British Energy

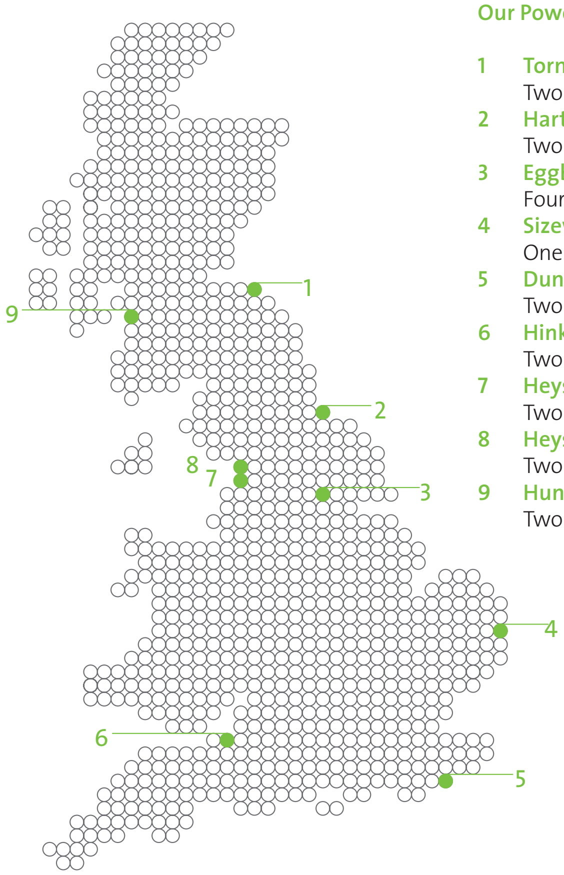
# Our vision: First in UK power

*Powering the low carbon generation*

**Annual Report and Accounts** 2007/08

# British Energy is the lowest carbon emitter of the major electricity generators in the United Kingdom and the only low carbon baseload generator.






## Our Power Stations

1. **Torness**
   Two advanced gas-cooled reactors
2. **Hartlepool**
   Two advanced gas-cooled reactors
3. **Eggborough**
   Four coal-fired units
4. **Sizewell B**
   One pressurised water reactor
5. **Dungeness B**
   Two advanced gas-cooled reactors
6. **Hinkley Point B**
   Two advanced gas-cooled reactors
7. **Heysham 1**
   Two advanced gas-cooled reactors
8. **Heysham 2**
   Two advanced gas-cooled reactors
9. **Hunterston B**
   Two advanced gas-cooled reactors

## British Energy Generation
Owns and runs our eight nuclear power stations and supplies businesses with electricity.

## Eggborough Power
Operates our coal-fired power station.

## British Energy Trading and Sales
Manages all our energy trading. Our energy reaches the market via several routes.

## British Energy Direct
Our client-facing division is responsible for negotiating electricity supply contracts with commercial and industrial customers.

Nuclear output and financial performance lower than last year, primarily reflecting the Boiler Closure Unit (BCU) issue at Hartlepool and Heysham 1

Adjusted EBITDA reduced from £1,221m in FY 2006/07 to £882m

Continued improvement in underlying operating metrics, with pronounced improvement in small losses to 4.1TWh, the lowest recorded level

Sizewell B operating to world class standards, with a record 516 day run between refuelling outages

Five year plant life extensions to 2016 agreed for Hinkley Point B and Hunterston B

Proposed base dividend of 13.6p per ordinary share (FY 2006/07: 13.6p)

Strong fundamentals with rising power prices, progress on BCU project and Nuclear New Build

| | **Year ended 31 March 2008** | Year ended 31 March 2007 |
|---|---|---|
| Revenue (£m) | **2,811** | 2,999 |
| Adjusted EBITDA (£m)* | **882** | 1,221 |
| Operating profit (£m) | **507** | 794 |
| Adjusted net profit attributable to shareholders (£m)* | **470** | 770 |
| Basic earnings per share (pence) | **35.4** | 81.5 |
| Adjusted earnings per share (pence)* | **29.6** | 48.2 |
| Realised price (£/MWh) | **40.7** | 44.2 |
| Operating margin (£/MWh) | **10.7** | 17.1 |
| Output (TWh) | **58.4** | 58.4 |
| Restricted cash and other financial assets and cash and cash equivalents (£m) | **1,314** | 1,247 |
| Net cash (excluding restricted cash and other financial assets) (£m) | **512** | 528 |

*Adjusted as described in the Financial Review.

## Our Strategy

Is to achieve world class operational and safety excellence through investment in our plant and people and secure a pivotal role in the Nuclear New Build programme in the UK.

## We aim to:

### ACHIEVE WORLD CLASS OPERATIONAL SAFETY AND EXCELLENCE

With safety at the heart of everything we do, we are focused on producing more electricity, more reliably, by channelling our investment and resources into optimising our plant, and achieving outstanding human performance.

### IMPROVE OUR FINANCIAL STABILITY

We work to improve our financial stability through careful management of the fixed price trading book and management of our credit facilities. By contracting ahead the sale of electrical output, we achieve greater price certainty, minimising exposure to short-term market prices.

### PURSUE LIFE EXTENSIONS FOR OUR STATIONS

We are improving the condition of our stations and, subject to economic and technical evaluation, extending their lives, creating value for our shareholders and extending the benefits of low carbon generation.

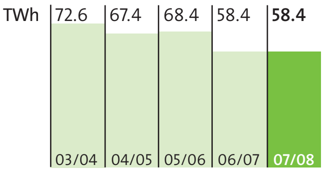
### POSITION FOR NUCLEAR NEW BUILD

We are uniquely positioned to play a pivotal role in nuclear new build in the United Kingdom.

# Key Performance Indicators

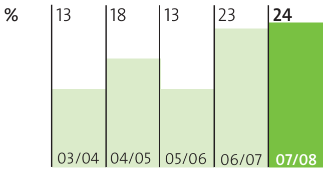
## We measure our performance against our strategic priorities and by reference to a number of key performance indicators.

**TOTAL OUTPUT**



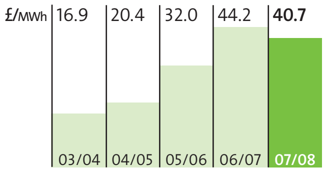

Output is the amount of electricity produced by our fleet of power stations. Output for the year was 58.4TWh, the same as last year. Output in the year was adversely affected by the Boiler Closure Unit issue at Hartlepool and Heysham 1 and the boiler temperature restrictions at Hinkley Point B and Hunterston B, offset by a significant improvement in the level of small unplanned losses and higher output from our coal-fired power station, Eggborough.

**UNPLANNED CAPABILITY LOSS FACTOR (NUCLEAR)**



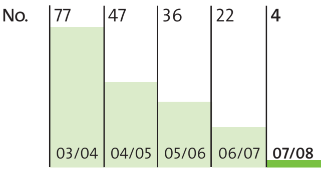

UCLF provides a measure of unplanned energy losses. In 2007/08 UCLF increased to 24% compared with 23% in 2006/07, mainly reflecting losses attributable to the Boiler Closure Unit issue in 2007/08 and boiler issues at Hinkley Point B and Hunterston B in both years.

**REALISED PRICE**



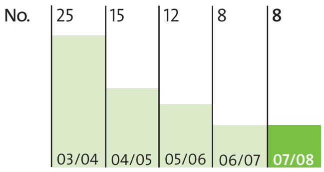

Realised price is a measure of the price we achieve for output sold. In 2007/08 we achieved a realised price of £40.7/MWh, down from £44.2/MWh in 2006/07.

**NUCLEAR REPORTABLE EVENTS**



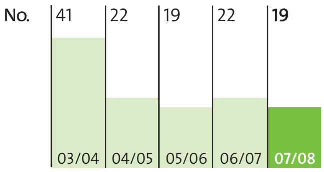

Nuclear Reportable Events (NRE) are events reported to the Nuclear Installations Inspectorate in compliance with our nuclear site licences. These reduced from a peak of 77 in 2003/04 to four in 2007/08, a best ever record.

**UNPLANNED AUTOMATIC TRIPS (NUCLEAR)**



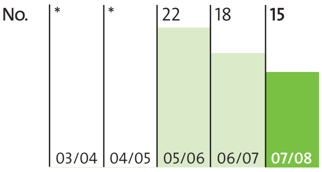

Unplanned Automatic Trips are a source of unplanned losses, where a reactor shuts down through its inbuilt safety system. Eight Unplanned Automatic Trips occurred in 2007/08, sustaining the performance achieved in 2006/07, down from 25 in 2003/04.

**LOST TIME ACCIDENTS – NUCLEAR (STAFF AND CONTRACTORS)**




Our employees and contractors incurred 19 Lost Time Accidents (LTA), resulting in one or more days off work, whilst working at our nuclear sites and support functions during the year, a reduction from 22 in 2006/07.

**ENVIRONMENTAL EVENTS**




Environmental events arise from wastes or discharges above permitted levels or breaches of permitted conditions. We monitor our environmental performance conservatively, and in 2007/08, all of the 15 Environmental Events that we classified as being of greatest significance (our lowest annual total) were categorised by our environmental regulator as being minor or having no environmental impact.

* No comparable information

# Chairman's Statement

## Our objectives are clear: to maximise value in the existing asset base through careful stewardship and investment, while positioning ourselves for a pivotal role in the New Nuclear Build programme.

Output from our nuclear power stations during the year was materially impacted by boiler temperature restrictions at two stations and a further two stations coming offline to rectify the Boiler Closure Unit issue. As a result, total output for the year masked positive progress in the management of small generation losses and safety and environmental performance across the fleet. The progress that has been made in developing a culture of increasing operational safety and excellence across our fleet is most visible in the world class operation of Sizewell B, our Pressurised Water Reactor. Our ongoing investment in our plant and our people underpins our ambition to continue extending the life of our plants. This year we announced the extension of the accounting lives of Hinkley Point B and Hunterston B by five years, from 2011 to 2016.

There is growing recognition of the importance of energy policy in the United Kingdom and around the world. With increased awareness of climate change, the issue of reducing carbon emissions is now recognised alongside energy price stability and security of supply as one of the major challenges facing the United Kingdom economy. As the lowest carbon emitter of the major electricity generators in the United Kingdom and the only low carbon baseload generator, the contribution that British Energy is making towards meeting this complex challenge has become increasingly clear.

The case has now been made for nuclear to play a role within a balanced energy policy. We welcome the Government's commitment to remove barriers to the industry taking forward new nuclear projects. Initiatives include making progress on radioactive waste management and decommissioning policy, reform of the planning system, reviewing the regulatory framework and clarifying national policy on the need for new generation capacity. We also welcome Government's plans to strengthen commitments to combat climate change and set ambitious targets for $CO_2$ reduction combined with a market driven approach to reducing emissions through emissions trading. Delivery of a major programme of investment in new nuclear for the United Kingdom will require a disciplined approach and, on occasion, competing priorities will need to be evaluated.

**BASE DIVIDEND**

# 13.6p

**BASE DIVIDEND PER SHARE PAID FOR 2006/07**

**ADDITIONAL DIVIDEND**

# 14.5p

**ADDITIONAL DIVIDEND PER SHARE PAID FOR 2006/07**

**BASE DIVIDEND**

# 13.6p

**RECOMMENDED BASE DIVIDEND PER SHARE FOR 2007/08**

Given the scale of interest in potential nuclear new build opportunities, and the significant investment required to construct a new fleet, the Board has engaged in discussions with interested parties in the context of the Company's future and its plans to play a pivotal role in any nuclear new build programme. On 17 March 2008, we announced that, as part of the full range of strategic options under consideration, the discussions could lead to a business combination or an offer for the Company. On 16 May 2008, we updated the market on these discussions, which are continuing.

An additional dividend of 14.5p per ordinary share was paid to shareholders on 3 April 2008. I am now pleased to confirm that, in line with the stated dividend policy, the Board has agreed to recommend the payment of this year's base dividend of 13.6p per share, subject to approval at the AGM.

Robert Walvis joined the Board in August 2007 as a Non-Executive Director. This year, Ian Harley, David Pryde, Robert Walvis and I will be standing for election to the Board at our AGM.

Notwithstanding the ongoing technical issues affecting our plant and the challenges this will bring in the coming year, there is much to be positive about. We have a superb team of nuclear professionals at British Energy, dedicated to the safe operation of the fleet. Their expertise will be invaluable as the United Kingdom looks towards the next generation of nuclear assets. Our objectives are therefore clear: to maximise value in the existing asset base through careful stewardship and investment, while positioning ourselves for a pivotal role in the new build programme.

Sir Adrian Montague CBE
Chairman

## Chief Executive's Business Review

# Nuclear output and earnings were lower than the prior year. However, investment in the fleet has resulted in significant operational improvement across the stations – small losses were at their lowest recorded level.

### Overview

In financial year 2007/08 nuclear output and earnings were lower than the prior year because of significant technical challenges with the Boiler Closure Unit (BCU) issue at Hartlepool and Heysham 1 and lower loads at Hinkley Point B and Hunterston B to reduce boiler tube temperatures.

Looking beyond the challenges with the BCUs, the investment in the fleet has resulted in significant operational improvement across the stations.

Small losses[1] were at their lowest recorded level, and there are improvements in many other performance metrics, with some at best ever levels. Sizewell B, our Pressurised Water Reactor (PWR), is operating to world class standards, having operated continuously for 516 days between statutory outages – a best ever run for the station.

We are confident in our strategy for managing original design issues inherent in our unique Advanced Gas-Cooled Reactors (AGRs) to increase their reliability, output and prospects for life extension.

We continue to invest to improve the safe, long-term reliability and performance of the fleet by proactively targeting investment to improve materiel condition. Building on the progress over the past three years, we are now targeting more investment to mitigate risks that might give rise to future losses. During the year we announced the lifetime extension of Hinkley Point B and Hunterston B by five years to 2016. Further extension of these stations' lives will be reviewed by 2013.

[1]Small losses are events less than 1TWh

We will consider the lifetime extension of other stations three years before their current accounting closure dates.

We are embedding a culture of operational safety and excellence through investment in our people and our working practices. Many visits to British Energy have been made by other nuclear operators to learn from our human performance programmes. We have taken on over 60 graduates and apprentices in the year as part of our human resource planning initiatives, to train the nuclear professionals needed to accommodate succession planning, station life extensions and provide a core of employees for nuclear new build.

Despite difficult market conditions, good progress has been made in extending the depth of the trading book, and we successfully managed the financial impact of buying back power as a result of the BCU issue at Hartlepool and Heysham 1. We believe that the low carbon nature of our nuclear generation has the opportunity to create additional value as businesses search for cost effective ways to lower their carbon footprints.

Government has clearly made the case for nuclear new build in the United Kingdom as part of a balanced energy strategy. We are uniquely positioned to participate in nuclear new build. Our sites are particularly attractive assets for a new build programme and we seek to maximise the value of those sites for our shareholders. An equally important asset, however, is our large complement of skilled nuclear professionals who will be key for a successful new build programme.

### Market and Strategic Priorities

Our principal activities are the generation and sale of electricity. Our strategic priorities are to:

- achieve world class operational safety and excellence;
- improve our financial stability;
- pursue life extensions for our stations; and
- position British Energy for nuclear new build.

Underlying these priorities is our individual and corporate commitment to environmental excellence.

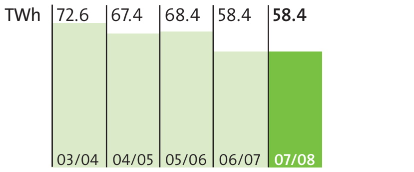
We use a number of key performance indicators to measure performance against our strategic priorities and our commitment to safety and environmental excellence. These include output, Unplanned Capability Loss Factor (UCLF), Unplanned Automatic Trips, Lost Time Accidents (LTA), Environmental Events and the depth of the fixed trading book, as well as the progress in achieving low or zero collateral sales.

### Operations Review

#### Nuclear Stations

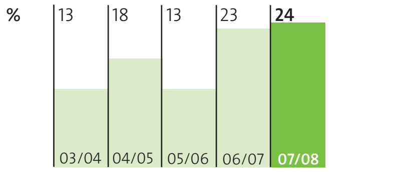
Our nuclear output for the year was 50.3TWh which was 0.9TWh lower than last year's output of 51.2TWh. UCLF increased slightly to 24% compared with 23% in the previous year. While nuclear output was significantly impacted during the financial year, principally in respect of BCUs and boiler issues (which also affected output last year), we have made considerable progress to manage the challenges presented.

