, final drafts of new permits under the Radioactive Substances Act and Pollution Prevention and Control Act were issued to the Company for all nuclear stations to come into effect early in 2007/08. They will not restrict output but impose generally tighter targets for emissions.

During the period, eight lost time accidents were incurred (comparable period: five lost time accidents); there were seven nuclear reportable events (comparable period: 12 events) and three environmental events (comparable period: seven events).

We are committed to identifying and embedding best practices throughout the fleet as a means of continually reinforcing our health and safety programme and improving our performance.

### **Recent developments**

The THORP spent fuel reprocessing facility (operated by BNGSL under contract to the Nuclear Decommissioning Authority) was shut down in 2005 following the failure of a pipe in a feed clarification cell which resulted in a quantity of dissolved nuclear fuel being released into a sealed, contained area. Although the NII gave consent for a restart of THORP in January 2007, an emerging technical problem now means that the return to service of THORP may be delayed. BNGSL has assured British Energy that it is taking necessary steps to maintain continuity of receipts of spent fuel at Sellafield from British Energy's AGR power stations, both during the current period of uncertainty regarding THORP and through to the end of the lives of British Energy's AGR power stations.

## TRADING REVIEW

### Market Conditions

The forward price for annual baseload electricity commencing in April 2007 fell from around £55/MWh at the start of April 2006 to around £28/MWh as at 4 February 2007, a reduction of around 49%. Electricity prices were dominated by events in the gas market as confidence increased in the expected delivery of new infrastructure and relatively mild winter weather. Summer 2007 gas prices fell from 48 pence per therm at the end of March 2006 to 20 pence per therm on 4 February 2007. The price of Phase 1 carbon allowances fell from approximately €30/tonne towards the end of April 2006 to around €2/tonne as at 4 February 2007. The price of phase 2 carbon allowances fell from approximately €33/tonne towards the end of April 2006 to around €15/tonne as at 4 February 2007.

Summer 2007 coal prices for delivery to European ports traded in the range \$58/tonne-\$71/tonne between April and December 2006 and as at 4 February 2007 were around \$67/tonne.

The market price of Uranium has increased significantly from the level at which we entered our existing fuel agreements, reaching US\$72 per pound by December 2006. Uranics accounted for approximately £94m of the Group's nuclear fuel costs in financial year 2005/06 (of which Uranium ore concentrate accounted for £30m). Our existing nuclear fuel agreements provide some protection against the increase in the market price of Uranium until financial year 2010/11. If Uranium prices stay at these levels the price rise would eventually increase the Company's costs by £130m per annum from the expected financial year 2006/07 prices. Future Uranium prices would begin to be reflected in the Group's income statement from the financial year 2009/10 as current stocks are depleted and would be substantially reflected during the following financial year. This would continue until the full value of the prevailing Uranium price is reflected during the financial year 2016/17. To augment these arrangements the Company has procured some natural Uranium in the form of hexafluoride (UF<sub>6</sub>) in the market place, the purchase of which was contracted in December 2006.

### Trading Performance

Realised price for the period was £40.8/MWh, an increase of £11.8/MWh compared with a realised price of £29.0/MWh for the comparable period. Our contracted price position continues to include the impact of a number of fixed and capped price contracts entered into at a time when significantly lower market prices prevailed. The contract portfolio also includes profiled contracts (both wholesale and direct sales) and therefore the contracted price is not directly comparable to a baseload market price.

As at 4 February 2007, the Company had fixed price contracts in place for approximately all of its planned output for the financial year 2006/07 at an average contract price of approximately £44/MWh including the impact of approximately 5TWh of capped contracts.

In addition, as at 4 February 2007, the Company had fixed price contracts in place for approximately 46TWh for the financial year 2007/08 at an average price of approximately £44/MWh excluding approximately 5TWh of capped contracts at around £30/MWh. The capped contracts are for delivery of approximately 5TWh per annum up to March 2011.

As at 4 February 2007, the Company had 70.9TWh of zero/capped collateral trades that will deliver over the period to April 2012 at fixed prices (excluding power already delivered under these contracts), up from 62.0TWh at 12 November 2006 for delivery over the period to April 2011. Certain of these trading arrangements will defer cash receipts by approximately £300m in the period up to 31 March 2008. This cash will be received over the period up to 2011 or sooner to the extent substituted by letters of credit. The Company has extended the weighted average life of its structured contract portfolio from around 16 months as at the beginning of this financial year to around 19 months as at 4 February 2007.

Cash collateral was £170m as at 31 December 2006, compared to £201m as at 31 March 2006. At 31 December 2006, approximately two thirds of the amounts receivable from industrial and commercial customers was insured.

On 18 December 2006, British Nuclear Group, part of the BNFL group of companies, and the NDA announced that they had recently launched a competitive tender process concerning the energy trading activities of the Magnox power stations. It was confirmed that British Energy had been selected as preferred bidder, subject to final negotiations and regulatory approvals. If successful, the transaction will provide British Energy with another route to market.

## FINANCIAL REVIEW

### Summary of Results

The unaudited results for the nine months ended 31 December 2006 (the period) and 1 January 2006 (the comparable period) are summarised as follows:

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Revenue</b>	<b>2,113</b>	1,704
Operating and energy costs	<b>(1,338)</b>	(1,242)
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>775</b>	462
Other operating income	<b>52</b>	55
Other exceptional operating expenses	<b>(17)</b>	-
Cash Sweep Payment	-	-
Depreciation	<b>(150)</b>	(136)
Amortisation	<b>(5)</b>	(4)
Unrealised net losses on financial instruments and commodity contracts	<b>(29)</b>	(30)
<b>Operating profit</b>	<b>626</b>	347
<b>Financing (charges)/credits</b>		
Interest payable	<b>(45)</b>	(38)
Interest receivable	<b>36</b>	18
Other finance income/(expenses)	<b>5</b>	(13)
<b>Profit before taxation</b>	<b>622</b>	314
Taxation	<b>(262)</b>	(141)
<b>Net profit for the period attributable to shareholders</b>	<b>360</b>	173

(1) Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net gains/(losses) on financial instruments and commodity contracts, Cash Sweep Payment, other exceptional operating expenses and other operating income/(costs)

### Revenue and Output

Group revenue consists primarily of wholesale generation sales and sales by our direct supply business, British Energy Direct. The analysis of revenue is as follows:

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Revenue</b>		
Wholesale generation sales	<b>877</b>	714
Direct supply sales	<b>916</b>	699
<b>Revenue from generated electricity</b>	<b>1,793</b>	1,413
Energy supply costs recharged to customers	<b>279</b>	266
Energy purchases	<b>33</b>	16
Miscellaneous income	<b>8</b>	9
<b>Total revenue</b>	<b>2,113</b>	1,704

Wholesale generation sales and direct supply sales have increased by £163m and £217m respectively from the comparable period. This is due to higher electricity prices which resulted in a realised price in the period of £40.8/MWh compared to the £29.0/MWh realised price in the comparable period. Realised price is calculated as revenue from generated electricity divided by total output. Our output in the period at 44.0TWh was 10% less than the output achieved in the comparable period.