TOTAL OUTPUT




Output is the amount of electricity produced by our fleet of power stations. Output for the year was 58.4TWh, the same as last year. Output in the year was adversely affected by the Boiler Closure Unit issue at Hartlepool and Heysham 1 and the boiler temperature restrictions at Hinkley Point B and Hunterston B, offset by a significant improvement in the level of small unplanned losses and higher output from our coal-fired power station, Eggborough.

UNPLANNED CAPABILITY LOSS FACTOR (NUCLEAR)

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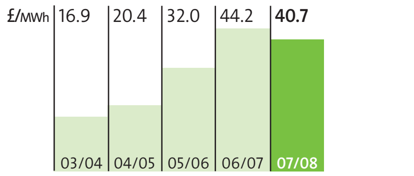



Realised price is a measure of the price we achieve for output sold. In 2007/08 we achieved a realised price of £40.7/MWh, down from £44.2/MWh in 2006/07.

The table below compares nuclear station output and UCLF for financial years 2007/08 and 2006/07.

| | FY 2007/08 | | FY 2006/07 | |
|---|---|---|---|---|
| | Output (TWh) | UCLF (%) | Output (TWh) | UCLF (%) |
| Dungeness B | 6.4 | 11 | 4.5 | 24 |
| Hartlepool | 4.6 | 42 | 5.6 | 31 |
| Heysham 1 | 3.7 | 53 | 7.5 | 12 |
| Heysham 2 | 8.6 | 9 | 9.4 | 6 |
| Hinkley Point B | 5.3 | 28 | 4.2 | 46 |
| Hunterston B | 4.0 | 37 | 3.5 | 53 |
| Sizewell B | 9.8 | 0 | 8.9 | 0 |
| Torness | 8.0 | 14 | 7.6 | 13 |
| **Nuclear Fleet** | **50.3** | **24** | **51.2** | **23** |

(Numbers rounded)

Output is stated after total non-routine nuclear losses of 23.5TWh compared to 21.0TWh of losses in the previous year. Losses in the year comprise 11.1TWh attributable to boiler inspection/repair outages and reduced load operation at Hinkley Point B and Hunterston B (of which 6.6TWh were planned at the start of the year), 8.6TWh attributable to the BCU issue at Hartlepool and Heysham 1 and 3.8TWh attributable to other events.

Sizewell B, our PWR power station, continues to perform to excellent standards, achieving a record continuous reactor run of 516 days between its statutory/refuelling outages in September 2006 and March 2008. The station has since returned to service after a 25 day outage, another station record. The outage was completed with no LTAs, Nuclear Reportable Events (NRE) or Environmental Events.

The four units at Hartlepool and Heysham 1 remain shutdown as a result of the BCU issue. An update on the progress of this issue is set out below.

During the year we returned to service all four units at Hinkley Point B and Hunterston B following boiler inspections and repairs. Losses associated with the delayed return to service and the subsequent boiler inspection outage at Hunterston B Reactor 3 were 3.1TWh. During the year, the four units achieved a maximum output of between 55% and 69% of their former full load output, with associated boiler restriction losses of 8.0TWh. Since returning to service at the new operating load, both stations have achieved very low levels of unplanned losses with one unit at Hinkley Point B completing its longest recorded continuous run.

In addition to these major unplanned losses, there were 4.1TWh (2006/07: 8.6TWh) of smaller losses of under 1TWh each. After taking account of outage and refuelling under/overruns, the net loss arising was 3.8TWh.

## Boiler Closure Unit Status

BCUs are unique to Hartlepool and Heysham 1 power stations. There are eight BCUs on each reactor which form part of the reactor pressure boundary. Each BCU is pre-stressed with nine layers of wire windings, wound around its outer periphery. In the September 2007 statutory outage at Hartlepool Reactor 1, a broken wire was found on one BCU during a planned inspection. Having identified a broken wire, we took the conservative decision to take the sister units at Hartlepool and Heysham 1 out of service, pending inspection and assessment.

To date, over 660,000 man hours have been spent inspecting and assessing the condition of the wire windings on all 32 BCUs. Engineering modifications have been identified and developed to reduce reliance on the wire windings. These include a mechanism to lock in the existing pre-stress in the BCUs, installation of an engineered steel restraint, upgrading the BCU cooling systems and installing additional instrumentation to monitor the BCUs whilst in operation. The testing, materials procurement, manufacture and installation of these modifications is progressing to plan. We expect the fitting of circumferential bands, which are designed to lock in the existing pre-stress, to commence in June 2008.

A restart team has been established which has the responsibility for delivering the smooth return to service of all four units, expected to be in a phased process over the second and third quarters of financial year 2008/09. Return to service requires regulatory approval of the safety case for each reactor. From the outset, the Regulator has had full view of the project and we continue to work with the Regulator to achieve the return to service of all four units.

Costs of £20m were incurred in the year in connection with BCUs. The remaining cost of commissioning and installing the engineering modifications is expected to be around £50m, and will be incurred in financial year 2008/09. An arrangement is in place to incentivise suppliers to return the units to service ahead of schedule.

We have managed our trading book to buy back power which we had contracted to sell prior to Hartlepool and Heysham 1 power stations being taken out of service. As at 18 May 2008 we had incurred a total net cost of £70m in relation to power buybacks in respect of financial year 2007/08 and £50m in respect of financial year 2008/09. We continue to manage our trading book position in line with the expected phased return to service of the units.

### Boiler Issues Status

Following the completion of boiler inspections and required repairs at Hinkley Point B and Hunterston B, all four units returned to service during May 2007 and June 2007. We have been operating at reduced load to limit boiler tube temperatures.

A further planned boiler inspection outage at Hunterston B Reactor 3 was undertaken between February 2008 and April 2008. During the outage, a number of previously isolated boiler tubes were returned to service and further boiler balancing work was undertaken. Thermocouples were installed in one boiler to provide additional temperature measurements. A number of prototype boiler tube bifurcation insulation boxes ('clamshells') were installed for evaluation. Subject to satisfactory operating results and development of a satisfactory safety case, these may allow future operation at higher loads. Following an update to the safety case using the latest inspection data, the unit was returned to service in May 2008 and is currently operating at around 70% load, the maximum allowed load within our target temperature limits.

Hinkley Point B Reactor 4 is also operating at around 70% load. Hinkley Point B Reactor 3 has been running at around 64% load, and boiler balancing work is to be performed in a scheduled boiler outage next financial year.

The statutory/boiler outage at Hunterston B Reactor 4 is currently underway. Boiler inspections and modifications will also be undertaken during the planned statutory outage at Hinkley Point B Reactor 4 later this financial year, 2008/09. As a result of updated boiler modelling, the Hinkley Point B Reactor 3 boiler inspection planned for this financial year, 2008/09, has been deferred and it will be combined with the planned statutory outage next financial year, 2009/10. A reduced duration outage is still planned this summer for Hinkley Point B Reactor 3, to complete a number of plant modifications and carry out graphite core inspections.

Overall, boilers are assessed as the plant system at most risk of causing generation losses across the fleet and therefore considerable investment focus is placed on mitigating these risks.

### Dungeness Fuel Plug Status

The length of refuelling outages at Dungeness B has been temporarily extended since September 2006 to address an issue with certain welds within the fuel plug units. A crimping device which mitigates the issue has been developed, installed and commissioned. As our work has progressed we have identified the need for further confirmatory testing to support a safety case, following which the plug units can be crimped and refuelling can proceed.

### Hot Box Dome Status

Load was reduced on Heysham 1 Reactor 2 to approximately 80% of full load in October 2006 to reduce the surface temperature on the Hot Box Dome, below 380°C. Over the course of the year we partially recovered output to approximately 87% of full load.

We plan to submit a revised safety case to the Regulator later this financial year, applicable to all four units at Hartlepool and Heysham 1, to increase the operating temperature limit to 390°C. This would enable the potential for Heysham 1 Reactor 2 to increase to approximately 95% of full power.

### Heysham 2 Fuelling Machine Status

The intermittent problem with the fuelling machine at Heysham 2 was determined to be related to the turret top bearing and has been corrected.

### Eggborough

Output from Eggborough, our coal-fired power station, was 8.1TWh for the year, compared with 7.2TWh in 2006/07. Unlike the nuclear stations, which operate as baseload plant, Eggborough operates as flexible generation. We continue to maximise Eggborough's contribution by optimising its running against changing power, coal and carbon prices and at the same time meeting our environmental commitments.

During the year, the European Commission released its plans for Phase III of the European Union Emissions Trading Scheme (EU ETS), which will run from 2013 to 2020. Under the plans, which aim to reduce carbon emissions by 20% by 2020, the power sector will receive no free carbon allowances and will instead operate a full auctioning system. Under Phase I of the EU ETS (which ended in December 2007) Eggborough received 4.54m free carbon allowances per annum, increasing to 4.75m free allowances per annum under Phase II of the scheme, which runs from 2008 to 2012.

The Large Combustion Plant Directive (LCPD) became effective on 1 January 2008 and introduced new requirements impacting emissions by Eggborough. Eggborough is now operating within the National Emission Reduction Plan (NERP) regime under the LCPD. Subject to fuel choice, market prices and plant availability, output is expected to be in line with, or in excess of, recent levels whilst complying fully with emission restrictions.

During financial year 2007/08, a statutory outage was completed on Eggborough Unit 3. This was the largest single unit outage programme carried out at the station under British Energy ownership, and incorporated an extensive investment programme. The outage was completed on schedule, to budget and with no LTAs.

### Investment in Plant and People

Investment in Plant in financial year 2007/08 was £283m (of which investment at Hinkley Point B and Hunterston B was £73m). In addition, £20m incremental expenditure in respect of the BCUs at Hartlepool and Heysham 1 was incurred. Investment in Plant in the prior year was £264m, together with £24m incremental expenditure in respect of boiler issues at Hinkley Point B and Hunterston B.

Investment in Plant in the year includes: regulatory and essential works, including preparation of Periodic Safety Review documentation; works to enhance the prospects of lifetime extensions, including investment in underground cast iron pipework and in boiler safety cases for Hartlepool and Heysham 1; and works to maintain reliability, including the fleet fuel route investment programme, investment in sea water pipework replacement at Heysham 2 and Torness and investment in the intermediate level waste storage facility at Sizewell B.

Work also continues at Hinkley Point B and Hunterston B to balance and inspect the boilers and at Hartlepool and Heysham 1 in connection with the BCU project.

Statutory outages have been completed in the year at Heysham 2, Heysham 1, Torness and Hartlepool. Hunterston B and Hinkley Point B also completed their outages which had commenced in 2006/07. Hunterston B Reactor 3 was returned to service in May 2008 following planned boiler inspection and repair. The statutory outage at Sizewell B commenced in March 2008 and was successfully completed on 15 April 2008. Hartlepool and Heysham 1 remain out of service for BCU inspections and assessment.

We continue to focus on human performance across the business and recently opened our Nuclear Power Academy at Barnwood, a facility specifically designed to support operational safety and excellence and reinforce the key principles of nuclear professionalism. Our human performance programme was commended by the World Association of Nuclear Operators (WANO). During the year, we increased our headcount by approximately 100, as part of human resource planning initiatives across the business.

Our sustained focus on improvement throughout the organisation continues to produce successes in underlying performance. Materiel condition improvements are targeted investments to repair, refurbish or replace plant components to deliver increased reliability. Achievements in the year include attaining the lowest ever recorded level of small unplanned losses, an indication of the improvements we have made to the materiel condition of our plant together with improvements in human performance.

Our overriding priority is to ensure that the nuclear, industrial, radiological and environmental safety of our operations is effectively managed and assured. Having a strong safety culture embedded in the organisation is crucial to achieving these goals.

Underpinning these successes is a culture of nuclear professionalism which is evident throughout our workforce and I am extremely proud of the team we have at British Energy. Nuclear professionalism means taking responsibility for the plant, promoting an open reporting culture, continually learning from past experience and applying simple error prevention techniques.

### Safety Performance

Our overriding priority is to ensure that the nuclear, industrial, radiological and environmental safety of our operations is effectively managed and assured. Having a strong safety culture embedded in the organisation is crucial to achieving these goals.

The actual and potential significance of individual nuclear events is measured against the International Nuclear Event Scale (INES). During financial year 2007/08 we had no nuclear safety events rated higher than INES Level 1, where Level 1 represents events that have no impact on the safety of the general public or our workforce. In addition, we monitor the number of NREs arising. In financial year 2007/08 we achieved our lowest recorded level ever, with only four events, compared to 77 four years ago in 2003/04.

We operate to strict procedures to minimise and control the radiation doses received by employees and contractors at all of our nuclear power stations. Any worker required to enter a radiation controlled area is issued with an electronic personal dosemeter which measures radiation dose and warns the wearer if pre-determined dose levels are exceeded.

Radiation dose is measured in units of milliSieverts (mSv). We impose a dose restriction of 10 mSv per annum, beyond which dose may only be incurred with prior permission. This is half the annual legal dose limit. In calendar year 2007 the average individual dose received by all workers on our sites was 0.081 mSv. The highest individual dose received by a British Energy employee was 4.648 mSv and the highest individual dose received by a contractor was 5.987 mSv. The Company's collective dose performance remains amongst the best when compared to nuclear operations worldwide.

In addition to the significant improvement in the number of NREs, we have achieved improvements in the number of LTAs incurred in recent years. 19 LTAs were sustained by employees and contractors working at our nuclear sites and support functions in financial year 2007/08. British Energy employees had the lowest number of LTAs in the Company's history. Continuous improvement in our safety performance has been, and continues to be, a high priority for our staff and contractors.

During the year we engaged with our principal contractor partners in a collaborative approach to being Incident and Injury Free (IIF), an initiative to promote common standards and the behaviours which underpin safe working practice and actions. A new behavioural safety initiative known as ALTA (Ask, Listen, Think, Act) was launched during the year at Eggborough to encompass staff and long-term contractors at the site. On 3 April 2008 Eggborough celebrated a full year without an LTA.

### Environmental Performance

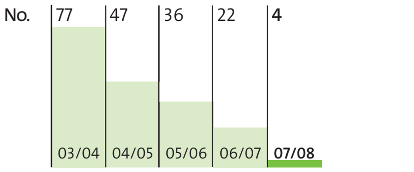
As with safety, environmental excellence is achieved through a constant focus, addressing issues before there is environmental impact. We have established very conservative monitoring of environmental performance at British Energy, well below any regulatory limits, in which every incident is reported, no matter how trivial. The key to preventing more serious incidents is to mitigate and learn from the less significant ones. During financial year 2007/08 our staff and contracting partners reported over 2,000 environmental observations, of which 15 were classified as being of higher significance on the British Energy scale. This was the lowest ever annual total. All 15 were rated by our environmental regulators as having minor or no environmental impact.

All radioactive waste produced by our power stations is regulated and carefully managed to minimise and control discharges. During the course of the year none of our stations exceeded authorised radiological discharge limits.

## Financial Stability from our Trading and Sales Strategy

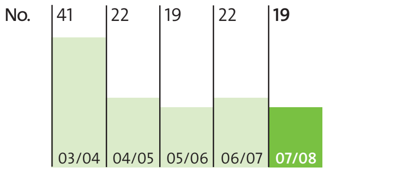
The overriding priority of our Trading and Sales strategy is to increase financial stability for the business. Our objectives are to trade our output to optimise value, minimise the market costs of unplanned output losses and increase the depth of

NUCLEAR REPORTABLE EVENTS



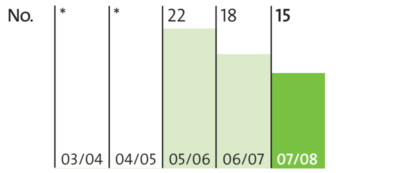

Nuclear Reportable Events (NRE) are events reported to the Nuclear Installations Inspectorate in compliance with our nuclear site licences. These reduced from a peak of 77 in 2003/04 to four in 2007/08, a best ever record.

LOST TIME ACCIDENTS – NUCLEAR (STAFF AND CONTRACTORS)




Our employees and contractors incurred 19 Lost Time Accidents (LTA), resulting in one or more days off work, whilst working at our nuclear sites and support functions during the year, a reduction from 22 in 2006/07.

ENVIRONMENTAL EVENTS




Environmental events arise from wastes or discharges above permitted levels or breaches of permitted conditions. We monitor our environmental performance conservatively, and in 2007/08, all of the 15 Environmental Events that we classified as being of greatest significance (our lowest annual total) were categorised by our environmental regulator as being minor or having no environmental impact.

* No comparable information

the fixed price portion of the trading book. We have developed zero-collateral and collateral efficient routes to market to reduce the impact of price volatility on collateral. A future focus of our Trading and Sales division will be to capture the benefit of the low carbon nature of our nuclear generation.

The forward price of annual baseload electricity commencing October 2008 rose from £39/MWh at the start of April 2007 to £61/MWh as at 31 March 2008. Coal prices rose throughout the year to record highs. The price of annual coal delivered to European ports, commencing January 2009, rose from $72/tonne at the start of April 2007 to $124/tonne as at 31 March 2008. Prices of Phase II carbon allowances for delivery in December 2008 rose from €17/tonne $CO_2$ at the start of April 2007, peaked at €25/tonne $CO_2$ in May 2007, and ended the year at €22/tonne $CO_2$ as at 31 March 2008.

Clean dark spread prices (being the electricity price, less costs of coal and carbon allowances) for the Winter 08 and Summer 09 seasons reduced during the first six months of the year as coal prices rose, then increased as power prices increased. Clean dark spread prices for Winter 08 and Summer 09 at the start of April 2007 were £16/MWh and £11/MWh respectively, rising to £22/MWh and £12/MWh respectively as at 31 March 2008.

Our realised price for financial year 2007/08 was £40.7/MWh, a decrease of £3.5/MWh compared with a realised price of £44.2/MWh in 2006/07. The reduction reflects the prevailing market price at the time of contracting forward sales of power, together with the net cost of buying back power as a result of the lost output arising from the BCU issue at Hartlepool and Heysham 1. Our contracted price position continues to include the impact of 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.

Cash posted as collateral in support of trading activities and cash held for variation margin calls was £280m as at 31 March 2008, compared to £141m as at 31 March 2007, and reached a peak of approximately £360m in December 2007. As at 31 March 2008, we had committed letter of credit facilities of £350m, undrawn and available to support collateral calls.

In addition to our wholesale sales, British Energy Direct delivered around 27.1TWh of electricity during the financial year 2007/08 and signed contracts for the supply of around 15.6TWh including future year deliveries. As at 31 March 2008 British Energy Direct was supplying over 1,080 customers across more than 8,700 sites within the United Kingdom.

## Pursuing Lifetime Extensions

In December 2007, having completed the necessary technical and economic evaluation and received the relevant external consents, we took the decision to extend the accounting lives of Hinkley Point B and Hunterston B by five years to 2016. The decision extends the life of these stations for accounting purposes to 40 years. Further studies will be conducted by 2013 regarding the potential for additional life extension of these stations beyond 2016.

We will consider lifetime extensions for other stations, which will be completed a minimum of three years before the scheduled closure date of each station.

## Nuclear New Build

Following a process of consultation, the Government published a White Paper on Nuclear Power on 10 January 2008, stating that nuclear power should be part of the country's balanced future energy mix, and that it is in the public interest for energy companies to have the option to invest in new nuclear power stations. We welcome their statements of support for new nuclear as part of a balanced energy policy.

The Government is taking forward a number of actions that will facilitate new investment. These include reform of the planning system, strategic assessment of siting options, co-ordinated regulatory reviews and strengthening the emissions trading scheme. In addition, the Energy Bill, which was introduced in January 2008 includes important clauses on the arrangements for funding of decommissioning and radioactive waste disposal. A Government consultation on the requirements for a funded decommissioning programme was issued on 22 February 2008. The Government is also taking forward its policy on radioactive waste management through a consultation that started in 2007 and appointments to an advisory Committee on Radioactive Waste Management (CoRWM). A White Paper in response to the consultation on managing radioactive waste safely is expected shortly.

We continue to make prudent investments to secure a pivotal role in new nuclear build, maximise the value of our sites and, especially, the contribution from our experienced staff. We have established a dedicated team to take forward all aspects of new build, drawing on particular strengths in licensing, planning, waste management, engineering and operations from across British Energy.

We own eight sites next to existing licensed nuclear facilities that are among the best potential candidates for the construction of new nuclear power stations. We are evaluating all eight sites, although our four priority sites for the first new build units are in the south of England – at Sizewell, Hinkley Point, Dungeness and Bradwell. We have commissioned a range of surveys to gather data for environmental impact assessment at these four locations and in November 2007 we secured transmission connection and construction agreements with National Grid for a total of approximately 10.8GW gross capacity from 2016 at these sites. In line with standard industry terms, we have provided security of around £2/kW of transmission capacity to National Grid. This will increase by a further £1/kW in financial year 2008/09.

We are continuing an active dialogue with local stakeholders around all our sites, in order to keep the local community informed and assure that we understand local issues ahead of any planning applications.

Four candidate reactor designs were submitted to the regulatory authorities for generic design assessment in June 2007. Based on the initial review, the regulators concluded that there were no fundamental reasons to disqualify any of the designs. Following the withdrawal of one design, three have gone forward to the next phase of generic design assessment. We are reviewing their construction and operational characteristics, projected performance, commercial attractiveness and suitability for use in the United Kingdom. We have not ruled out any of the three designs at this stage.

## Outlook for Financial Year 2008/09

### Operations

Moving into financial year 2008/09 our priorities remain unchanged. We will continue to focus on delivering improvements to our performance throughout our organisation to ensure safe, reliable generation.

Total output to 18 May was 5.8TWh, comprising 4.7TWh of nuclear output and 1.1TWh of output from Eggborough, after total non-routine losses of 4.8TWh, of which 4.2TWh were planned, mainly in respect of BCU outage and boiler temperature restrictions.

During financial year 2008/09 we will be undertaking statutory outages at Heysham 1, Hunterston B, Dungeness B, Heysham 2 and Hinkley Point B. In addition, a reduced duration outage will take place at Hinkley Point B Reactor 3 to complete a number of plant modifications and to undertake graphite core inspections. This is the largest programme of outages that we have undertaken for many years. We have sought to mitigate the inherent risk of delayed return to service through careful planning and by proactively identifying potential safety case requirements.

The boiler inspection outage at Hunterston B Reactor 3 which started in February 2008 and the statutory outage at Sizewell B which started in March 2008 were completed in May 2008 and April 2008 respectively. Hartlepool and Heysham 1 remain out of service while the BCU project is ongoing, although we expect the units to return to service during the second and third quarters of this financial year.

We plan to submit a revised safety case to the Regulator in respect of the Hot Box Dome which would enable the potential for Heysham 1 Reactor 2 to increase to approximately 95% of full power.

As described in the Operations Review, refuelling outages at Dungeness B continue to be affected by the fuel plug unit weld issue. As our work has progressed we have identified the need for further confirmatory testing to support a safety case, following which the fuel plug units can be crimped and refuelling can proceed.

We continue to focus investment to improve the long-term reliability and safe operation of the fleet by proactively targeting investment to deliver equipment reliability and to reduce the risk of future losses. In financial year 2008/09, we expect Investment in Plant to be in the range £280m to £305m, which will help us to mitigate current risks and lifetime risks in areas such as availability of strategic spares, neutron flux detectors, gas circulators and digital processing systems. In addition, we expect to incur BCU engineering modification costs at Hartlepool and Heysham 1 of around £50m.

In financial year 2009/10, we expect Investment in Plant to be in the range £260m to £280m.

In financial year 2008/09, underlying materials and services costs are expected to rise with inflation. Staff costs are expected to increase as a result of wage inflation across the sector and the full year effect of previous headcount increases. The agreed reduction in pension deficit repair contributions following the March 2007 triennial valuation is expected to be largely offset by higher employer's future service contributions.

### Trading and Sales

We continue to manage our trading book position in line with the expected phased return to service of the four units at Hartlepool and Heysham 1, expected to be over the second and third quarters of financial year 2008/09. As at 18 May 2008, we had fixed price contracts in place for approximately 38.7TWh for the financial year 2008/09 at an average contract price of £43/MWh (excluding the impact of capped contracts). The capped contracts are for delivery of approximately 5TWh per annum up to March 2011, at prices currently capped at around £32/MWh. The realised price takes into account the difference between the purchase price of power in connection with buybacks (for delivery in financial year 2008/09) and the average contract price of fixed price contracts in place prior to unplanned losses associated with Hartlepool and Heysham 1, being approximately £50m.

Although the large outage programme will reduce output and cash generated from operations in financial year 2008/09, we will continue to seek to enhance the depth of the fixed price trading book. As at 18 May 2008, we had fixed price contracts in place for approximately 32.2TWh for the financial year 2009/10 at an average contract price of £41/MWh (excluding the impact of approximately 5TWh of capped contracts at around £33/MWh).

As at 18 May 2008, we had 104TWh of zero/capped collateral sales that will deliver over the period to March 2013 at fixed prices (excluding power already delivered under these contracts), up from 76TWh at 20 May 2007, for delivery over the period to April 2012. One of these trades has deferred cash receipts by a total of approximately £300m, excluding interest, for the two years ended 31 March 2007 and 2008. This cash will be received over the period up to April 2011 or sooner to the extent substituted by letters of credit.

### Concluding Remarks

Despite disappointing financial performance, we have made good operational progress, with Sizewell B operating to world class standards and some best ever metrics being realised across the AGR fleet. We are well positioned to manage our existing fleet to best advantage and look ahead to playing a pivotal role in the new build programme.

**Bill Coley**
Chief Executive

## Financial Review

# Nuclear output and financial performance were lower than last year, primarily reflecting the Boiler Closure Unit issue at Hartlepool and Heysham 1.

### Overview

As anticipated at the start of the year, the Group's financial performance in comparison to the prior year shows a reduction in the key financial indicators: revenue, adjusted EBITDA, operating profit and profit before tax. Although output is unchanged on last year, a combination of a reduced realised price and an increase in the unit operating cost has significantly reduced the Group's operating margin in comparison with the prior year. The reduction in realised price from £44.2/MWh in 2007 to £40.7/MWh in 2008 for the most part reflects the Group's policy of reducing uncertainty of income by selling future output at fixed prices. As previously reported, the Group had fixed price contracts in place, as at 20 May 2007, for approximately 57TWh of output fixed at an average contract price of £42/MWh and approximately 5TWh of capped contracts at around £30/MWh.

The increase in unit operating cost from £27.1/MWh in 2007 to £30.0/MWh was also largely anticipated with the increases in individual cost categories.

The reduction in key financial indicators was however exacerbated by the significant impact of the Boiler Closure Unit (BCU) issue at Hartlepool and Heysham 1. The lost output from this event was partially mitigated by the significant improvement in the level of small losses, a less extensive statutory outage programme and increased output from Eggborough, although at significantly reduced margins due to tighter clean dark spreads. Although the output for the year at 58.4TWh was unchanged on 2007, this was behind expectations at the start of the year. The lower than expected output, the effect of additional power buybacks and costs associated with the BCU issue have resulted in the reduction of the operating margin from £17.1/MWh in 2007 to £10.7/MWh being greater than anticipated at the start of the year.

The net cash position, which excludes restricted cash and other financial assets, has only marginally declined from £528m at the beginning of the year to £512m at 31 March 2008. The Group's net cash position has been maintained whilst paying the first dividend since Restructuring of £140m, paying the 2007 Cash Sweep Payment of £171m and continuing with the investment programme. Investment in Plant spend was £283m, with an additional £20m spend in respect of inspection and assessment of the BCU issue.

### Financial Performance

**Summary of Results**

The results for the year ended 31 March 2008 are summarised as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Revenue** | **2,811** | 2,999 |
| Operating and energy costs | **(1,929)** | (1,778) |
| **Adjusted EBITDA[1]** | **882** | 1,221 |
| Other operating income | **10** | 93 |
| Cash Sweep Payment credit | **134** | - |
| Cash Sweep Payment accrual | **(102)** | (305) |
| Depreciation | **(238)** | (207) |
| Amortisation of conversion asset | **(167)** | - |
| Other amortisation | **(9)** | (6) |
| Unrealised net losses on derivative financial instruments and commodity contracts | **(3)** | (2) |
| **Operating profit** | **507** | 794 |
| **Financing (charges)/credits** | | |
| Interest payable | **(77)** | (61) |
| Interest receivable | **89** | 53 |
| Net other finance income | **19** | 10 |
| **Profit before taxation** | **538** | 796 |
| Taxation | **(203)** | (331) |
| **Net profit for the year attributable to shareholders** | **335** | 465 |

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

## Revenue and Output

Revenue consists primarily of wholesale generation sales and sales by the Group's direct supply business, British Energy Direct. The analysis of revenue for the year ended 31 March 2008 is as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Revenue** | | |
| Wholesale generation sales | **1,307** | 1,328 |
| Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers | **1,070** | 1,252 |
| **Revenue from generated electricity** | **2,377** | 2,580 |
| Energy supply costs recharged to customers | **367** | 362 |
| Renewable energy purchases recharged to customers | **56** | 46 |
| Miscellaneous income | **11** | 11 |
| **Total revenue** | **2,811** | 2,999 |

Output is analysed as follows:

| | Year ended 31 March 2008 TWh | Year ended 31 March 2007 TWh |
|---|---|---|
| Nuclear power stations | **50.3** | 51.2 |
| Coal-fired power station – Eggborough | **8.1** | 7.2 |
| **Total output** | **58.4** | 58.4 |

Total output for the year of 58.4TWh is unchanged on the prior year. Output from Eggborough increased by 0.9TWh to 8.1TWh whilst there was a reduction in output from the nuclear fleet by 0.9TWh to 50.3TWh.

Nuclear output for the year was 0.9TWh lower than last year's output primarily due to unplanned losses incurred in connection with the BCU issue at Hartlepool and Heysham 1. The significant adverse impact of the BCU issue has been partially mitigated by an improvement in the level of small losses. A full discussion of the Group's nuclear generation performance and the performance of the Group's coal-fired power station at Eggborough is contained in the Operations Review section on pages 6 to 10 of the Chief Executive's Business Review.

Although total output is unchanged on the prior year, wholesale generation sales and direct supply sales, excluding recovery of energy supply costs and renewable energy purchases recharged to customers, have decreased by £21m and £182m respectively from 2007. This is as a result of the decrease in realised prices from £44.2/MWh last year to £40.7/MWh this year. Realised price is calculated as revenue from generated electricity divided by total output. The reduction in realised price from £44.2/MWh in 2007 to £40.7/MWh in 2008 for the most part reflects the Group's policy of reducing uncertainty of income by selling future output at fixed prices. As previously reported, the Group had fixed price contracts in place, as at 20 May 2007, for approximately 57TWh of output fixed at an average contract price of £42/MWh and approximately 5TWh of capped contracts at around £30/MWh. The power buybacks of £70m, that the Group made in order to address the impact of the BCU issue, also adversely affected realised price achieved. A discussion on the movement of market prices, market conditions and the Group's strategy for trading is contained in the Financial Stability from our Trading and Sales Strategy section of the Chief Executive's Business Review.

### Operating and Energy Costs Summary

The Group operating and energy costs are analysed as follows:

| | **Year ended 31 March 2008 £m** | Year ended 31 March 2007 £m |
|---|---|---|
| Fuel costs – nuclear | **300** | 278 |
| Fuel costs – Eggborough | **227** | 156 |
| Total fuel costs | **527** | 434 |
| Materials and services | **583** | 562 |
| Staff costs | **396** | 374 |
| **Operating costs of generated electricity** | **1,506** | 1,370 |
| Energy supply costs recharged to customers | **367** | 362 |
| Renewable energy purchases recharged to customers | **56** | 46 |
| **Total operating and energy costs** | **1,929** | 1,778 |

### Unit Operating Cost and Operating Margin

Unit operating cost increased to £30.0/MWh for the year from £27.1/MWh in 2007, and is calculated as operating costs of generated electricity plus depreciation and software amortisation, divided by total output. The increase in unit operating costs of £2.9/MWh is mainly due to an increase in fuel costs and the depreciation charge as a result of capital expenditure on plant. Materials and services and staff costs, excluding the costs relating to Investment in Plant, have increased. The increase in unit fuel costs is primarily due to the accounting treatment of carbon allowances and the estimated provision for unburnt nuclear fuel in the reactors at station closure. Further information on each of these categories is provided below.

Realised price less unit operating cost results in an operating margin per unit of £10.7/MWh for 2008 (2007: £17.1/MWh).

### Operating and Energy Costs

Nuclear fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication (front end) and the costs of reprocessing, long-term storage and eventual disposal of the resulting waste products (back end). Full provision is also made for the projected costs of unburnt fuel at station closure.

Nuclear fuel costs have increased by £22m to £300m (2007: £278m) which reflects an increase in nuclear fuel unit cost from £5.4/MWh to £6.0/MWh. This increase is mainly due to the revaluation of the provision for unburnt fuel at station closure, which is not linked to the output for the year but to the amount of unburnt fuel in each individual reactor at the balance sheet date. After adjusting for this provision movement, the underlying unit cost is consistent with last year.