Output is analysed as follows:

	Nine months ended 31 December 2006 TWh	Nine months ended 1 January 2006 TWh
Nuclear	38.9	43.9
Coal-fired power station - Eggborough	5.1	4.8
<b>Total output</b>	<b>44.0</b>	<b>48.7</b>

### Operating and Energy Costs Summary

The Group's operating and energy costs are analysed as follows:

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
Fuel costs – nuclear	216	256
– Eggborough	113	118
Total fuel costs	329	374
Materials and services	413	339
Staff costs	284	247
<b>Operating costs of generated electricity</b>	<b>1,026</b>	<b>960</b>
Energy purchases	33	16
Energy supply costs	279	266
<b>Total operating and energy costs</b>	<b>1,338</b>	<b>1,242</b>

The operating costs of generated electricity for the period were £1,026m; the increase in controllable operating costs (which exclude fuel costs and the portion of materials and services costs relating to the investment programme) from the comparable period is in line with our expectations for the full year excluding the increased operating costs associated with the current boiler issues at Hinkley Point B and Hunterston B.

### Unit Operating Cost and Operating Margin

Unit operating costs for the period were £26.8/MWh, compared to £22.6/MWh in the comparable period. Unit operating costs are calculated as operating costs of generated electricity plus depreciation and software amortisation, divided by total output. The increase in unit operating costs of £4.2/MWh is due to the decline in output, increased materials and services and staff costs, partially offset by a decrease in fuel costs. For further discussions on each of these refer to the sections below.

Deducting our unit operating costs from our realised price per unit results in an operating margin per unit of £14.0/MWh for the period compared to £6.4/MWh for the comparable period.

### Operating and Energy Costs

#### **Fuel Costs**

Total fuel costs for the period were £329m compared to £374m in the comparable period.

Nuclear fuel costs for the period were £216m, or £5.6/MWh of nuclear output after taking into account the required accounting treatment of back end final core costs, compared to £256m, or £5.8/MWh of nuclear output, in the comparable period. The decrease of £40m includes the benefit of an increased credit from a back end final core provision movement of £15m; the value of back end final core costs is linked to the amount of fuel that remains unburned in the reactors at the period end rather than being directly linked to the output of the period. Adjusting for this back end final core provision movement results in an underlying unit nuclear fuel cost of £5.9/MWh for the period, which is broadly consistent with the comparable period.

Eggborough fuel costs for the period were £113m, or £22.2/MWh of Eggborough output, compared to £118m, or £24.6/MWh of Eggborough output, for the comparable period. Eggborough fuel costs include the costs of coal, oil, biomass and costs related to carbon allowances. Excluding costs related to carbon allowances, Eggborough fuel costs were £94m, or £18.4/MWh of Eggborough output, compared to £89m, or £18.5/MWh of Eggborough output, in the comparable period. Carbon costs decreased from £29m in the comparable period to £19m in this period. The market price of Phase 1 carbon allowances has decreased in the period from approximately €27/tonne at 31 March 2006 to approximately €6/tonne at 31 December 2006 (€21/tonne at 1 January 2006). The benefit of the falling prices on the carbon costs of emissions in the period was £16m. The benefit has been partially offset by the net impact of losses realised on the close out of forward carbon allowance purchase contracts and the revaluations to the current market price of the carbon allowance liability from the previous financial year and the intangible asset representing delivered allowances under forward contracts.

### **Materials and Services**

Materials and services costs comprise the operating expenses of the power stations and support functions and totalled £413m for the period compared to £339m in the comparable period. Of the £74m increase, £33m relates to increased expenditure on projects included in our investment programme to improve the materiel condition of our plant. Expenditure on these projects was £106m in the period (comparable period: £73m). The remaining £41m of the increase in materials and services costs is mainly due to increased levels of station maintenance of £19m, programme management resources of £8m, insurance costs of £8m and a reduction in the transmission credit we receive from the National Grid from Hinkley Point B of £5m due to the reduction in output from that station.

### **Staff Costs**

Staff costs were £284m for the period, compared to £247m in the comparable period. Of the increase of £37m, £19m relates to the impact of the increase in staff numbers, the annual pay award and additional overtime due to extended outages. A further £10m of the increase relates to pension costs which are also impacted by increasing staff numbers and the annual pay awards.

### **Energy Purchases**

The Company purchases energy from renewable sources for two reasons, firstly to satisfy its customers' demands for energy to be produced from renewable sources and secondly to obtain Renewable Obligation Certificates (ROCs) to contribute towards satisfying our Renewable Obligation. The cost of electricity is accounted for in energy purchases, net of the value of ROCs and Levy Exemption Certificates (LECs); the value of the ROCs and LECs are accounted for separately within intangible assets. The volume of energy purchased from renewable resources was higher in the period compared to the comparable period, increasing from 0.4TWh to 0.8TWh, and has resulted in the energy purchases increasing from £16m in the comparable period to £33m in this period.

### **Energy Supply Costs**

Energy supply costs primarily comprise the costs to the Group of the Renewable Obligation Scheme, Transmission and Distribution Use of System costs (TNUOS and DUOS) and Balancing Services Use of System costs (BSUOS); all of which are fully recovered within revenue. The increase in energy supply costs from £266m in the comparable period to £279m in this period is primarily due to an increase of £12m in Renewable Obligation costs compared to the comparable period. The increase in the Renewable Obligation costs is due primarily to the progressive annual increase in the percentage of direct supply sales that must be sourced from renewable resources.