Eggborough fuel costs in respect of coal, oil, biomass and carbon allowances totalled £227m for the year (2007: £156m), or £28.0/MWh (2007: £21.7/MWh). Excluding carbon allowances, Eggborough fuel costs were £154m (2007: £134m) or £19.0/MWh (2007: £18.6/MWh) which reflects the upward movement in coal prices.

Carbon allowance costs totalled £73m for the year (2007: £22m), or £9.0/MWh (2007: £3.0/MWh). This includes the recognition of £58m (2007: £41m) for the write down in the value of Phase I carbon allowances to almost nil, that had been purchased in the prior year but delivered in the year. The impact of the carbon allowance write down on fuel costs in the current year was previously reflected in the 2007 unrealised net losses on derivative financial instruments and commodity contracts, when these contracts were marked to market as at 31 March 2007. It should be noted that it is the Group's policy to fix the fuel costs at the time of selling Eggborough's output and therefore losses on forward purchase contracts of carbon allowances are matched with the revenue derived from the associated forward sales contracts of Eggborough output recognised in the period.

Materials and services costs have increased by £21m to £583m (2007: £562m) in the year and comprises the operating expenses of the power stations and support functions. Expenditure on non-recurring repair expenditure projects (NRR), which is part of the investment programme, has increased by £27m to £159m in the year (2007: £132m). Also included in materials and services is £20m spent on the BCU issue at Hartlepool and Heysham 1. The operating expenses of the stations are consistent with the prior year, with inflation increases being offset by savings in insurance and rates.

Staff costs totalled £396m (2007: £374m), an increase of £22m from the prior year. Higher staff numbers and the annual pay rise contributed to the increase. The Group's headcount increased from 6,062 at the beginning of the year to 6,176 at 31 March 2008.

Energy supply costs were £367m for the year (2007: £362m) and primarily comprise the costs to the Group of the Renewables Obligation Scheme, Transmission Use of System (TNUoS) costs, Distribution Use of System (DUoS) costs and Balancing Services Use of System (BSUoS) costs, all of which are fully recovered within revenue.

The Group purchases energy from renewable sources for two reasons, firstly to satisfy customers' demands, and secondly to obtain Renewables Obligation Certificates (ROCs) to contribute towards satisfying the Group's obligations under this scheme. The cost of purchased electricity from renewable sources is accounted for in renewable energy purchases, net of the value of ROCs and Levy Exemption Certificates (LECs). The value of ROCs and LECs are accounted for separately within intangible assets. The volume of energy purchased from renewable sources was 1.6TWh (2007: 1.1TWh). The increased cost in renewable energy purchased of £56m (2007: £46m) is as a result of higher volume being purchased offset by a reduction in the average price paid.

### Other Operating Income

Other operating income of £10m (2007: £93m) consists of the utilisation of £2m (2007: £93m utilisation and release) of the contracts provision, which was established at RED and an £8m (2007: £nil) realisation of a contingent asset, relating to the Group's disposal of its interest in Bruce Power LP.

### Cash Sweep Payment Accrual, NLF Partial Conversion, Cash Sweep Payment Credit and Amortisation of Conversion Asset

As part of the Contribution Agreement made at the time of Restructuring, the Group has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund (NLF) should certain criteria be met. In accordance with the terms of the Contribution Agreement, a Cash Sweep Payment of £102m (2007: £305m) has been accrued in the consolidated financial statements in accordance with the Group's accounting policy.

The annual Cash Sweep Payment was initially equal to 65% of the Group's net cash flow, adjusted for certain items outlined in the Contribution Agreement. The NLF has the right to convert some or all of its entitlement to receive Cash Sweep Payments into convertible shares and to sell those shares. On disposal, the convertible shares automatically convert into ordinary shares of British Energy Group plc. On a full conversion of its remaining interest, the NLF would hold up to approximately 35% of the thereby enlarged equity share capital of British Energy Group plc.

On 30 May 2007 the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy Group plc. On 1 June 2007 British Energy Group plc received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over allotment option of a further 50 million shares in the Company. As a result on 6 June 2007 British Energy Group plc issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the conversion and share issue the Cash Sweep Payment percentage was reduced to approximately 36% and resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the exercise of the conversion right.

Following initial recognition, the conversion asset is being amortised over the estimated useful accounting lives of the Group's power stations. For the period from 6 June 2007 to 31 March 2008 the amortisation charge was £167m (2007: £nil).

Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. British Energy Group plc obtained agreement from the NLF and the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion, which took place in the year, so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of the Company's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for this year, with the remaining £171m obligation paid in July 2007. In the event of further NLF conversions, British Energy Group plc plans to seek a similar waiver. The NLF and the Secretary of State for Business, Enterprise and Regulatory Reform have not given any commitment to agree to waive the NLF's entitlement to any additional Cash Sweep Payment amounts in respect of any future NLF conversions. Additionally, the new shares issued on conversion were entitled to the base dividend of 13.6p per ordinary share approved at British Energy Group plc's Annual General Meeting on 19 July 2007. The effect of the new shares issued was to increase the amount of dividends paid on 31 July 2007 from the £80m anticipated in the 2007 Annual Report and Accounts to £140m.

The formula in the Contribution Agreement which adjusts the Cash Sweep Payment percentage after the Cash Sweep Payments and dividends has also been amended with the agreement of the Secretary of State for Business, Enterprise and Regulatory Reform and the NLF so as to more clearly adhere to the principle of economic parity and to partially mitigate any unintended dilution of British Energy Group plc's equity shareholders' interests under the formula in the original Contribution Agreement.

The Cash Sweep Payment percentage was 35.1% as at 31 March 2008, down from 64.0% at 31 March 2007. It reduced by approximately 28% because of the NLF's partial conversion into equity of its Cash Sweep Payment right in June 2007. The remainder of the decrease relates to the exercise of 6,955,809 of British Energy Group plc's Warrants and the Cash Sweep Payment, offset by the impact of the dividend payment made during the year. At 31 March 2008 there were 6,764,057 unexercised Warrants remaining.

The basis of the computation of the Cash Sweep Payment is described in more detail in note 9 to the consolidated financial statements.

### Depreciation and Other Amortisation

Depreciation of £238m was £31m higher than the prior year due to expenditure on power stations and other plant and equipment, including overhaul. This increase is after a £6m reduction in the depreciation charge in respect of the accounting life extensions at Hinkley Point B and Hunterston B. Other amortisation of £9m (2007: £6m) relates to amortisation on software in the year.

### Unrealised Net Losses on Derivative Financial Instruments and Commodity Contracts

Unrealised net losses or gains on derivative financial instruments and commodity contracts arise as a result of fair value movements in the Group's commodity contracts which fall within the scope of IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39). Some of these contracts are accounted for as cash flow hedges, with movements in fair value taken directly to equity in the hedge reserve. The fair value movements in all other contracts within the scope of IAS 39 are presented in the unrealised net losses on derivative financial instruments and commodity contracts line of the consolidated income statement.

The charge to the consolidated income statement this year of £3m (2007: £2m) represents a credit for the fair value movements in carbon allowance forward contracts of £64m (2007: £73m charge) offset by a charge for the fair value movement of electricity and other forward commodity contracts of £67m (2007: £71m credit).

### Financing (Charges)/Credits

Interest payable of £77m (2007: £61m) relates to interest on the Group's Bonds, together with finance fees on structured trading contracts and committed letter of credit facilities. As a consequence of the annual repayment of the Bond principal, the interest payable on the Bonds has decreased by £4m to £40m.

Interest receivable of £89m (2007: £53m) relates to interest earned on cash deposits and interest earned on deferred cash receipts in respect of a capped collateral power sales contract. This has increased as a result of higher interest bearing cash deposits, higher interest rates in 2008 compared to 2007 and higher interest received on deferred cash receipts as a result of increased amounts due under this contract.

For details of other finance income of £19m (2007: £10m), refer to note 10 in the consolidated financial statements.

### Taxation

The taxation charge of £203m (2007: £331m) has been recognised in the consolidated income statement for the year. This comprises a deferred tax credit of £2m (2007: £272m charge) and a current tax charge of £205m (2007: £59m). This represents an effective tax rate of 38% (2007: 42%) of profits before tax. The current year tax charge includes a £29m prior year charge of which £23m relates to revisions to the amount of capital allowances and tax losses originally anticipated to be utilised in the year to 31 March 2007. As this relates to a timing issue, there is a corresponding prior year tax credit reflected in the deferred tax credit for the year. Adjusting for the impact of the Cash Sweep Payment accrual, the Cash Sweep Payment credit and conversion asset amortisation (which are non-deductible for tax) and the prior year adjustments, results in an effective tax rate of 29% (2007: 30%) which is broadly consistent with the standard rate of tax of 30%.

The Group has made instalment payments of £46m and £72m during the year in respect of the current tax payable for the year ended 31 March 2007 and 31 March 2008 respectively. The remaining current tax liability of £23m reflects the anticipated benefit of the utilisation of £74m advance corporation tax paid in previous years.

### Net Profit and Earnings per Share

Net profit for the year attributable to shareholders was £335m compared to £465m for 2007.

Basic earnings per share for the year was 35.4p (2007: 81.5p). This is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year. For this calculation the net profit includes £134m relating to the waiver of part of the Cash Sweep Payment for the year ended 31 March 2007.

Diluted earnings per share for the year was 35.2p (2007: 79.9p). The diluted earnings per share calculation is based on the weighted average of ordinary shares in issue together with the dilutive weighted average of potential ordinary shares in respect of Warrants.

Adjusted earnings per share for the year was 29.6p (2007: 48.2p). As described in note 14 of the consolidated financial statements, the Cash Sweep Payment accrual of £102m (2007: £305m) and the net profit attributable to shareholders of £335m (2007: £465m) do not 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 accrual is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure reserves (Forecast Expenditure Reserve) (see note 9 of the consolidated financial statements).

An adjusted earnings per share has therefore been calculated by excluding the following from the net profit for the year attributable to shareholders:

- the Cash Sweep Payment credit relating to the year ended 31 March 2007;
- the Cash Sweep Payment accrual for the year; and
- the amortisation of the conversion asset for the year.

The weighted average share capital is adjusted by the number of shares that would have been in issue if:

- the NLF had fully converted their remaining interest at the balance sheet date; and
- the partial conversion had taken place at the start of the year, rather than during the year.

## Investment Programme

The Group's priority of achieving operational safety and excellence requires significant expenditure to improve the reliability of the Group's power stations. The Group incurred the following costs as part of its continuing programme of investment:

| | **Year ended 31 March 2008 Capital expenditure £m** | **Year ended 31 March 2008 Investment in Plant £m** | Year ended 31 March 2007 Capital expenditure £m | Year ended 31 March 2007 Investment in Plant £m |
|---|---|---|---|---|
| Capital additions | **122** | **122** | 123 | 123 |
| Strategic spares | **2** | **2** | 11 | 9 |
| Statutory outage costs | **83** | **–** | 101 | – |
| **Capitalised expenditure** | **207** | **124** | 235 | 132 |
| Non-recurring repair expenditure projects (NRR) | **–** | **159** | – | 132 |
| **Total** | **207** | **283** | 235 | 264 |

Investment in Plant for the year ended 31 March 2008 was £283m (2007: £264m) of which investment at Hinkley Point B and Hunterston B was £73m (2007: £70m). In addition, £20m of expenditure has been incurred in respect of inspection and assessment of the BCU issue at Hartlepool and Heysham 1. Of the £207m (2007: £235m) of capital expenditure, £197m (2007: £224m) was capitalised within property, plant and equipment, and the remaining £10m (2007: £11m), relating to software, was capitalised in intangible assets.

Further details of the investment programme are contained in the Chief Executive's Business Review.

## Financial Position

### Liquidity, Cash Flows and Capital Resources

As at 31 March 2008 the Group had cash and cash equivalents of £1,028m compared to £1,101m at 31 March 2007. The decrease in cash and cash equivalents is analysed in the following table:

| | **Year ended 31 March 2008 £m** | Year ended 31 March 2007 £m |
|---|---|---|
| Net cash inflow generated from operations | **322** | 751 |
| Net cash used in investing activities | **(203)** | (235) |
| Net cash used in financing activities | **(192)** | (53) |
| **Net (decrease)/increase in cash and cash equivalents** | **(73)** | 463 |
| Cash and cash equivalents at the beginning of the year | **1,101** | 638 |
| **Cash and cash equivalents at the end of the year** | **1,028** | 1,101 |

Net cash inflow generated from operations was £322m, a reduction of £429m compared to the prior year. The main reason for the reduction in cash generated is due to the reduction in operating profits. Other significant reasons include the increases in Cash Sweep Payment, tax payments and cash required to be held as collateral. Deferrals of cash receipts from the capped collateral power sales contract have increased by £152m to £320m at 31 March 2008. This deferred cash will be received over subsequent periods up to April 2011 or earlier to the extent that it is substituted by letters of credit.

Net cash used in investing activities, which primarily relates to plant and equipment additions, was £203m for the year (2007: £235m).

Net cash used in financing activities was £192m for the year (2007: £53m). This comprises the payment of the base dividend in July 2007 of £140m (2007: £nil), £57m (2007: £53m) repayment of bond principal, £2m (2007: £6m) consideration for the purchase of own shares to satisfy share incentive schemes, less £7m (2007: £6m) of proceeds from the exercise of Warrants.

In addition to cash and cash equivalents there are restricted cash and other financial assets of £286m (2007: £146m) at 31 March 2008, of which £267m (2007: £90m) is cash posted as collateral in support of trading activities. The increase in cash collateral reflects the increase in electricity prices.

At 31 March 2008, there was total debt of £516m (2007: £573m) resulting in a net cash position (excluding restricted cash and other financial assets) of £512m (2007: £528m). The total debt comprised:

- a long-term "project finance" loan of £111m (2007: £123m) secured on the assets of Eggborough Power Limited, a subsidiary company that operates the Eggborough coal-fired power station; and
- an aggregate principal amount of £405m (2007: £450m) sterling denominated guaranteed bonds due between 2009 and 2022.

During the year the Group increased its committed letter of credit facilities by £50m to £350m. The balance of £350m now comprises five separate bilateral facilities. Two of the five bilateral facilities, totalling £175m, expire in June 2008 and September 2008 with the remaining three facilities, totalling £175m, expiring in September 2009. All five facilities were undrawn in the year ended 31 March 2008.

### Net Assets and Equity

Net assets increased by £2,335m to £4,982m at 31 March 2008, due primarily to the recognition of the conversion asset, net of amortisation, of £2,173m as a result of the NLF's partial conversion in June 2007. Other significant movements in the net asset position include the movements in the net cash position and restricted cash described in the previous section and an increase in the retirement benefits obligations by £151m to £216m at 31 March 2008.

Total shareholders' equity was £4,982m (2007: £2,647m) and is fully explained in note 31 to the consolidated financial statements.

### Nuclear Liabilities and Funding Arrangements

Under the arrangements with the Secretary of State implemented on Restructuring, the NLF will fund, subject to certain exceptions, the Group's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. As part of the arrangements the Group will make certain payments to the NLF, including the Cash Sweep Payment. The NLF has the right, from time to time, to convert all or part of the Cash Sweep Payment into convertible shares.

The Government provides an indemnity to cover liabilities for spent AGR fuel loaded pre-Restructuring. The nuclear liabilities receivable is recognised as an asset on the Group's consolidated balance sheet in respect of this indemnity. The Government also indemnifies the Group against any future shortfall in NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs. The NLF receivable asset represents the aggregate value of the investments held by the NLF and the Government indemnity. The Group will continue to recognise nuclear liabilities on its consolidated balance sheet pending their discharge by payments received from the NLF.

Both the nuclear liabilities receivable and the NLF receivable are stated in the consolidated balance sheet at current price levels. Each year the financing charges in the consolidated income statement will include the revalorisation of these receivables which will match the revalorisation of the nuclear liabilities, provided the Group does not incur any non-qualifying nuclear liabilities.

At 31 March 2008 the total NLF and nuclear liabilities receivables was £5,512m (2007: £5,469m). Of the total, £202m was included in current assets (2007: £195m) and £5,310m (2007: £5,274m) was included in non-current assets. This equates to the present value of associated nuclear liabilities included in the Group's current liabilities of £202m (2007: £195m) and non-current liabilities of £5,310m (2007: £5,274m).