### **Other Operating Income**

Other operating income of £52m for the period (comparable period: £55m) relates to the utilisation of the contracts provision, established at the Restructuring Effective Date (RED), which unwinds over the lives of the contracts in place at RED.

### **Other Exceptional Operating Expenses**

Other exceptional operating expenses of £17m for the period (comparable period: £nil) relates to employee severance costs provided at 1 October 2006. It is anticipated that the provision for these severance costs will be utilised over the next 15 months.

### **Cash Sweep Payment**

As a consequence of the Restructuring, the Company has an obligation to make payments to the Nuclear Liabilities Fund (NLF) should certain criteria be met. In accordance with the Group's accounting policy, no accrual has been made for any potential future Cash Sweep Payment that may be payable based on the full year results. In accordance with the Government Contribution Agreement, an accrual will be made for the weighted average Cash Sweep percentage payment applied to adjusted net cash flow as at 31 March 2007 to the extent adjusted net cash flow arising from operations during the year is above £290m plus posted collateral (subject to a £200m minimum) at 31 March 2007.

The Cash Sweep percentage was 64.23% as at 31 December 2006, down from 64.63% at 31 March 2006 as a result of the exercise of 1,887,853 of the Company's Warrants and, in accordance with the terms of the Contribution Agreement, the Cash Sweep percentage was reduced by approximately 0.3% to reflect the fact that the NLF benefited from receiving a Cash Sweep Payment in respect of the year ended 31 March 2006 with no corresponding distribution to shareholders. This reduction in Cash Sweep percentage is intended to maintain the respective economic interests of the NLF and shareholder. However, the application of the adjustment formula in the Contribution Agreement following a Cash Sweep Payment, in particular following any conversion by the NLF of part or all of its Cash Sweep Payment right, would not adequately maintain the relative economic interest of shareholders as intended. The impact of this issue in respect of the Cash Sweep Payment in respect of the year ended 31 March 2006 is considered de-minimis.

Currently, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF may be entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and a dividend in respect of the same period on the shares arising from the conversion. In the event of a conversion by the NLF, the Company will seek to agree with the NLF and the Government an amendment to the Cash Sweep Payment right and Cash Sweep percentage adjustment formula so as to ensure the principle of economic parity is maintained and to avoid an unintended dilution of future dividends.

### **Financing (Charges)/Credits**

Interest payable was £45m for the period compared to £38m in the comparable period. Interest payable relates primarily to interest on the Group's Bonds, together with finance fees on our structured trading contracts. Due to the annual repayment of the bond principal in March 2006, the interest payable on the Bonds has declined by £3m to £33m; this benefit has been offset by finance fees on certain of our structured trading contracts, which commenced from April 2006, of £11m that are being charged to the income statement over the lives of the contracts and interest payable on financing facilities of £1m.

Interest receivable was £36m for the period compared to £18m in the comparable period. Interest receivable relates to interest earned on cash deposits and has increased as a result of higher interest bearing cash and cash equivalent balances and higher rates of interest compared with the comparable period.

Other financing income of £5m for the period comprises a net credit in respect of retirement benefit obligations of £23m (comparable period: £6m) offset by a net revalorisation charge of £18m (comparable period: £19m).

The net credit of £23m (comparable period: £6m) for the period in respect of the retirement benefit obligation comprises a credit of £123m (comparable period: £102m) relating to the expected return on plan assets and a charge of £100m (comparable period: £96m) for the expected unwind of discount interest on the retirement benefit obligation.

The net revalorisation charge of £18m comprises a revalorisation charge of £4m in respect of the contracts provision established at RED (comparable period: £10m) and a £14m charge in respect of the NLF liabilities, relating to fixed decommissioning payments (comparable period: £9m). The increase in revalorisation relating to the NLF liabilities is a result of a larger increase in RPI over the period compared with the comparable period.

In addition, the net revalorisation charge includes a revalorisation charge for nuclear liabilities of £329m (comparable period: £212m), exactly offset by a revalorisation credit for the NLF and nuclear liabilities receivables of £329m (comparable period: £212m). The revalorisation charge and credit have increased compared to the comparable period as a result of a larger rise in RPI in the period compared to the comparable period, as well as revalorisation being calculated on a higher opening balance in the period compared to the comparable period.

## Unrealised Net Losses on Financial Instruments and Commodity Contracts

Unrealised net losses on financial instruments and commodity contracts arise as a result of a fair value movement in our commodity contracts which fall within the scope of IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39). Of those contracts which fall within IAS 39, certain are accounted for as cash flow hedges, with the movements in fair value being accounted for directly in equity in the hedge reserve. The fair value movements of all other contracts within the scope of IAS 39 are presented in the unrealised net losses on financial instruments and commodity contracts line of the income statement. An analysis of the movements in financial instruments and commodity contracts is as follows:

	Financial instruments and commodity contracts £m
As at 31 March 2006	(28)
Charge to the income statement	(29)
Increase in hedge reserve through the statement of recognised income and expense	70
As at 31 December 2006	<b>13</b>

The charge to the income statement of £29m in the period (comparable period: £30m) largely relates to the fair value movement in forward contracts to purchase carbon allowances, reflecting the significant fall in prices of carbon allowances in the period. The remaining movement in the income statement and the movement in the hedge reserve represent the delivery of volumes over the period together with the impact of the trend in future market prices of electricity.

## Taxation

A tax charge of £262m has been recognised in the income statement for the period; this comprises a deferred tax charge of £255m and a current tax charge of £7m. The tax charge has been computed in accordance with the generally accepted practice which provides that the forecast effective tax rate on the forecast full year profits before tax and IAS 39 adjustments be applied to the actual reported profit before tax and IAS 39 adjustments for the period. The forecast full year effective tax rate on this basis is 41.6% and this has been applied to the period's results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the period. The forecast full year effective tax rate of 41.6% is higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, which is treated as an operating cost and accrued only at the year end date, being disallowable for tax purposes.

Tax losses carried forward for the subsidiaries within the Group as at 31 March 2006 were £869m. The tax losses relating to our Generation subsidiary will be fully utilised against this subsidiary's projected taxable profits in this financial year and, therefore, we expect to become liable for corporation tax at 31 March 2007. In anticipation of this liability the Group paid an instalment of corporation tax in October 2006 of £27m and paid a second tax instalment in January 2007 of £17m. We anticipate that the remaining tax losses in the other Group companies will be utilised.

## Net Profit and Earnings Per Share

Net profit for the period attributable to shareholders was £360m for the period compared to £173m for the comparable period.

Basic earnings per share was 63.2p for the period compared to 30.6p for the comparable period, based on net profit for the period, divided by the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share was 61.5p for the period compared to 29.7p for the comparable period. This is based on the net profit for the period divided by the weighted average number of ordinary shares in issue, together with the dilutive weighted average of potential ordinary shares in respect of the Company's Warrants issued to shareholders on Restructuring.

The adjusted earnings per share was 27.1p for the period compared to 13.6p for the comparable period. As described in note 6 to the financial statements, the Cash Sweep Payment and the net profit attributable to shareholders does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves.

Therefore, an adjusted earnings per share has been calculated by excluding the impact of the Cash Sweep Payment for the year ending 31 March 2007 on the effective tax rate used to compile the tax charge in this period and adjusting the weighted average share capital by the number of shares that would have been in issue if the NLF had fully converted their interest at the balance sheet date.

### **Analysis of Cash Flows**

Net cash inflow generated from operations was £448m for the period, compared to £271m for the comparable period. After taking into account capital expenditure in relation to property, plant and equipment of £181m (comparable period: £145m), capital expenditure on software of £5m (comparable period: £4m) and proceeds from the exercise of Warrants of £2m (comparable period: £8m), there was an increase in cash of £264m in the period (comparable period: £127m). Cash and cash equivalents have increased from £638m at 31 March 2006 to £902m at 31 December 2006.

Cash and cash equivalents as at 31 December 2006 include £73m to be repaid in respect of balances relating to capped contracts. We expect the total amount repayable under capped contracts to grow to approximately £110m during the period to 31 March 2007. These amounts are expected to be settled by 31 March 2007.

### **Investment Programme**

As part of a continuing programme of investment in our business we incurred costs of £213m during the period of which £89m was capitalised, being £78m in respect of performance improvement projects, £6m on acquisition of strategic spares and £5m on systems software. This expenditure, apart from the systems software which was capitalised in intangible assets, was capitalised in property, plant and equipment. A further £106m relates to major projects to improve the material condition of the plant and was included in our materials and services operating costs; the balance of £18m represents 'PIP staff costs' included in our staff costs. Investment in plant projects, major repairs and strategic spares is expected to be toward the higher end of the range £250m to £300m for the financial year ending 31 March 2007 excluding approximately £25m incurred in connection with boiler issues at Hunterston B and Hinkley Point B. The Company expects to continue to invest toward the higher end of the range £250m to £300m in financial year 2007/08.

In addition to the £89m in the investment programme that was capitalised, a further £94m of expenditure that was incurred on the statutory outages during the period and £3m on other spares was also capitalised during the period. In total £186m has therefore been capitalised, £181m of this expenditure was capitalised in property, plant and equipment and £5m in intangible assets.

### **Dividend Policy**

In the Restructuring Prospectus, the Board stated its intention to distribute to shareholders as much of the Company's cash flow as prudently possible.

The Board currently intends that the Company will pay 13.6p per share per annum as a base dividend (based on current issued share capital, equivalent to £80m per annum), payable as a final dividend as approved at the Company's AGM. It is anticipated that the annual base dividend will be sustainable for the foreseeable future based on the Company's assessment of forecast electricity prices and output.

The amount of the base dividend will increase if the NLF converts its contractual right to the Cash Sweep into shares.

In addition to the base dividend the Board intends to consider the payment each year of a special dividend from available cash in February following the third Quarter results announcement. The Board will seek to return all surplus capital to shareholders as a special dividend after taking into account the Company's need to increase financial stability, make appropriate investments, address the pension scheme deficit, meet the collateral requirements of the Group and, over time, allow for its investment in nuclear new build. It is anticipated that the amount of special dividend will vary from year to year. In light of current operating difficulties, the Board expects to pay particular attention to recent performance history and any liquidity issues in determining the amount of any special dividend (or distribution).

The amount of cash the Company is able to pay out as dividends is subject to restrictions under the Contribution Agreement. These require the Company a) to maintain as a cash reserve £490m plus the amount by which cash employed as collateral exceeds £200m (Target Amount) and b) not to pay a dividend unless i) the cash at the financial year end prior to the year in which the dividend is to be paid exceeded the aggregate of, amongst other things, the dividend proposed and the Target Amount and ii) the cash at the financial year end in which the dividend is paid would or would be likely to exceed the aggregate of, amongst other things, the dividend proposed and the Target Amount. The restrictions are also, in effect, replicated in the terms of the Bonds.

The amount the Company is able to lawfully distribute will also depend on the availability of sufficient distributable reserves. The Company's distributable reserves may be adversely impacted as a result of the accounting treatment arising on any conversion by the NLF of its contractual right to the Cash Sweep. For further details refer to the section on distributable reserves set out below.

In respect of the 2006/07 financial year the Board intends that the Company will pay a base dividend of £80m as a final dividend after the Company's AGM expected to be in July 2007. In addition, a special dividend, as agreed by the Board, may be paid after the 2007/08 third Quarter results announcement expected in February 2008.

### **Distributable Reserves**

The payment of dividends by the Company is governed, among other things, by the Companies Act 1985 and the application of UK GAAP, and requires that distributable reserves be available within the listed parent company. Share premium reserves are not distributable to shareholders.

If the NLF were to exercise its right, under the Contribution Agreement, to convert its entitlement to future Cash Sweep Payments into share capital (the conversion) this could have an impact on future dividend policy. The impact could arise because such a conversion would create additional share premium reserves, as well as potentially significantly increasing the carrying value of British Energy Group plc's investments in subsidiaries. The increase in carrying value of the investments in subsidiaries would be equivalent to the fair value of the Cash Sweep Payment obligation extinguished by the conversion, and would be valued for these purposes on the basis of the aggregate market price of the shares issued upon a conversion. The increase in carrying value of the investments would increase the risk that impairment charges arising at a later date may impact upon the Company's distributable reserves position and could restrict the Company's ability to pay dividends to an enlarged shareholder base, post-conversion, in accordance with the dividend policy.