## Financial Risk Management

### Overview

The Group's principal financial instruments include derivative commodity contracts for the sale and purchase of electricity, purchase of coal and carbon allowances, interest bearing debt, loans, investments in short-dated commercial paper, cash held in collateral accounts, cash and short-term deposits. Refer to note 22 in the consolidated financial statements for further details on the Group's financial assets and liabilities.

The main financial risks faced by the Group are trading risks in respect of the sale of electricity. Electricity trading risks include: exposure to electricity price fluctuations, balancing of output volume with contractual commitments, commodity (coal, carbon allowances and uranics) price risk and counterparty credit risk. These are managed by the Group's Trading and Sales division which operates within policies and procedures that are approved and monitored by the Board. The Trading and Sales division is not permitted to take speculative open positions.

Non-trading financial risks, including liquidity, interest rate and foreign exchange risks are managed by the Group's central treasury department which also operates within policies and procedures that are approved and monitored by the Board. The treasury department is not permitted to take speculative open positions.

In addition the Group has exposure to risks associated with its pension schemes and the funding of certain nuclear liabilities not funded by the NLF or covered by the Government indemnity.

### Electricity Price and Balancing Risk

The Group is exposed to electricity price risk. Electricity price cash flow risk exists where the Group has uncontracted sales volumes or floating priced contracted sales. Electricity price fair value risk exists where contracts are fixed in price, thereby exposing the Group to changes in fair values as a result of changes in market prices.

During the year, the Group focused on extending its fixed price contract portfolio to provide more future income certainty while operating within collateral constraints to protect the business against the effects of potential power price movements. Wherever possible the Group will continue to develop new and innovative arrangements with counterparties to deliver an increase in the volume of zero/capped collateral trades so that the fixed price contract portfolio can be extended further.

Under BETTA any mismatch between actual metered generation (or demand) and the notified contract position is settled through the balancing mechanism at generally unfavourable prices. The Group aims to manage the portfolio of fixed price contracts to minimise exposure to the balancing mechanism and short-term electricity prices. While operating primarily as a flexible mid-merit plant, the Group's Eggborough coal-fired power station provides a flexible generation capability that assists in managing risks associated with non-availability of nuclear plant.

In compliance with IFRS 7 – Financial Instruments: Disclosures (IFRS 7), the following sensitivity is required to be disclosed in respect of electricity price risk. The sensitivity only covers contracts within the scope of IAS 39 and solely relates to the change in the mark to market impact as at 31 March 2008 and 31 March 2007. In addition, it should also be noted that only a small proportion of the Group's electricity contracts fall within the scope of IAS 39.

For every 5% higher/lower movement in electricity prices, whilst holding all other variables constant, the Group's:

- profit after tax for the year ended 31 March 2008 would increase/decrease by £18m (2007: decrease/increase by £11m); and
- other equity reserves would decrease/increase by £6m (2007: £2m).

A 5% decrease or increase represents the Group's assessment of a reasonably possible change in electricity prices as at 31 March 2008 and 31 March 2007.

### Commodity Price Risk

The Group manages exposure to fluctuations in market prices within the coal market either by securing fixed prices on a variety of delivery bases or by entering into coal contracts as natural hedges against power and carbon price movements. The Group manages its exposure to prices of carbon allowances by matching carbon allowance purchases with sales of electricity, taking account of free allowances held at the time.

In compliance with IFRS 7, the following sensitivity is required to be disclosed in respect of commodity price risk. The sensitivity only covers contracts within the scope of IAS 39 and solely relates to the change in the mark to market impact as at 31 March 2008 and 31 March 2007. In addition, it should also be noted that only a small proportion of the Group's commodity contracts fall within the scope of IAS 39.

For every 5% higher/lower movement in coal and carbon prices, whilst holding all other variables constant, the Group's:

- profit after tax for the year ended 31 March 2008 would increase/decrease by £2m (2007: £2m); and
- other equity reserves would remain unchanged (2007: unchanged).

A 5% decrease or increase represents the Group's assessment of a reasonably possible change in coal and carbon prices as at 31 March 2008 and 31 March 2007.

The Group's ability to maintain competitively priced front end nuclear fuel supplies is dependent on its procurement of uranium ($U_3O_8$) and uranium related services in a competitive world market and it is the Group's policy to have 100% supply contractually secured for at least two years into the future. Currently uranium and uranium related services contracts exist, which provide nearly 100% coverage of the Group's anticipated requirements until 31 March 2011.

The market price of uranium and uranium related services has increased significantly from the level at which the Group entered its existing fuel agreements. The long-term market price of uranium was US$95 per pound as at 31 March 2008. If uranium and uranium related services increased to 31 March 2008 long-term market prices, this could eventually increase the Group's total nuclear fuel costs by approximately £166m per annum, based on current nuclear output. It is anticipated that the impact of this potential increase would start within the financial year ending 31 March 2012 and be fully recognised in the income statement by 31 March 2017.

### Counterparty Credit Risk

The Group's policy is to manage credit exposure to trading counterparties within defined limits. All of the Group's counterparties are assigned internal credit limits.

The main counterparty credit risks occur in relation to direct sales contracts, wholesale customers and cash and cash equivalent balances.

British Energy Direct sells electricity to large industrial and commercial customers. The Group has credit insurance in place to minimise losses from the failure of customers to pay their debts. At 31 March 2008, over 70% (2007: over 75%) of the amounts receivable from large industrial and commercial customers was insured.

Bilateral structured contracts for the wholesale electricity market are normally based upon Grid Trade Master Agreements (GTMA) or International Swap Dealers Association (ISDA) terms and conditions. Counterparties with an investment grade rating (from Standard and Poor's and/or Moody's) are usually not required to provide credit support for trading activities. Counterparties without an investment grade rating are normally required to provide credit support which takes the form of a guarantee from an investment grade rated entity or cash deposits. Where appropriate the Group has purchased credit default swaps.

At 31 March 2008, the Group's maximum credit exposure from wholesale counterparties was £17m (2007: £786m). This includes both the value of trade receivable balances in respect of power delivered and mark to market of all future contracted sales at the balance sheet date. The significant reduction in maximum credit exposure is driven by the rise in electricity prices throughout the year.

The Group is also exposed to counterparty credit risk on its cash and cash equivalent balances. The Group holds cash on deposit with a number of financial institutions. The Group manages its credit risk exposure by limiting individual deposits to clearly defined limits. As at 31 March 2008 the Group held cash deposits with one AA–rated UK financial institution of £100m.

### Capital and Liquidity Risk

The capital structure of the Group consists of cash and cash equivalents, debt and equity attributable to equity holders as disclosed in notes 21, 23 and 31 respectively.

The Group's objective when managing capital continues to be the safeguarding of the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group maintains a mixture of cash and cash equivalents, long-term debt and short-term committed facilities that are designed to ensure the Group has sufficient available funds for business requirements. The cash and cash equivalents position and the facilities available at 31 March 2008 are discussed above in the Liquidity, Cash Flows and Capital Resources section.

The Group's main source of liquidity is its operating businesses. The treasury department uses regular forecasts of operational cash flow, investment and trading collateral requirements to ensure that sufficient liquid cash balances are available to service ongoing business requirements. Factors such as the seasonality of cash flows, servicing of debt and funding requirements in respect of the NLF and pension schemes are also assessed. Liquid assets which are surplus to immediate operational requirements are invested in line with the Group's treasury investment policy. The Board reviews liquidity risks in detail as part of the annual business planning process. Cash generation activities are then monitored by the Board through monthly reports.

Cash generation by the operating businesses is dependent upon the reliability of the Group's power stations in producing electricity, the realised selling price for electricity, operational risk and capital investment expenditure and maintenance requirements. The Group has mitigated some of its nuclear output risk by entering into business interruption insurance for its power stations. Claims under this policy can only be brought for a limited number of circumstances and in order to claim there first needs to be an insurable material damage event. The Group's conservative decision taking approach towards operating its power stations safely means there are a small number of circumstances where a claim could be made. As a consequence, the majority of unplanned outages are not covered by business interruption insurance.

Due to the Group's current sub-investment grade rating, the counterparties to the Group's standard fixed price electricity contracts require that cash is deposited as collateral to cover their risk that the Group may be unable to fulfil contract delivery obligations. Collateral is required to cover both initial and variation margin.

In a volatile electricity market the requirements to post collateral can fluctuate significantly and could result in a significant risk to liquidity. The Group aims to mitigate this risk by utilising routes to market that are collateral efficient. These include the direct sale of electricity to industrial and commercial customers on a collateral free basis and the use of zero/capped collateral fixed price contracts. In addition, the Group also has available £350m of bilateral standby letter of credit facilities to support calls for collateral.

### Interest Rate Risk

The Group uses fixed interest rate borrowings and deposits to reduce exposure to fluctuations in interest rates as considered necessary. The Group does not enter into instruments which are leveraged or held for speculative purposes.

At 31 March 2008 and 31 March 2007 the Group had no interest rate derivatives.

In compliance with IFRS 7, the following sensitivity is required to be disclosed in respect of interest rate risk.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2008 would increase/decrease by £11m (2007: £8m).

A 1% decrease or increase represents the Group's assessment of a reasonably possible change in interest rates.

### Foreign Exchange Risk

Throughout the year the Group has economically hedged its foreign exchange exposure in relation to its contracted carbon purchases, including related collateral and cash provided to satisfy variation margin calls, and has reviewed its foreign exchange exposure to both nuclear fuel purchases and coal procurement and hedged the exposures as appropriate. It is the Group's policy not to engage in speculative foreign currency transactions.

In compliance with IFRS 7, the following sensitivity is required to be disclosed in respect of foreign exchange risk.

The Group has concluded that a 5% higher/lower change in the USD/GBP exchange rate or a 5% higher/lower change in the EUR/GBP exchange rate, with all other variables held constant, would not have had a significant impact on the net profit or other equity reserves for either of the years ended 31 March 2008 or 31 March 2007.

A 5% higher/lower change in these exchange rates represents the Group's assessment of a reasonably possible fluctuation.

### Retirement Benefit Obligations

The retirement benefit obligations for the pension schemes included on the consolidated balance sheet at 31 March 2008 of £216m (2007: £65m) has been computed in accordance with IAS 19 – Employee Benefits (IAS 19). The key assumptions used in the IAS 19 valuation are detailed in note 27 to the consolidated financial statements. The IAS 19 valuation of the pension schemes' deficit is based on a valuation of assets and liabilities at a particular point in time and does not necessarily take account of the long-term nature of pension schemes. Movements in equity markets and bond yields can create considerable volatility in the actuarial valuation. The deficit reported should not, therefore, be taken as an indication of the IAS 19 valuation of the pension schemes' financial position on any date other than 31 March 2008.

The funding of the pension schemes is based on the results of triennial valuations by independent actuaries rather than on the results of the IAS 19 valuation used for accounting purposes. The latest triennial valuation of the British Energy Generation Group scheme was carried out as at 31 March 2007 and the actuarial assessed past service deficit at that date of £174m has been agreed with the Trustees. The impact on the Group's regular employer contributions for future service is an increase of 4.9% to 27.3% of members' pensionable salaries from 1 April 2008. An additional employer's contribution schedule to address the past service deficit has been agreed at £35m per annum, paid monthly from 1 April 2008 to 31 December 2013. The revised assessment of members' mortality used in the triennial valuations as at 31 March 2007 has been incorporated into the IAS 19 valuation at 31 March 2008.

### Nuclear Liabilities Risk

The Group's nuclear liabilities are in respect of costs for the management of spent fuel, nuclear decommissioning and other uncontracted nuclear liabilities.

As described in the Financial Position section, the Government provides an indemnity to cover liabilities for spent AGR fuel loaded pre-Restructuring and, in relation to qualifying uncontracted nuclear and decommissioning liabilities, the Government will also indemnify any future funding shortfall of the NLF. The Group continues to be responsible for funding certain excluded or non-qualifying nuclear liabilities and will not be compensated or indemnified by the NLF and the Secretary of State in relation to such liabilities. At both 31 March 2008 and 31 March 2007 the Group did not have any excluded or non-qualifying nuclear liabilities.

## Other Financial Issues

### Dividend Policy

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

The Board currently intends that the Company will pay 13.6p per ordinary share per annum as a base dividend, payable as a final dividend (equivalent to £141m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) provided it is approved at the forthcoming Annual General Meeting. It is anticipated that the annual base dividend will be sustainable for the foreseeable future based on the Group's assessment of forecast electricity prices and its current view of output. The total amount of the base dividend will increase if the NLF chooses to further convert its contractual right to the Cash Sweep Payment into Shares.

In addition to the base dividend, the Board intends to consider the payment each year of an additional dividend from available cash in February following the third quarter results announcement. The Board will seek to return all surplus capital to shareholders as an additional dividend after taking into account the Group's need to increase financial stability, make appropriate investments, address the pension scheme funding requirements, 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 additional dividend will vary from year to year.

The amount of cash British Energy Group plc is able to pay out as dividends is subject to restrictions under the Contribution Agreement. These require British Energy Group plc 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.

### Dividend Distributions

In line with the Group's dividend policy and following approval at the Annual General Meeting on 19 July 2007, a base dividend distribution, payable as a final dividend, of 13.6p per share (equivalent to £140m in total) was paid on 31 July 2007.

An additional dividend distribution, payable as an interim dividend, of 14.5p per share (equivalent to £150m in total) was declared following the 2008 third quarter results announcement. This was paid on 3 April 2008 and accordingly is not recognised as a distribution in the consolidated financial statements as it was not paid until after the balance sheet date.

Following the Cash Sweep Payment in respect of the year ended 31 March 2008, the maximum amount under the Contribution Agreement available for distribution to shareholders will be £257m or 24.9p per share, of which £71m or 6.8p per share reflects amounts brought forward from previous years. The Board has agreed to recommend that British Energy Group plc will pay a base dividend of 13.6p per share (equivalent to £141m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) as a final dividend for the year ended 31 March 2008, subject to approval at the Annual General Meeting on 17 July 2008. If approved, this dividend distribution will be paid on 31 July 2008 to shareholders on British Energy Group plc's shareholder register at close of business on 27 June 2008.

### Distributable Reserves

The amount British Energy Group plc is able to distribute lawfully (by way of a dividend or other distribution) is governed by, amongst other things, 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.

The NLF partial conversion in June 2007, and any subsequent conversions, could have an impact on British Energy Group plc's future dividend policy. The impact could arise because the partial conversion significantly increased the carrying value of British Energy Group plc's investments in its subsidiary and intermediate group holding company, British Energy Bond Finance plc (formerly British Energy Holdings plc) due to the recognition of a conversion asset of £2,340m in British Energy Generation Limited. The increase in carrying value of the investments increases the risk that impairment charges arising at a later date may impact upon British Energy Group plc's distributable reserves position and could restrict its ability to pay dividends to the enlarged shareholder base, following the conversion and sale by the NLF, in accordance with the dividend policy.

In order to minimise the risk of impairment charges adversely affecting British Energy Group plc's distributable reserve position, the Company initiated a process to obtain a court approved reduction of the share premium account. On 22 October 2007 the Court of Session in Edinburgh approved a £2,295m reduction of British Energy Group plc's share premium account, thereby creating distributable reserves of this value. The reduction of the share premium reserve by £2,295m equates to the amount of new share premium created in relation to the NLF partial conversion.

### Hinkley Point B and Hunterston B Accounting Life Extensions

On 11 December 2007, British Energy Group plc extended the accounting lives of Hinkley Point B and Hunterston B power stations by five years to 2016. Following the change, the level of undiscounted estimated nuclear decommissioning liabilities remains unchanged, however, the decommissioning workstreams will occur later, therefore reducing the discounted nuclear decommissioning liabilities by £125m. The Government has indemnified any future shortfall of NLF funding in respect of qualifying decommissioning costs and therefore the reduction in discounted nuclear decommissioning liabilities is fully offset by a corresponding decrease in the Government's indemnity. As a result there is no net revalorisation impact for this change. Additionally the change has not had a significant impact on the property, plant and equipment depreciation charge or the conversion asset amortisation during the period from 11 December 2007 to 31 March 2008. As a result of these extensions the Group expects the impact next financial year to be that nuclear decommissioning liabilities revalorisation and NLF receivable revalorisation will both decrease by £7m, therefore having no income statement impact, amortisation of the conversion asset will reduce by £41m and property, plant and equipment depreciation will reduce by £27m.

### Eggborough Legal Proceedings

During the year ended 31 March 2007, British Energy Power and Energy Trading Limited, Eggborough Power (Holdings) Limited and Eggborough Power Limited instigated proceedings against Credit Suisse in relation to its involvement in transactions which it believed were in breach of the rights of the aforementioned companies under the terms of finance agreements relating to the Eggborough Power Station. The transactions in question related to the exercise of the lending banks' options to acquire the power station in 2010. The arrangements involved the consolidation of interests into a company called Ampere Limited, which would control the exercise of the options to acquire Eggborough. The Group received legal advice that such arrangements are not permitted under the Eggborough finance agreements. In addition, the transactions in question were not considered to be in the best interests of the Group and its shareholders.