With a view to attempting to minimise the risk of impairment charges adversely affecting the Company's distributable reserves position in the event of a conversion, the Company would expect to take steps to implement a Court approved reduction of share premium reserve. And, in the event of such a Court process being unsuccessful the Company would explore other alternatives to mitigate the risk.

### **Forward-looking Statements**

This document contains certain 'forward-looking' statements, including statements with respect to British Energy's business plans, the performance of its stations, electricity prices and other matters that are not historical facts concerning the business operations, financial condition and results of operations of British Energy. These forward-looking statements typically contain words such as 'intends', 'expects', 'anticipates', 'estimates', 'aim', 'believe', 'assume', 'should', and words of similar import, which are predictions of or indicate future events or future trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the control of British Energy and may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Due to the uncertainties and risks associated with these forward-looking statements they relate only as to the date hereof.

## **NON-GAAP FINANCIAL MEASURES**

### **Realised Price**

Realised price is calculated by dividing revenue from generated electricity by total output for the period.

### **Unit Operating Costs**

Unit operating costs are calculated by dividing the operating costs of generated electricity plus depreciation and software amortisation by total output for the period. This represents a change from the comparable period, in which the calculation of total operating unit costs included other operating income/(costs). The Directors believe that the revised measure provides a better indication of the underlying financial performance of the Group.

### **Adjusted EBITDA**

Adjusted EBITDA is profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net gains/(losses) on financial instruments and commodity contracts, Cash Sweep Payment, other exceptional operating expenses and other operating income/(costs). The Group has included information concerning adjusted EBITDA because it believes that it is used by certain investors as one measure of the Group's financial performance. Adjusted EBITDA is not a measure of financial performance under IFRS and is not necessarily comparable to similarly titled measures used by other companies. Adjusted EBITDA should not be construed as an alternative to operating profit or to cash flows generated from operations (as determined in accordance with IFRS) as a measure of liquidity.

**CONSOLIDATED INCOME STATEMENT  
FOR THE NINE MONTHS ENDED 31 DECEMBER 2006 (UNAUDITED)**

	Notes	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Revenue</b>	2	<b>2,113</b>	1,704
Operating and energy costs	3	<b>(1,338)</b>	(1,242)
		<b>775</b>	462
Other operating income		<b>52</b>	55
Other exceptional operating expenses		<b>(17)</b>	-
Cash Sweep Payment		-	-
Depreciation		<b>(150)</b>	(136)
Amortisation		<b>(5)</b>	(4)
Unrealised net losses on financial instruments and commodity contracts		<b>(29)</b>	(30)
<b>Operating profit</b>		<b>626</b>	347
<b>Financing (charges)/credits</b>			
Interest payable	4	<b>(45)</b>	(38)
Interest receivable	4	<b>36</b>	18
Other finance income/(expenses)	4	<b>5</b>	(13)
<b>Profit before taxation</b>		<b>622</b>	314
Taxation	5	<b>(262)</b>	(141)
<b>Net profit for the period attributable to shareholders</b>	7	<b>360</b>	173
<b>Earnings per share (pence):</b>			
Basic	6	<b>63.2</b>	30.6
Diluted	6	<b>61.5</b>	29.7

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE NINE MONTHS ENDED 31 DECEMBER 2006 (UNAUDITED)**

	Notes	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
Net gains/(losses) on hedged items for the period	7	<b>70</b>	(43)
Actuarial gains and losses on retirement benefit obligations for the period	7	<b>(21)</b>	(114)
Tax on items taken directly to equity for the period	7	<b>(14)</b>	46
<b>Net income and expense recognised directly in equity</b>		<b>35</b>	(111)
Profit for the period	7	<b>360</b>	173
<b>Total recognised income and expense</b>		<b>395</b>	62
Adjustment for the implementation of IAS 39 after taxation at 1 April 2005		-	(15)
	7	<b>395</b>	47

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2006 (UNAUDITED)**

	Notes	As at 31 December 2006 £m	As at 1 January 2006 £m	As at 31 March 2006 £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		1,724	1,694	1,693
NLF and nuclear liabilities receivables		5,230	5,033	5,051
Deferred income tax asset		-	341	244
Goodwill and intangible assets		384	376	406
Trade and other receivables due after more than one year		126	1	-
Financial instruments and commodity contracts		1	1	-
		<b>7,465</b>	<b>7,446</b>	<b>7,394</b>
<b>Current assets</b>				
Inventories		398	350	342
Nuclear liabilities receivable		197	190	186
Trade and other receivables		533	478	455
Restricted cash		175	249	206
Cash and cash equivalents		902	362	638
Financial instruments and commodity contracts		77	13	29
		<b>2,282</b>	<b>1,642</b>	<b>1,856</b>
<b>Total assets</b>		<b>9,747</b>	<b>9,088</b>	<b>9,250</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		(53)	(50)	(53)
Trade and other payables		(570)	(472)	(623)
Nuclear liabilities		(197)	(190)	(186)
Provisions for other liabilities and charges		(52)	(144)	(127)
Financial instruments and commodity contracts		(65)	(113)	(57)
		<b>(937)</b>	<b>(969)</b>	<b>(1,046)</b>
<b>Non-current liabilities</b>				
Borrowings		(573)	(626)	(573)
Retirement benefit obligations		(206)	(478)	(215)
Nuclear liabilities		(5,230)	(5,033)	(5,051)
Deferred income tax liability		(25)	-	-
Provisions for other liabilities and charges		(78)	(86)	(59)
NLF liabilities		(196)	(204)	(200)
Deferred income		(5)	(5)	(5)
Financial instruments and commodity contracts		-	(8)	-
		<b>(6,313)</b>	<b>(6,440)</b>	<b>(6,103)</b>
<b>Total liabilities</b>		<b>(7,250)</b>	<b>(7,409)</b>	<b>(7,149)</b>
<b>Net assets</b>		<b>2,497</b>	<b>1,679</b>	<b>2,101</b>
<b>Equity</b>				
Called up share capital	7	57	57	57
Share premium	7	29	22	24
Capital reserve	7	767	767	767
Hedge reserve	7	18	(51)	(31)
Warrant reserve	7	32	36	35
Retained earnings	7	1,594	848	1,249
<b>Total shareholders' equity (including non-equity shareholders' interests)</b>	<b>7</b>	<b>2,497</b>	<b>1,679</b>	<b>2,101</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 31 DECEMBER 2006 (UNAUDITED)**