On 19 June 2007, British Energy Group plc announced that it had been successful in its court action, however, on 26 September 2007 Credit Suisse was granted leave to appeal. On 7 February 2008 British Energy Group plc announced that, in a unanimous judgement of the court, Credit Suisse's appeal was dismissed. The Group was awarded its costs of the appeal. The outcome preserves the Group's pre-emption rights, should the lending banks seek to sell or transfer their option rights to a third party before 31 March 2010.

### Post Balance Sheet Events

On 21 March 2007, the Government announced its intention to phase out industrial buildings allowances with effect from 1 April 2008. This change has not been reflected in the financial statements at 31 March 2008 because it is not considered to be substantively enacted at the balance sheet date. An estimate of the financial impact of this change at 31 March 2008 is that it would increase the net deferred tax liability by £37m to £82m.

### Basis of Presentation of Financial Statements

The consolidated financial statements for the years ended 31 March 2008 and 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements of the parent company continue to be prepared under UK GAAP.

### Accounting Policies

In preparing the consolidated financial statements under IFRS, management are required to make certain critical accounting estimates and judgements that affect amounts reported in the consolidated financial statements.

In the year ended 31 March 2008 the only new accounting policy adopted related to the accounting treatment of the conversion asset recognised as a result of the NLF partial conversion in June 2007.

Full details of the accounting policies, including those which involve significant estimates and judgements, are provided in note 2 to the consolidated financial statements.

Stephen Billingham
Finance Director

# Corporate Social Responsibility

## Our nuclear power stations play a very important role in reducing the UK's carbon footprint. In the financial year 2007/08 our nuclear stations avoided the emission of 34.8 million tonnes of carbon dioxide.

### Overview

As an operator of nuclear facilities British Energy is acutely aware of its responsibilities to its staff, the communities in which it operates, and to the environment. Our corporate culture is founded on personal responsibility – a commitment to being open, ethical, and above all, operating to the highest levels of safety at all times. Within British Energy it is referred to as 'nuclear safety culture'.

We are proud of the contribution that we make to the environment. Our nuclear power stations play a very important role in reducing the UK's carbon footprint. In the financial year 2007/08 our nuclear stations avoided the emission of 34.8 million tonnes of carbon dioxide ($MtCO_2$) compared with $33.7MtCO_2$ in 2006/07. By extending the lives of our existing stations and planning for the advent of nuclear new build, we intend to continue this valuable contribution to tackling climate change.

A measure of our commitment to responsible operation is our inclusion of Environmental Events and Lost Time Accidents in our seven Key Performance Indicators (see page 03). In addition, three critical aspects of corporate responsibility are an integral part of the Chief Executive's Business Review and are reported on quarterly. These are safety performance, environmental performance, and investment in people. Further details are discussed below.

To evaluate our performance in broader aspects of corporate social responsibility we participated for the first time in the Business in the Community Corporate Responsibility Index this year. As a newcomer, we were pleased to receive a Bronze medal.

We publish a full annual Corporate Social Responsibility Report which includes details of our carbon footprint and how we calculate the carbon emissions avoided. The report for 2007/08 will be available on our website over the summer.

### Marketplace

British Energy is the UK's largest generator of electricity, yet has by far the lowest carbon dioxide emissions of any of the UK's large electricity generators. We sell electricity through the wholesale market and directly to industrial and commercial customers. We are committed to supplying our customers with low carbon electricity and ensuring security of the country's electricity supply.

During the year, British Energy has taken a high profile role in raising awareness of the carbon impact of electricity consumption in the UK. This year our 11th annual customer conference 'Talk Power' was our largest to date, attracting more than 260 customers and energy specialists, including senior representatives from some of the UK's largest energy users. The debates during the day encouraged the consideration of carbon emissions not just a part of energy decision making, but as a more fundamental driver of business strategy.

Customer service is critical and, for the fourth year running, we ranked in the top two of the UK's major suppliers in the annual Datamonitor customer service survey.

As part of our commitment to investors we held an investor day at Sizewell B in May 2007. In addition, we held a visit for Socially Responsible Investors, also at Sizewell B, in January 2008. Through these and other initiatives the Company's senior management participated in meetings with over 300 investors and analysts during the year.

## Workplace

Within the workplace, our primary focus must always be on operational safety and the health of our employees. This year both our nuclear and industrial safety records are the best in the recorded history of the Company (see Key Performance Indicators on page 03). Commentary on our safety performance and our investment in continuous improvement in this area is covered on pages 09 and 10.

The Royal Society for the Prevention of Accidents (RoSPA) presents awards for excellence in managing health and safety at work. We received outstanding accolades at the RoSPA awards this year, with all our nuclear power stations receiving an award for outstanding safety performance. The highest honour, an Order of Distinction, was awarded to Hunterston B, Torness, Heysham 1 and Heysham 2. Second highest honours, the President's award, was given to Dungeness B, Hartlepool and Sizewell B, and Hinkley Point B received a Gold medal.

We are committed to developing the considerable talents of our staff in each part of the business. This year we have built a new skills centre at Heysham Power Station and a Nuclear Power Academy at the Company's technical centre, at Barnwood. The Academy will provide state-of-the-art centralised training courses in nuclear operation for new graduates and apprentices, as well as refresher courses for existing staff. On average, each employee across the fleet devoted 8.8 days to training – up on last year's figure of 8.4 days. We are also testing the effectiveness of our training by measuring our courses against the high standard benchmark of the Training Standards and Accreditation Board.

We have also recruited around 430 individuals, increasing our employee number to an average of over 6,100 people in 2007/08. This year, we invested in recruitment to critical operational areas. A campaign commenced in September 2007 to ensure an adequate supply of suitably qualified and experienced people for the future.

The Company continues to champion equality of opportunity, and maintains policies and procedures to support best practice, rather than being satisfied with legislative compliance. The roll out of 'Dignity at Work', is a joint project between the trade union Unite, the Department for Business, Enterprise and Regulatory Reform (BERR), and a number of companies including British Energy, BT and Royal Mail.

The fourth annual British Energy Excellence Awards were held in February 2008. This year's awards were presented in recognition of individual contributions to safety, operational excellence and business performance by staff and contract partners. The awards are an opportunity to celebrate the achievements of committed employees and contractors from across the business.

## Environment

Our nuclear power stations play a very important role in reducing the UK's carbon footprint. In the financial year 2007/08 they avoiding the emission of 34.8Mt$CO_2$ compared with 33.7Mt$CO_2$ in 2006/07. Eggborough, our coal-fired power station which provides flexible generation to meet peak demands, emitted 7.8Mt$CO_2$ in 2007/08 compared with 6.9Mt$CO_2$ in 2006/07.

Even though we are already making a major contribution towards the UK's climate change objectives with our nuclear generation, we aim to go further. One example is that our largest office, Barnwood, has set a target to reduce electricity usage by 10% in the coming year.

In 2007/08 British Energy reported its lowest ever number of Environmental Events, a Key Performance Indicator. Commentary on this area is covered on page 10.

During the year, we have continued to work with the Environment Agency (EA) on the Nuclear Sector Plan, a collaborative project between the EA and the nuclear industry in England and Wales. The plan aims to reduce the impact of the nuclear sector. Last year we agreed with the EA to focus on the minimisation and management of the solid waste we produce. As a result, across the fleet last year we recovered for re-use, or recycled, approximately 30% of our general waste.

Over the year our nuclear fleet has succeeded in reducing its accumulated Low Level Waste (LLW) by over 15%. We will explore further opportunities to reduce our accumulated LLW over the coming year. Intermediate Level Waste (ILW) is stored on site at the relevant station. The level of production of ILW is fairly constant and each station produces typically a few tens of cubic metres each year. Spent nuclear fuel from our AGR stations is transported in specially designed steel flasks to Sellafield, Cumbria, where it is managed through a well established process. Spent nuclear fuel from our PWR Sizewell B power station remains in safe storage on site. 2006/07 was a year of particularly good progress in reducing site inventories of uranium. In 2007/08 we sent 134 tonnes of uranium to Sellafield, compared with 224 tonnes of uranium in the previous year, reflecting both improved efficiency and lower generation.

During the year a number of our stations were audited and have retained their ISO 14001 certification for a further three years. All our power stations are certified to the relevant internationally recognised environmental management standard and have been since such standards first came into being some 13 years ago. In line with the requirements of ISO 14001 all of our stations have, over the past year, implemented environmental improvements such as recycling lubricating oil and improving oil storage and solid waste management facilities.

The Large Combustion Plant Directive, a mandatory government initiative, aims to reduce acidification, ground level ozone, and particles throughout Europe. This is being achieved by controlling emissions of sulphur dioxide, nitrogen oxides, and dust (particulate matter) from large combustion plants. Eggborough, our coal power station, has 'Opted-In' to this Directive and is included in the UK's National Emissions Reduction Plan.

In 2007 the Group's Biodiversity Action Plan was updated and integrated into British Energy's environmental management system, helping to ensure that we minimise the impact on biodiversity from our business operations. Throughout 2008 we are sponsoring the BTO Business Bird Challenge, a bi-annual competition to find the country's best industrial and commercial sites for diversity of bird species.

## Community

Maintaining good relationships with the communities around our power stations is essential for our operations. Last year, British Energy added 'community' to its company values to demonstrate its commitment to the people who live and work around all our sites. We have also appointed site-based community liaison officers to progress community relations plans tailored to the needs of the different sites.

In addition to the formal stakeholder engagement we carry out through established meetings held regularly at our stations, we also run broader community meetings on subjects of special interest. This year, we held two additional programmes of community meetings. The first followed the Government's announcement in May 2007 that it was going to carry out a consultation on the future of nuclear power. This programme was run in conjunction with BERR at all our sites during the summer. The second programme was held at potential sites for new nuclear build to explain the Government's policy on new nuclear power stations, the role that British Energy intends to play and the potential opportunities and impacts for communities.

Ensuring there are enough people with specialist skills in the marketplace in the future is a challenge British Energy and many other employers are increasingly facing. By working in partnership with local schools, such as Leiston High in Suffolk, and by sponsoring high profile events such as the Cheltenham and Edinburgh Science Festivals we are helping to stimulate interest in science, technology, engineering and maths subjects. Our ambition is to increase the supply of high quality new applicants with the necessary skills. British Energy also offers a service providing presenters to schools and other local events.

British Energy extended its partnership with Help the Hospices to December 2007, following its success as our charity of the year. This year our employees raised £268,000 bringing the total for the two years to over £530,000 for the hospice movement, including £200,000 in matched funding from British Energy.

# Board of Directors

### Sir Adrian Montague CBE (60) G
**Chairman**
Sir Adrian Montague joined British Energy as Chairman in November 2002. He is currently Chairman of Friends Provident plc, Michael Page International plc, Infrastructure Investors Limited and a Director of London First, Skanska AB, CellMark AB, and F&C Asset Management plc and a Trustee of the Historic Royal Palaces. Before joining British Energy he undertook a number of senior roles in the implementation of the Government's private finance policies. He was awarded a CBE in 2001 and was knighted in December 2005.

### Bill Coley (65)
**Chief Executive**
Bill Coley was appointed as Chief Executive in April 2005, having served as an independent Non-Executive Director since June 2003. During his 37 year career with Duke Power he held a variety of management and executive roles, culminating in Group President between 1997 and 2003. He is a Non-Executive Director of Peabody Energy Corp., ER Jahna Enterprises and WANO.

### Dr Stephen Billingham (50)
**Finance Director**
Stephen Billingham was appointed as Finance Director in September 2004. Immediately prior to joining British Energy, he was the Group Finance Director of WS Atkins plc, the engineering consultancy and support services group during its successful financial recovery. He led a finance team which signed one of the London Underground Public Private Partnerships. He was previously Group Treasurer of the engineering group BICC plc (now Balfour Beatty plc) and held finance positions in Severn Trent plc, Burmah Oil plc and British Telecom plc.

### Dr Pascal Colombani (62) CRST
**Non-Executive Director**
Dr Pascal Colombani was appointed as an independent Non-Executive Director in June 2003. He holds a Doctorate in Nuclear Physics and presently holds directorships at Alstom SA, Rhodia SA, Technip SA, Valeo SA and is an Associate Director and Senior Adviser for Energy and High Technology at A. T. Kearney. He was, until 2003, Chairman and Chief Executive Officer of the Commissariat à l'Energie Atomique, a member of the Electricité de France Board of Directors and the Non-Executive Chairman of the Supervisory Board of Areva, the international nuclear engineering group. He is a Knight of the Legion of Honour and an Officer of the Order of Merit. He is Chairman of the Technical Performance Oversight Committee.

### Bob Davies (59) ACG
**Non-Executive Director**
Bob Davies was appointed as an independent Non-Executive Director in May 2006. He was chairman of Biffa Plc until April 2008. He was previously Chief Executive of Arriva plc, the UK transport services group, from 1998 until April 2006, prior to which he was Chief Executive of East Midlands Electricity plc. He holds an LLB in Law and Economics from the University of Edinburgh and is a Fellow of the Chartered Institute of Management Accountants. He is a Director of Barratt Developments plc and Northern Business Forum Limited. In addition he chairs the CBI Council, North East Region and the Board of Governors of the University of Sunderland. He is Chairman of the Remuneration Committee.

### John Delucca (65) ACGR
**Non-Executive Director**
John Delucca was appointed as an independent Non-Executive Director in February 2004. He holds an MBA in Finance from Fairleigh-Dickinson University School of Graduate Study. He has held a variety of senior roles in US business. Most recently, from 2003 until March 2005, he was Executive Vice-President and Chief Financial Officer of the REL Consultancy Group. Prior to that, from 1998 to 2002, he was Executive Vice-President, Finance and Administration and Chief Financial Officer of Coty Inc. He is a Director of Tier Technologies Inc, and Non-Executive Director and chair of the audit committees of ITC Deltacom, Endo Pharmaceuticals Holdings Inc. and the Elliott Company. He is Deputy Chairman of the Audit Committee.

### Ian Harley (58) ACGS
**Non-Executive Director**

Ian Harley was appointed as an independent Non-Executive Director in March 2002 and became Senior Independent Director and Deputy Chairman in July 2007. Prior to joining British Energy he held a variety of posts in the Finance, Retail Banking and Wholesale Banking Divisions of Abbey National and spent nine years on their Board. He is a Fellow of the Institute of Chartered Accountants and Fellow and Past President of the Institute of Bankers. He is currently Chairman of Rentokil Initial Pension Trustee Limited, Croham Hurst School, JW Educational Limited and Remploy Limited. He is Chairman of the Court of Governors of the Whitgift Foundation and a Director of South London Church Fund and Southwark Diocesan Board of Finance. He is Chairman of the Audit Committee.

### David Pryde (58) ACGST
**Non-Executive Director**

David Pryde was appointed as an independent Non-Executive Director in September 2004. He has extensive trading and risk management experience and has held various senior management positions in trading businesses, including Global Head of Precious Metals Trading, Global Head of Commodity Derivatives Trading and Marketing and Global Head of Futures and Options Brokerage at JP Morgan. He was e-commerce strategist for JP Morgan/Chase Investment Bank and sat on the Boards of the Commodity Exchange, the Chicago Mercantile Exchange and the Futures Industry Association. He is Chairman of the Safety, Health and Environment Committee.

### Sir Robert Walmsley (67) GRST
**Non-Executive Director**

Sir Robert Walmsley was appointed as an independent Non-Executive Director in August 2003. Previously he served in the Royal Navy where his final appointment was as Controller of the Navy and member of the Navy Board as a Vice Admiral, starting in 1994. During his naval career he held a number of nuclear-related posts including service as the Chairman of the Naval Nuclear Technical Safety Panel and Director General, Submarines. He was knighted in 1995. After retiring from the Navy, he was appointed as Chief of Defence Procurement (a Permanent Secretary grade post in the Civil Service), occupying that position from 1996 until 2003. He is an independent Director of General Dynamics Corporation, the Major Projects Association, EDO (UK) Limited and Cohort plc. He is Chairman of the Governance and Nominations Committee.