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Operating activities</b>		
<b>Operating profit</b>	<b>626</b>	347
Depreciation	150	136
Amortisation	5	4
Share-based payments	(1)	3
Loss on disposal of property, plant and equipment	-	1
Unrealised net losses on financial instruments and commodity contracts	29	45
Movement in provisions for other liabilities and charges	(57)	(58)
Cash Sweep Payment	(105)	-
Interest paid	(34)	(30)
Interest received	36	22
NLF liabilities payment	(17)	(22)
Difference between pension contributions paid and amounts recognised in consolidated income statement	(7)	(11)
Taxation paid	(27)	-
Increase in inventories	(56)	(19)
Increase in trade and other receivables	(187)	(163)
Decrease/(increase) in restricted cash	31	(28)
Increase in trade payables and other payables	40	45
Decrease/(increase) in intangible assets	22	(1)
<b>Net cash inflow generated from operations</b>	<b>448</b>	271
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(181)	(145)
Purchases of software	(5)	(4)
<b>Net cash used in investing activities</b>	<b>(186)</b>	(149)
<b>Cash flows from financing activities</b>		
Exercise of Warrants	2	8
Costs associated with sale of investments	-	(3)
<b>Net cash generated from financing activities</b>	<b>2</b>	5
<b>Net increase in cash and cash equivalents</b>	<b>264</b>	127
<b>Cash and cash equivalents at the beginning of the period</b>	<b>638</b>	235
<b>Cash and cash equivalents at the end of the period</b>	<b>902</b>	362

## Notes to the financial statements

### 1. Basis of Preparation

In preparing the interim financial statements for the period ended 31 December 2006, the Board of Directors have used the principal accounting policies as set out in the Group's Annual Report and Accounts for the year ended 31 March 2006. The Group has chosen not to adopt IAS 34 – Interim Financial Statements, in preparing these interim financial statements, and therefore this information is not wholly compliant with International Financial Reporting Standards. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The information shown for the year ended 31 March 2006 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and has been extracted from the statutory accounts for the year ended on that date, which have been filed with the Registrar of Companies. The report of the auditors on the statutory accounts for the year ended 31 March 2006 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

References to 'British Energy' or the 'Company' are to British Energy Group plc. References to the 'Group' are to the Company and its subsidiaries.

The interim financial statements for the period ended 31 December 2006 are unaudited but have been reviewed by the auditors and their report to the Company is set out below.

These interim financial statements were approved by the Board of Directors on 13 February 2007.

### 2. Output, revenue and segmental information

	Nine months ended 31 December 2006 TWh	Nine months ended 1 January 2006 TWh
<b>Output</b>		
Nuclear power stations	38.9	43.9
Coal-fired power station	5.1	4.8
<b>Total output</b>	<b>44.0</b>	<b>48.7</b>

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Revenue</b>		
Wholesale generation sales	877	714
Direct supply sales	916	699
<b>Revenue from generated electricity</b>	<b>1,793</b>	<b>1,413</b>
Energy supply costs recharged to customers	279	266
Energy purchases	33	16
Miscellaneous income	8	9
<b>Total revenue</b>	<b>2,113</b>	<b>1,704</b>

The Group's activities are in one business segment being the generation and sale of electricity and are in one geographic segment being the United Kingdom. There are no other significant classes of business or geographic areas.

### 3. Operating and energy costs

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
Fuel costs – nuclear	216	256
– Eggborough	113	118
<b>Total fuel costs</b>	<b>329</b>	<b>374</b>
Materials and services	413	339
Staff costs	284	247
<b>Operating costs of generated electricity</b>	<b>1,026</b>	<b>960</b>
Energy purchases	33	16
Energy supply costs	279	266
<b>Total operating and energy costs</b>	<b>1,338</b>	<b>1,242</b>

### 4. Financing charges/(credits)

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Interest payable</b>		
Interest payable on bonds	33	36
Other interest payable	12	2
<b>Total interest payable</b>	<b>45</b>	<b>38</b>

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Interest receivable</b>		
Interest receivable	(36)	(18)
<b>Total interest receivable</b>	<b>(36)</b>	<b>(18)</b>

	Nine months ended 31 December 2006 £m	Nine months ended 1 January 2006 £m
<b>Other finance (income)/expenses</b>		
Revalorisation of nuclear liabilities		
– changes in price levels	211	97
– discharge of discount for period	118	115
Revalorisation of nuclear liabilities receivable	(141)	(96)
Revalorisation of NLF receivable	(188)	(116)
Revalorisation of contracts provision	4	10
Revalorisation of NLF liabilities	14	9
<b>Net revalorisation charges</b>	<b>18</b>	<b>19</b>
Net credit to finance charges for retirement benefit obligations	(23)	(6)
<b>Total other finance (income)/expenses</b>	<b>(5)</b>	<b>13</b>

## 5. Taxation

A tax charge of £262m has been recognised in the income statement for the period; this comprises a deferred tax charge of £255m and a current tax charge of £7m. The tax charge has been computed in accordance with the generally accepted practice which provides that the forecast effective tax rate on the forecast full year profits before tax and IAS 39 adjustments be applied to the actual reported profit before tax and IAS 39 adjustments for the period. The forecast full year effective tax rate on this basis is 41.6% and this has been applied to the nine months' results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the period. The forecast full year effective tax rate of 41.6% is higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, which is treated as an operating cost and accrued only at the year end date, being disallowable for tax purposes.

## 6. Earnings per share

	Nine months ended 31 December 2006	Nine months ended 1 January 2006
<b>Basic earnings per share</b>		
Net profit for the period attributable to shareholders (£m)	360	173
Weighted average share capital (number of shares, million)	570	566
Earnings per share (pence)	63.2	30.6
<b>Diluted earnings per share</b>		
Net profit for the period attributable to shareholders (£m)	360	173
Diluted weighted average share capital (number of shares, million)	585	582
Diluted earnings per share (pence)	61.5	29.7
<b>Adjusted earnings per share</b>		
Net profit for the period attributable to shareholders (£m)	360	173
Adjustment in respect of taxation (£m)	73	46
Adjusted net profit for the period attributable to shareholders (£m)	433	219
Basic weighted average share capital (number of shares, million)	570	566
Maximum Cash Sweep conversion at balance sheet date (number of shares, million)	1,027	1,042
Adjusted weighted average share capital (number of shares, million)	1,597	1,608
Adjusted earnings per share (pence)	27.1	13.6

The basic earnings per share for the period has been calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share calculation is based on the weighted average of 570 million (comparable period: 566 million) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 15 million (comparable period: 16 million ordinary shares) in respect of Warrants.

The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment and the net profit attributable to shareholders does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves.

The adjusted earnings per share has been calculated by excluding the impact of the Cash Sweep Payment for the year ending 31 March 2007 on the effective tax rate used for the nine months' charge from earnings and adjusting the weighted average share capital by the number of shares that would have been in issue if the NLF had fully converted their interest at the balance sheet date.

## 7. Equity

	Called up equity share capital £m	Share premium £m	Capital reserve £m	Hedge reserve £m	Warrant reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2006	57	24	767	(31)	35	1,249	2,101
Profit for the period	-	-	-	-	-	360	360
Net income/(expense) recognised directly in equity	-	-	-	70	-	(21)	49
Deferred tax on items recognised directly in equity	-	-	-	(21)	-	7	(14)
Total income for the period	-	-	-	49	-	346	395
Share-based payments	-	-	-	-	-	(1)	(1)
Exercise of Warrants	-	5	-	-	(3)	-	2
<b>Balance as at 31 December 2006</b>	<b>57</b>	<b>29</b>	<b>767</b>	<b>18</b>	<b>32</b>	<b>1,594</b>	<b>2,497</b>

## 8. Contingent assets

The Group has certain contingent assets as a result of its disposal of its 82.4% interest in Bruce Power LP. In addition to the consideration payable by the consortium under the master purchase agreement, up to a further C\$100m was payable to British Energy contingent upon the restart of two of the Bruce A units under a trust agreement (the Trust Agreement) entered into on the same date. Had the first unit restarted by 15 June 2003, C\$50m would have been released to British Energy and an additional C\$50m would have been released to British Energy had the second unit restarted by 1 August 2003. An amount of C\$5m was to be deducted from the C\$50m payable in respect of each unit for its failure to restart by the scheduled restart date or by the first day of each successive calendar month following the scheduled restart date. The Group received C\$20m on 22 March 2004 and C\$10m on 25 May 2004 in partial consideration under the Trust Agreement. British Energy commenced arbitration proceedings in Ontario against the Ontario Provincial Government (the Province) in December 2004 seeking the payment of additional consideration under the Trust Agreement on the basis that Bruce A Units 3 and 4 restarted earlier than the dates claimed by the Province. No additional amounts appear on the consolidated balance sheet at 31 December 2006 because of uncertainties regarding their realisation. The amounts recoverable in respect of the restarted units will be substantially lower than the maximum C\$100m but the amounts and timing of the payments have still to be confirmed.

## 9. Contingent liabilities

On 12 February 2004 British Energy Limited and British Energy International Holdings Limited received a notice of warranty claims from the consortium which purchased the Group's 82.4% interest in Bruce Power LP alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce Power Station.

The principal tax claim relates to the treatment of expenditure at the Bruce Power Station during the period of the Group's part ownership and is currently being considered by the Canadian tax authorities. The treatment proposed by the Group could result in a rebate of a material amount of tax to the Group that has not been recognised in the consolidated financial statements. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. British Energy International Holdings Limited has rejected the tax claim and expects to defend it if it is pursued further. The Group is confident that the amount of the claim should not, in any event, materially exceed the amount of the rebate, and that the tax claim should have no material cash flow impact on the Group.

The claim relating to the condition of the plant is based upon alleged erosion of certain parts of the steam generators, including the support plates, through which boiler tubes pass, which it is alleged resulted in an extended Outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C\$64.5m. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. On 10 February 2006, British Energy Limited and British Energy International Holdings Limited filed a Notice of Action against OPG and Bruce Power LP with the Ontario Superior Court of Justice seeking a contribution and indemnity from OPG and Bruce Power LP with respect to any amounts for which British Energy Limited or British Energy International Holdings Limited may be found liable as a result of the steam generator claim brought on 12 February 2004 by the consortium which acquired British Energy Limited's 82.4% interest in the Bruce Power plant.

Under the agreement with the consortium C\$20m is retained in trust to meet any representation and warranty claims, and this may be retained pending agreement or determination of the claims.

On 7 December 2006, the Consortium served a notice of arbitration on British Energy in relation to the purchase price payable by the Consortium on the acquisition of Bruce Power. Under the disposal arrangements, the parties agreed a post-completion adjustment to the purchase price to account for the value of the Bruce Power pension plan as determined by a mutually appointed actuarial adviser. The Consortium alleges that the valuation was incorrect, resulting in British Energy benefiting by C\$23.1m which the Consortium is now claiming together with interest and costs. British Energy expects to defend the claim.

The Group has given certain indemnities and guarantees in respect of its subsidiary undertakings. No losses are anticipated to arise under these indemnities and guarantees, provided relevant subsidiary undertakings continue on a going concern basis.

The Group is involved in a number of other claims and disputes arising in the normal course of business which are not expected to have a material effect on the Group's financial position.

## **Independent review report to British Energy Group plc**

### **Introduction**

We have been instructed by the Company to review the financial information contained in the interim report for the nine months ended 31 December 2006 which comprises the consolidated balance sheet as at 31 December 2006, the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of cash flows for the nine months then ended and related notes.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. That responsibility includes applying accounting policies and presentation to the interim figures that are consistent with those applied in preparing the preceding Annual Accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purposes of managing its affairs and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the nine months ended 31 December 2006.

### **PricewaterhouseCoopers LLP**

Chartered Accountants  
Edinburgh  
13 February 2007

### **Notes:**

(a) The maintenance and integrity of the British Energy Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## GLOSSARY

### **AGR (Advanced Gas-cooled Reactor)**

The second generation of civil gas-cooled nuclear reactor built in the UK.

### **Baseload Generation**

Mode of operation of a power station at a constant high level of output for a sustained period of time to assist in meeting minimum national demand.

### **Bonds**

Bonds issued by British Energy Holdings plc.

### **British Energy Direct**

British Energy Direct Limited.

### **BETTA**

British Electricity Transmission and Trading Arrangements.

### **BNFL**

British Nuclear Fuels plc.

### **BNGSL**

British Nuclear Group Sellafield Limited.