### Robert Walvis (61) ACRT
**Non-Executive Director**

Robert Walvis was appointed as an independent Non-Executive Director in August 2007. He held a number of senior managerial positions with Royal Dutch Shell Group from 1971 until 2001, including Chairman of the Global Corporate Centre where he was responsible for worldwide strategic planning, external and environmental affairs. He holds a Masters Degree in chemical engineering from Delft University in the Netherlands. He is also a Non-Executive Director of Johnson Matthey plc, Balfour Beatty plc and Associated British Ports Holdings Limited and is the Non-Executive Chairman of the Supervisory Board of Allianz Nederland Groep NV. He is chairman of the Commercial Risk Committee.

A denotes member of the Audit Committee
C denotes member of the Commercial Risk Committee
G denotes member of the Governance and Nominations Committee
R denotes member of the Remuneration Committee
S denotes member of the Safety, Health and Environment Committee
T denotes member of the Technical Performance Oversight Committee

The Board is committed to ensuring that high standards of corporate governance are maintained by the Group. It supports the Combined Code on Corporate Governance (the Code) and has reviewed its corporate governance practices in the light of the Code published by the Financial Reporting Council in June 2006 and considers that it complies with section 1 of the Code. Corporate governance best practice is also monitored, and appropriate recommendations from relevant professional bodies are adopted.

During the year the Company instructed an external review of its corporate governance procedures and received a positive report. The training and induction programmes for Directors and communication with shareholders were particularly commended.

## The Board

### Membership

Sir Adrian Montague held office as Chairman and Bill Coley held office as Chief Executive throughout the year. The roles of the Chairman and Chief Executive are distinct. The Chairman is responsible for ensuring the effectiveness of the Board, while the Chief Executive directs the executive functions and is responsible for safety throughout the Group. Stephen Billingham continued in office as Finance Director. In addition to the Chairman, there are currently seven further Non-Executive Directors. Biographies of the Directors are set out on pages 32 and 33.

The Directors are satisfied that the Company complied with the sections of the Code concerning the balance of the Board throughout the year. During the year, the number of Non-Executive Directors was greater than the number of Executive Directors, with two Executive and seven Non-Executive Directors in addition to the Chairman. Sir Adrian Montague held an executive office with British Energy plc temporarily for part of the financial year ended 31 March 2003 (following his appointment as Executive Chairman in November 2002 until the appointment of a chief executive in March 2003). As Chairman he is not categorised as an independent director. The other Non-Executive Directors are all considered to be independent. The Company's independent Non-Executive Directors are currently:

- Pascal Colombani
- Bob Davies
- John Delucca
- Ian Harley
- David Pryde
- Sir Robert Walmsley
- Robert Walvis

The Remuneration Committee Report on pages 42 to 48 provides details of appointments to and resignations from the Board. Clare Spottiswoode retired at the 2007 AGM and Ian Harley took over as the Company's Senior Independent Director and Deputy Chairman on the same date. Robert Walvis joined the Company as a Non-Executive Director in August 2007.

The Company re-entered the FTSE 100 during the year. Sir Adrian Montague remained as Chairman and also served as Chairman of Friends Provident plc, which was an existing member of the FTSE 100 at the time of British Energy's re-entry to the index. The Board is satisfied in these circumstances not only that his chairmanship of both companies did not constitute a breach of Rule A.4.3 of the Code, but that he remained able to devote sufficient time and attention to the Company's business. The Board does not believe that the position has had any adverse impact on the Board's operations and is satisfied that in the circumstances it was and is appropriate for him to continue as Chairman.

The Company's Articles of Association provide that at each AGM any Director who has been appointed by the Board since the previous AGM is required to retire and may seek re-election, together with such other Directors so as to ensure that the number nearest to but not less than one third of the Directors, for the time being, stand for election or re-election. In order to comply with the provisions of Rule A.7 of the Code, all Directors are required to seek re-election at least every three years. The Company's policy was that Directors should retire at the first AGM after their 66th birthday. However, the Board will seek shareholder approval to remove this provision at the Company's forthcoming AGM in order to align with the provisions of the Companies Act 2006 and age discrimination legislation.

### Conduct of Business

The Board meets sufficiently regularly to discharge its duties effectively. It is scheduled to meet eight times a year, and met eleven times during the year. There is contact among the Directors between Board meetings as necessary to progress the Company's business. The Company also organises periodic executive sessions involving the non-executives, members of the Company's senior management and external advisers to improve the Directors understanding of the business and aid effective communication.

Although the normal operational management of the Company has been delegated to the Chief Executive, the Board has a number of matters reserved to it, particularly, appropriate strategic, financial and organisational matters. These are considered at the Board meetings.

The Board receives reports covering operational, financial, safety, risk management and regulatory performance to assist it in identifying key issues for the business on a regular and timely basis. Where appropriate, matters have been delegated to Board committees, all of which have written constitutions and Terms of Reference.

Details of the Directors who served throughout the year are set out on pages 32 and 33 of the Annual Report. Information required under the provisions of the Companies Acts and the Listing Rules of the Financial Services Authority regarding the remuneration and share options of Directors, the interests of the Directors and their families in the share capital of the Company, and Directors' service contracts, is detailed in the Remuneration Committee Report on pages 42 to 48.

All of the Non-Executive Directors serving on the Board have held and/or hold senior positions in other major organisations either in the UK and/or internationally. Each of them is involved in decision making on key issues facing the Group and collectively bring a wide range of experience to the Board.

The Non-Executive Directors of the Company meet as a group without Executive Directors present and from time to time also meet without the Chairman present.

It is the Company's policy that Directors may obtain independent professional advice at the Company's expense and all Directors have access to the advice and services of the Company Secretary and General Counsel, who is accountable to the Board through the Chairman on all corporate governance matters.

### Performance Evaluation

All Board members have participated in structured training sessions during the year. These sessions included trading and market issues and strategy, legal and regulatory changes affecting the business; issues of interest to shareholders and governance, risk assessment and mitigation, and stakeholder engagement. The Board received training on the new directors' duties under the Companies Act 2006. All Board members are also expected to attend at least one meeting of the Safety, Health and Environment Committee, which meets quarterly, and all are expected to undertake at least one external management course relevant to British Energy in any three year period. In addition, one Board member attended the governance course for non-executives of nuclear companies held at Emory University Atlanta in conjunction with the Institute of Nuclear Power Operators, and all Board members are expected to attend this annual course at some point during their term of office. During the year the Company further developed its induction programme for Directors. The induction programme includes presentations and interview sessions with key managers to ensure the Director has an understanding of the business, including legal, governance, financial, trading and operational issues. The induction also includes tours of the power stations and attendance at one of the Company's nuclear safety culture workshops.

Performance evaluation of the Board, Chairman and individual Directors and the effectiveness of individual Board committees and the committee structure is reviewed annually using a detailed questionnaire which is completed by the Board.

In the 2007 Review, the Board identified the following areas for focus in 2007/08: strategy and the amount of time the Board devote to strategic issues; oversight of nuclear operations and performance; obtaining investor feedback on Company performance and strategy; reviewing and optimising the Board committee structures and governance arrangements; and succession planning. As part of its overall performance review the Board also instructed an independent review of the effectiveness of the Board, Board committees, committee and department structures specifically in relation to nuclear oversight of operations and nuclear governance.

As a result of these reviews the remit of certain Board committees and their membership has been revised. The membership of the six Board committees is now exclusively non-executive and the members have been rotated to bring fresh perspectives. The Technical Advisory Committee has evolved into the Technical Performance Oversight Committee which has oversight of the technical and operational risks facing the Company. The membership of the Safety, Health and Environment Committee has also been refreshed with the appointment of a new independent member with experience in both the nuclear and oil and gas industries. The roles of the committee and the relationships with, and expectations of, line management were clarified. Performance metrics have been refined and clearer, more focused reporting has allowed the Board to devote more time to strategic issues and appropriate oversight.

The 2008 surveys indicated good progress in the areas of focus identified in the 2007 Review and satisfaction with the new arrangements. As in 2007, the survey will be followed up with one to one meetings between the Chairman and each Director and the issues arising will be considered by the Board in autumn 2009, informing the Board on further priorities for performance improvement.

The Board also devoted effort to succession planning (see the section headed Governance and Nominations Committee on page 37) and made good progress in this area which will continue to be a priority.

### Risk Management

The Board is responsible for determining strategies and policies for risk and control, and management is responsible for designing, operating and monitoring risk and control processes which implement Board policies effectively. In accordance with the revised Turnbull Guidance, risk management and internal control are considered by the Board and its committees during the year. Further details on the Group's present committee structure appear below.

The risk management process operating throughout the year and up to the date of approval of the report was based on the identification, mitigation and monitoring of the key risks that influence the Company's strategy and business objectives.

The Board reviews the Group's business objectives and the strategic, financial, legal and regulatory and operational risks and controls associated with these. Risks reviewed by the Board include:

- safe operation of our plant;
- security;
- plant condition and reliability;
- human performance;
- IT systems and business continuity;
- major contracts;
- the procurement of radioactive waste management services;
- the financial position of the Group;
- treasury and trading financial exposures including collateral;
- changes in energy markets;
- policy proposals by legislative bodies in the markets in which we operate;
- nuclear safety and safety regulations; and
- commercial and environmental regulation.

Throughout the year the Company's reporting arrangements operated across the Group's operating subsidiaries and corporate functions, monitoring business performance against key performance indicators and the business plan. Risk logs identifying business risks facing the Group as a whole, and particular parts of the business, were regularly considered at subsidiary and divisional level and reported to the Group's senior management, and mitigation plans were established and monitored. The Group's principal operating subsidiaries monitored internal controls and risk mitigation throughout the year. Risks to the operation of the Group's nuclear power stations and risk and internal control issues affecting the nuclear business are reviewed by the Generation Risk Committee and by the Board of British Energy Generation Limited (the Generation Board), our nuclear subsidiary. The Generation Board also reports on management and decommissioning liabilities to the Board which, in turn, is required to approve the annual liabilities report required under the Nuclear Liabilities Funding Agreement. The Technical Performance Oversight Committee and the Safety, Health and Environment Committee, both committees of the Board, monitor the management of technical and safety risks.

Risks managed by corporate functions such as Finance, Legal, HR and Information Management are reviewed by the Corporate Functions' Risk Committee. The conduct of risk assessment involves senior management of all the Group's business units in addition to the Executive Directors. The results of these assessments are summarised and reported to the Board. These risk assessments will continue to be used as part of the Company's evaluation of the risks it faces. In addition, the Board receives half yearly reports from the Chief Risk Officer addressing risk appetite, effectiveness of risk mitigation and priorities for risk management.

### Electricity Trading Risk Management

Electricity trading activities predominantly relate to supporting the generation business. Our trading department therefore acts as our wholesale marketer rather than as a financial trader, with the principal objective of increasing the return on assets while managing the market risk (including the risks relating to collateral requirements) associated with the output of the power stations.

Under the British Electricity Transmission and Trading Arrangements (BETTA), which took effect from 1 April 2005, any mismatch between actual metered generation (or demand) and the notified contract position is settled through the balancing mechanism at generally unfavourable prices. The Company aims to manage its portfolio of fixed price contracts and minimise exposure to the balancing mechanism and short-term electricity prices. The risks in the wholesale market are managed through a contracting strategy that builds a portfolio of forward contracts.

Trading risks are reviewed by management through the Trading Risk Standing Committee and the Power and Energy Trading (BEPET) Board. The Commercial Risk Committee, a committee of the Board, monitors hedging and risk management strategy for trading as well as non-technical risks facing the Group to ensure that activities are conducted within overall limits. Additional control is provided through delegated authorities, which form part of an overall energy trading risk management policy. Clearly defined limits are established and monitored for financial headroom risk, market risk, credit risk and collateral exposure to trading and financial counterparties. Any breaches would be reported to the Board.

### Committee Structure

The Chairman of each committee reports to the Board following each committee meeting on decisions taken or endorsed and makes recommendations as appropriate to the Board. The Board may delegate authority to each of the committees where the subject of the delegation does not require Board approval. The papers for each committee are made available to all Board members, other than those for the Remuneration Committee and the Governance and Nominations Committee, which are only circulated to independent members or as those committees may direct. The committee structure is intended to allow the committees to scrutinise performance in more detail than the Board could achieve in full session and so allows the Board to focus on strategic issues to a greater extent.

It is the Company's policy that committees are provided with sufficient resources to undertake their duties. The Company may make further changes to committee structures or roles in due course in order to comply with further developments in corporate governance best practice and to ensure the effective and efficient operation of those committees. The current Terms of Reference for each committee are available on the Company's website.

## Board Committees

The current committee structure is described below:

### Audit Committee

The Audit Committee is comprised entirely of independent Non-Executive Directors. Ian Harley is Chairman and financial expert and John Delucca is Deputy Chairman of the committee. The remaining members of the committee are identified on page 39. The committee has the primary purpose of assisting the Board in overseeing the integrity of the Company's financial statements, and the Company's compliance with legal and regulatory requirements. The committee is also responsible for considering and recommending appropriate accounting policies for the Group, reviewing the adequacy and effectiveness of internal control and compliance procedures within the Group and ensuring that it complies with all statutory requirements in relation to the principles, policies and practices adopted in the preparation of the financial statements. The committee reviewed risk management processes across the Group including actions to mitigate or control key risks facing the Group. The committee receives reports from both external and internal auditors in relation to matters arising from their work and is also responsible for encouraging and monitoring the adoption of best practice in corporate governance.

The committee receives reports periodically from the Chief Risk Officer and the Commercial Risk Committee. The committee reviews the scope and results of the external audit including the auditors' cost-effectiveness, independence and objectivity, and is responsible for making recommendations to the Board in relation to the appointment and independence of the external auditors and their remuneration. It also reviews the nature and extent of the non-audit services provided by the external auditors to the Group to ensure that these are appropriate, and that a balance of objectivity and value for money is maintained. The committee normally meets the day prior to Board meetings and otherwise as required by the business of the Company. The committee met nine times during the year. In the course of these meetings, the committee considered the following matters:

### Financial Reporting

The committee reviewed the annual audited financial statements, quarterly financial statements and investor presentations before recommending their publication to the Board. It discussed with the Finance Director and external auditors the Company's compliance with financial reporting and governance standards and reviewed significant accounting policies, changes to them and any significant financial estimates and judgements applied in their preparation. It also received reports on due diligence on proposed statements from the Disclosure Committee and reviewed management's going concern analysis on a quarterly basis.

### External Audit

The committee has direct responsibility for the appointment, compensation, retention and oversight of external auditors and approves their terms of engagement. It reviews and monitors the independence and objectivity of the external auditors and management's responsiveness to external audit findings and recommendations. The committee pre-approves all auditing services and permitted non-audit services undertaken by the external auditors to ensure the appropriateness of the work and value for money. The Board has approved policies covering the provision of non-audit services, which are designed to ensure that such services do not impair the external auditors' independence or objectivity. The policies include procedures to examine the relationships between the Company, the auditors and assurances on the interests of the auditors' staff in order to ensure independence is maintained. The policies set out the approval requirements for specific categories of work and require justification as to why non-audit work should be placed with the auditors rather than another firm, on grounds of best value or confidentiality. The fees recharged to a third party which are disclosed in note 5 to the Financial Statements were justified on grounds of confidentiality and synergy with concurrent audit work.

The committee recommended that the Board present a resolution to shareholders at the 2008 AGM for the reappointment of the external auditors. This followed an assessment of the quality of service provided, auditor independence and the effectiveness of the audit process.

### Whistleblowing

The committee is responsible for the company policy on confidential reporting of serious concerns and oversees its effectiveness. The committee considered quarterly reports summarising concerns reported and the outcome of any investigatory work.

### Internal Controls and Risk Management

The Board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management. The committee has ongoing arrangements designed to assist the Board in the performance of this responsibility and periodically reports to the Board on controls and risk management. Accordingly, during the year it considered reports from internal audit on internal control issues and a year-end report from the internal control and financial processes team summarising the outcome from their testing activity. The committee also sought the views of the external auditors in making its assessment of the internal control environment.

### Internal Audit

The committee received reports from internal audit at each of its meetings including quality reports on the reviews conducted by the internal audit team. The Chairman of the committee meets with the Head of Internal Audit regularly to discuss current issues and the whole committee held five private sessions with the Head of Internal Audit during the year.

The committee commissioned an external review of the effectiveness of the internal audit function in September 2006 and the outcome was considered by the committee in May 2007. The review concluded that the internal audit function is effective, generally highly regarded, technically competent, objective, responsive, professional and adequately resourced. Actions arising relating to improving coverage/relationships in trading; addressing resourcing constraints and working on communications in specific areas have all been progressed during 2007/08.