### **Bruce**

The Bruce A and B nuclear power stations in Ontario, Canada.

### **Decommissioning**

The process whereby a nuclear power station is shut down at the end of its economic life, eventually dismantled, and the site made available for other purposes.

### **Emission Limit Values (ELV)**

Emission limits imposed under the Large Combustion Plant Directive, requiring operators to maintain emissions within a rate limit at all points in time.

### **Energy Supply Costs (ESC)**

Mainly comprise the costs incurred for the use of the distribution and transmission systems, recovered through revenue, and costs of Renewable Obligation Certificates (ROCs).

### **EPL**

Eggborough Power Limited.

### **ETS**

Emissions Trading Scheme.

### **FGD (Flue Gas Desulphurisation)**

Equipment fitted to coal-fired power stations to reduce sulphur dioxide emissions.

### **GW (Gigawatt): GWh (Gigawatt-hour)**

One gigawatt equals 1,000 MW: one gigawatt-hour represents one hour of electricity consumed at a constant rate of 1 GW.

### **kW (Kilowatt): kWh (Kilowatt-hour)**

A kilowatt is a unit of power, representing the rate at which energy is used or produced: one kilowatt-hour is a unit of energy and represents one hour of electricity consumption at a constant rate of 1 kW.

### **Large Combustion Plant Directive (LCPD)**

EC Directive applicable to combustion plants exceeding 50 MW thermal, that takes into account recent advances in combustion and abatement technologies to introduce revised limits for releases of SO<sub>2</sub>, NO<sub>x</sub> and dust. Under UK implementation of the Directive, operators are permitted to elect either the Emission Limits Value (ELV) approach or the National Emissions Reduction Plan (NERP) approach.

### **LLW, ILW, HLW (Low, Intermediate, High Level Waste)**

Radioactive waste is classified as low, intermediate or high level waste according to its heat generating capacity and radioactivity. LLW comprises slightly radioactive materials, such as discarded protective clothing and used wrapped materials. ILW comprises more radioactive materials, including sludges and resins from the cleaning of fuel storage pond water, fuel cladding and other materials arising from the reprocessing of spent fuel, and some radioactive components arising from the decommissioning of plant. HLW comprises nuclear waste products separated out from uranium and plutonium during the reprocessing of spent nuclear fuel.

### **Lost Time Accidents (LTA)**

An incident which causes one or more days off work (consecutive or not) after, but not including, the day of an occupational injury or illness.

**Market Price**

The price for annual forward baseload contracts.

**Materiel Condition**

A term used by nuclear operators, particularly in the United States, in relation to nuclear power stations, and used to describe the physical condition of plant and equipment and the condition of operating procedures, engineering drawings, specifications and manuals (taking safety, maintenance and plant reliability into consideration).

**MW (Megawatt): MWh (Megawatt-hour)**

One megawatt equals 1,000 kW: one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.

**National Emissions Reduction Plan (NERP)**

Emission limits imposed under the Large Plant Combustion Directive, requiring operators to maintain emissions within an annual 'bubble' limit.

**NDA**

Nuclear Decommissioning Authority.

**NLF**

An independently administered fund into which the Group makes contributions to cover all qualifying uncontracted nuclear liabilities including costs of decommissioning nuclear power stations and PWR back end fuel costs.

**Non Outage Defect Inventory**

Total of outstanding plant defects which are work requests that have been partially assessed by maintenance, or are still awaiting action after screening by the station Work Review Groups, based on a priority weighting set by the Technical Advisory Committee.

**Nuclear Installations Inspectorate (NII)**

A part of the Nuclear Safety Division Directorate of the Health and Safety Executive, which administer nuclear site licences.

**Outage (Planned and Unplanned)**

A period during which a reactor is shut down. The periodic shutdown of a reactor including for maintenance, inspection and testing or, in some cases, for refuelling is known as a planned outage. In the UK, some planned outages are known as statutory outages and are required by the conditions attached to the nuclear site licence needed to operate the station. Unscheduled shutdown of a reactor for a period is known as an unplanned outage.

**PWR (Pressurised Water Reactor)**

The most recent type of nuclear reactor to be constructed in the UK which uses pressurised water as both the coolant and the moderator.

**Quinquennial Review**

The five-yearly review of the assumptions underlying the Group's provision for certain nuclear liabilities.

**Realised Price**

Calculated by dividing revenue from generated electricity by total output for the period.

**Renewable Obligation Certificates**

Eligible renewable generators receive Renewable Obligation Certificate (ROCs) for each MWh of electricity generated. These certificates can then be sold to suppliers, in order to fulfil their renewables obligation.

**Restructuring**

The restructuring of the Group completed on 14 January 2005.

**RED**

The Restructuring Effective Date, 14 January 2005.

**Revalorisation**

Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per annum from the eventual payment dates. The revalorisation charge is the adjustment that results from restating these liabilities to take into account the effect of inflation in the period and to remove the effect of one period's discount as the eventual dates of payment become one year closer. Revalorisation charges arise in respect of the fixed decommissioning obligation to reflect the unwinding of the discount for the period. A revalorisation credit arises in respect of movements in the value of nuclear liabilities and the NLF receivable to take account of the underlying movement in nuclear liabilities.

**RPI**

Retail Price Index.

**RPIX**

Retail Price Index minus mortgage interest payments.

**Shares**

Ordinary shares in British Energy Group plc.

**Statutory Outage**

The planned shutdown of nuclear reactors for regulatory inspection and maintenance.

**THORP**

Thermal Oxide Reprocessing Plant at Sellafield, Cumbria operated by BNGSL.

**TW (Terawatt): TWh (Terawatt-hour)**

One terawatt equals 1,000 GW: one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.

**Unit Capability Factor**

The percentage of maximum energy generation that a plant is capable of supplying to the electrical grid, limited only by factors within the control of plant management.

**Unit Operating Costs**

Calculated by dividing the operating costs of generated electricity plus depreciation and software amortisation by total output for the period.

**Unplanned Capability Loss Factor (UCLF)**

Unplanned capability loss factor is defined as the ratio of the unplanned energy losses during a given period of time, to the reference energy generation, expressed as a percentage.

**UKLA**

United Kingdom Listing Authority.

**Warrants**

Warrants entitling the holder to subscribe for shares in British Energy Group plc.