## Commercial Risk Committee

The Risk Review Committee was renamed the Commercial Risk Committee during the year and its terms of reference and membership were revised. It is now comprised entirely of Non-Executive Directors (as identified on page 39) and is chaired by Robert Walvis. Its remit is to review the processes for the identification, mitigation and management of risks (other than technical risks which are reviewed by the Technical Performance Oversight Committee) and the control procedures to minimise them. It also advises on risk appetite. The committee receives regular reports from the Chief Risk Officer, the Head of Trading Risk, the Head of Regulation and the Trading Risk Standing Committee on risk and compliance matters. It is advised of any material policy or authority limit breaches and ensures that management action is commensurate to address issues arising.

During 2007/08 the committee received regular updates on the trading environment and the Group's contracting strategy and collateral and headroom management. Other areas of focus were business continuity planning, disaster recovery, information technology, the arrangements for uranium procurement, compliance with prudent trading policies and undertakings to HM Government; controls in the gas, oil, power trading business; the structure of risk control in the Group; and non-technical risk management and mitigation. The Commercial Risk Committee met seven times during the year.

## Governance and Nominations Committee

The Governance and Nominations Committee is comprised entirely of Non-Executive Directors and is chaired by Sir Robert Walmsley. The committee is responsible for encouraging and monitoring the adoption of good corporate governance practice. It reviews the Company's code of conduct and ethics and compliance with this code and the Company's legal obligations generally. The committee also reviews the corporate social responsibility performance of the Group and advises the Board in relation to senior appointments throughout the Group. Board appointments recommended by the committee are made after an appropriate search and selection process has been undertaken including, where appropriate, the use of external advisers to identify suitable candidates.

During the year the committee reviewed the results of the Board performance and nuclear oversight reviews and considered what action should be taken to address the issues identified; the terms of reference for the Board Committees were reviewed as part of this exercise. Considerable time was devoted to Board succession, particularly to identifying an appropriate successor to Clare Spottiswoode who stepped down as Senior Non-Executive Director and Deputy Chairman in July 2007. As a result Robert Walvis was appointed as a Non-Executive Director in August 2007 and Ian Harley became Senior Non-Executive Director and Deputy Chairman with effect from the 2007 AGM. The Governance and Nominations Committee met five times during the year.

### Remuneration Committee

The Remuneration Committee Report containing details of the activities of the Remuneration Committee appears on pages 42 to 48.

### Safety, Health and Environment Committee

The Safety, Health and Environment Committee provides advice to the Board in relation to the health and safety of staff, contractors, visitors and the general public, plant safety and the environmental performance of the Group. It reviews key safety and environmental risks affecting the Group's business and the actions taken to mitigate or control them. It is chaired by David Pryde and also includes three independent experts as well as certain other Non-Executive Directors identified on page 39. Two meetings in each year are held at one of the power stations with the station director and site safety representatives in attendance to consider both site-specific and generic issues.

During 2007/08 the committee received regular updates on the Group's safety and environmental performance. Over the year the Company focused on efforts to improve human performance and knowledge of nuclear safety and the committee considered the actions taken and the Company's progress against key performance indicators. In addition the committee reviewed the Company's approach to safety, including radiation dose and contractor management on the BCU Project. The Safety, Health and Environment Committee met four times during the year.

### Technical Performance Oversight Committee

The Technical Advisory Committee was renamed the Technical Performance Oversight Committee during the year and its terms of reference and membership were reviewed. The committee is chaired by Pascal Colombani. The committee also includes senior managers with technical expertise. The remaining members of the committee are identified on page 39. The committee considers and advises the Board on issues of a technical nature referred to it relating to the performance of, and improvements to, British Energy's nuclear fleet. The committee considers and advises on technical and operational issues and significant management of change issues facing the nuclear generation business. Members of the Generation Board continue to have responsibility for, and direct, the operational and safety policy of British Energy's nuclear operations.

During 2007/08 the committee reviewed the business plan priorities for the generation business including outage and equipment reliability improvement plans. The technical issues dominating the year were the boiler issues at Hunterston B and Hinkley Point B, the periodic safety reviews of these stations, the boiler closure units at Hartlepool and Heysham 1, the prospects for life extension and planning for output recovery and all these issues were reviewed. The committee received regular reports on the technical risk profile of the Company and considered how the issues identified were being managed and mitigated. The committee normally meets the day prior to a Board meeting and met five times during the year.

## Other Committees

### Finance and Policy Committee

The Finance and Policy Committee is a management committee chaired by Bill Coley and includes Stephen Billingham, Robert Armour, Company Secretary and General Counsel, and Jim Meechan, HR Director, as members. The Finance and Policy Committee meets frequently and maintains scrutiny of the corporate business of the Group and, in particular, cross business issues including Finance, Human Resources, Strategy, Information Management, Corporate Affairs, Internal Audit and Risk functions and areas not falling under remit of the Generation Board or the BEPET Board.

### Management Committees and Subsidiary Boards

Throughout the year a number of management committees and subsidiary boards were used to assist the Directors in controlling the business. These included the Generation Board, which directs operational and safety policy in the Group's nuclear operations, the BEPET Board, which reviews the operational performance strategy and controls in the power trading business, and the Eggborough Power Limited Board, which oversees operational and safety policy for the Eggborough coal-fired power station.

### Management Risk Committees

The Trading Risk Standing Committee meets monthly to review the identification and management of risks to the trading business. It is chaired by the Chief Risk Officer and reports top risks to the BEPET Board and the Commercial Risk Committee quarterly. The BEGEN Risk Committee meets quarterly to review the identification and management of risks to the generation business. It is chaired by the Head of Asset Planning and Investment and reports top risks to the Generation Board and the Board's Technical Performance Oversight Committee quarterly. The Corporate Functions Risk Committee meets quarterly to review the identification and management of risks to the activities of corporate functions such as Finance, Legal, Human Resources and Information Management. It is chaired by the Chief Risk Officer and reports top risks to the Finance and Policy Committee quarterly.

### Pensions Committee

The Pensions Committee is a management committee which monitors the management of the two Group Pension Schemes. It is chaired by the HR Director. Certain other Directors and senior managers of the Group are members. The Pensions Committee reviews and advises on the policies being adopted by the Trustees of the British Energy Generation Group and the British Energy Combined Group Pension Schemes and is responsible for advising the Board and reporting to the Remuneration Committee on matters relating to these Schemes. The Pensions Committee met five times during the year.

### Disclosure Committee

The Disclosure Committee is a management committee which reviews the accuracy and completeness of the Company's proposed financial and certain other public statements and/or reports. It is chaired by the Deputy Finance Director, and comprises management level representatives of operational and corporate departments from throughout the Group. The Disclosure Committee reports to the Audit Committee and met seven times during the year.

### Board Attendance

The attendance of Directors at Board and committee meetings (of those committees of which they are members) in the year is set out in the tables below. The membership of the committees changed in January 2008, and attendances are therefore shown separately for the period from April 2007 to December 2007 and January 2008 to March 2008. Non-Executive Directors commonly attend meetings of committees of which they are not formally members, but these attendances are not shown in the tables:

### Board attendance April 2007 to December 2007

| | Board# | Audit Committee | Governance and Nominations Committee | Remuneration Committee | Commercial Risk Committee | Safety, Health and Environment Committee | Technical Performance Oversight Committee |
|---|---|---|---|---|---|---|---|
| | [8] | [7] | [5] | [7] | [5] | [2] | [3] |
| Sir Adrian Montague | 8 | – | 5 | – | – | – | – |
| Bill Coley | 8 | – | – | – | 3 | – | 3 |
| Stephen Billingham | 8 | – | – | – | 5 | – | – |
| Pascal Colombani | 7 | – | 5 | 7 | – | – | 3 |
| Bob Davies | 8 | – | 5 | 7 | – | – | – |
| John Delucca | 7 | 7 | 4 | – | 4 | – | – |
| Ian Harley | 7 | 7 | 5 | – | 5 | – | – |
| David Pryde | 8 | 7 | 5 | 7 | 5 | – | – |
| Clare Spottiswoode[1] | 5 | 2 | – | 4 | 1 | – | – |
| Sir Robert Walmsley | 8 | 6 | 5 | 7 | – | 2 | 3 |
| Robert Walvis[2] | 2 | – | – | – | – | – | – |

### Board attendance January 2008 to March 2008

| | Board# | Audit Committee | Governance and Nominations Committee | Remuneration Committee | Commercial Risk Committee | Safety, Health and Environment Committee | Technical Performance Oversight Committee |
|---|---|---|---|---|---|---|---|
| | [3] | [2] | [0] | [2] | [2] | [2] | [2] |
| Sir Adrian Montague | 3 | – | – | – | – | – | – |
| Bill Coley | 3 | – | – | – | – | – | – |
| Stephen Billingham | 3 | – | – | – | – | – | – |
| Pascal Colombani | 3 | – | – | 2 | 2 | 1 | 2 |
| Bob Davies | 3 | 2 | – | 2 | 2 | – | – |
| John Delucca | 3 | 2 | – | 2 | 2 | – | – |
| Ian Harley | 3 | 2 | – | – | 2 | 1 | – |
| David Pryde | 3 | 2 | – | – | 2 | 2 | 2 |
| Sir Robert Walmsley | 3 | – | – | 2 | – | 2 | 2 |
| Robert Walvis | 3 | 2 | – | 2 | 2 | – | 2 |

Figures in brackets refer to the total number of Board or committee meetings during the year.

# In addition, delegated special committees of the Board meet from time to time for the purposes of considering specific items of business.
1 Clare Spottiswoode retired at the AGM in July 2007, the attendances shown therefore do not represent a full year.
2 Robert Walvis was appointed in August 2007, the attendances shown therefore do not represent a full year.

### Organisational Structure
There are clearly defined lines of accountability throughout the Group. These include strict authorisation approval and control procedures within which senior management operate. Similarly, the senior management team within each subsidiary or division is responsible for its internal financial controls. Those management teams operate within an overall framework determined by the Board.

### External Non-Executive Directorships
We permit the Chief Executive to retain certain external non-executive directorships provided they do not cause a conflict or inhibit his ability to work for the Company. Each such appointment including the details of emoluments is subject to Board approval. Details of such fees are included on page 45.

### Investment Approval
The approval of capital and revenue schemes above certain limits is reserved to the Board. Other investment decisions are delegated for approval in accordance with authority limits. The Group has comprehensive appraisal and monitoring procedures which apply to all material investment decisions.

### Business Planning
A comprehensive business planning and budgeting process to establish plans and targets, against which performance is regularly monitored, is undertaken each year. Key business risks are reviewed regularly throughout the year and inform investment prioritisation in the business plan. The Board receives monthly reports and management accounts and reviews the overall Group performance against budget and the latest forecasts for the current year. Similarly, each subsidiary and divisional management team meets regularly to monitor performance.

### Internal Compliance and Control
The Board is responsible for the Group's system of internal controls and reviewing its effectiveness. The identification of key business risks, the evaluation of their financial and non-financial implications and formulation of policies to manage such risks is the responsibility of the Directors. This system is designed to identify and manage, rather than eliminate, risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board assessed the effectiveness of the Company's internal controls as of the date of this report. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Compliance with the Group's internal financial, risk management and other controls is monitored by a number of methods including management reviews and self-certification reports from Directors and senior officers of each of the key subsidiaries or divisions. The Group's internal audit function is responsible for providing assurance on the performance of the internal financial and risk management control system and computer operations and reports regularly to the Audit Committee. Internal audit work is focused on the areas of highest risk as agreed and prioritised by the Audit Committee. The scope of work, authority and resources of the internal audit function are reviewed by the Audit Committee at least annually. The role of the internal audit function is discussed further below.

Steps are being taken to embed internal controls and risk management further into the operations of the business and to explore areas of improvement which come to management and the Board's attention. Although the Company is no longer bound by the provisions of the Sarbanes-Oxley Act it has sought to retain the revised arrangements which were implemented to meet the Act's requirements. A more streamlined and risk-based approach has now been established and to support this change, a self-certification process was adopted in 2007/08. Testing and certification of key financial controls has been performed at divisional level with central co-ordination by Finance and independent oversight performed by Internal Audit. As part of this process, management has been encouraged to explore opportunities for improvement which may come to their attention. This self-certification process will continue to be embedded and refined during 2008/09.

### Internal Audit
The Group's internal audit function provides independent assurance that the risk management processes in place across the Group are of sound design and are operating as intended. Evaluation of the adequacy of the framework of controls in place to mitigate risks to an acceptable level is conducted as part of that assurance. Within its scope, the function examines the Group's controls and procedures and attempts to identify any potential best practices/weaknesses within the systems.

Internal audit work follows an annually developed risk-based plan which is agreed by the Audit Committee and encompasses all areas of the Group. Development of the annual plan is based on a range of information sources, including review of corporate risk log information and discussion with key management across the Group to understand their view of risks and priorities. In addition to the approved plan the function responds to emerging risks and issues arising within the year as appropriate or at the request of management and the Audit Committee.

An external review of the internal audit function was undertaken in late 2006/07 which gave an overall view that the function is effective at providing independent assurance to the Board in relation to the internal control environment in the Group. The review identified a number of actions and recommendations to enhance current arrangements which were built into a structured plan and delivered in 2007/08. This exercise will be repeated on at least a five year cycle to continue to independently assess the function and identify opportunities for ongoing development.

To ensure independence of the internal audit function, the Head of Internal Audit reports functionally to the Audit Committee. The Audit Committee considered the scope of internal audit's work, its plans for the year and resources in May 2007. Subsequent changes to the plan were communicated throughout the year to the Audit Committee, and the results of the year's work were presented to the Audit Committee at the year end.

Five routine private sessions were held between the members of the Audit Committee and the Head of Internal Audit.

### Corporate Social Responsibility

The Company will shortly publish a separate Corporate Social Responsibility Report for 2007/08 on its website. This will include details of the Group's record on safety and environmental performance. A summary of the Company's approach to Corporate Social Responsibility is contained on pages 28 to 31. Our 2006/07 Corporate Social Responsibility Report is available on the Company's website.

### Confidential Reporting of Serious Concerns

The Company operates a procedure to allow staff to raise serious concerns, suspicions of fraud or money laundering, suspicious accounting treatment or practices, and any other suspicious, unsafe or non-compliant activity which an employee may observe on a confidential basis. In relation to allegations of serious fraud this procedure involves direct referral to an external independent organisation which will record concerns and determine the appropriate person to investigate them and recommend any action required to address resulting issues.

### Communication with Shareholders

The Company recognises the importance of maintaining an ongoing relationship with its shareholders and stakeholders. It intends to use its AGM on 17 July 2008 as an opportunity to communicate with shareholders. It is the Company's policy that all Directors are available to answer shareholders' questions at the AGM. In addition, the Chairman, the Chief Executive, the Chairman of the Audit Committee, the Finance Director and the Senior Independent Director will meet with the Company's principal shareholders on request to discuss relevant issues when they arise. The Company seeks to ensure that the Directors, particularly the Non-Executive Directors, develop an understanding of the views of major shareholders through various routes including meetings and analysts' or brokers' briefings. The Chairman has met with a number of institutional shareholders during the year. The Company Secretary's office responds to numerous letters from shareholders on various issues throughout the year. Information sent to shareholders and copies of all Company announcements are made available on the Company's website.

The notice of British Energy Group plc's AGM last year (held on 19 July 2007), was dispatched to shareholders not less than 20 working days before the meeting and details of proxy votes received were made available in accordance with the recommendations of the Code.

### Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 32 and 33. Having made enquiries of fellow Directors and of the auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their Report of which the auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

### Statement of Directors' Responsibility

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position and performance of the Group and give a true and fair view of the state of affairs of the Company for that year.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company. This enables them to ensure that the financial statements comply with the Companies Act 1985 in respect of the Group and the Company and Article 4 of the IAS Regulation in respect of the Group. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. The information published on the website has been prepared under United Kingdom company law and may not be in accordance with legal requirements of other countries from which the information can be accessed.

### Going Concern

The Board considers it appropriate to prepare these consolidated financial statements and parent company financial statements on a going concern basis because, having reviewed the Group's cash flow position and outlook, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future as a going concern.

Robert Armour
Company Secretary

## Introduction

In preparing this Report, the Remuneration Committee (the Committee) has given due consideration to legal and best practice disclosure requirements, and has sought to present the Group's remuneration policy in an easy to read style.

During the year there have been no material amendments to British Energy's remuneration policy but there have been some practical difficulties in implementing the policy this year.

## Terms of Reference and Committee Membership

The Committee is responsible to the Board for determining the fees of the Chairman and the pay, benefits and employment conditions, including pensions of the Executive Directors and the most senior staff in the Group (those reporting directly to the Chief Executive). It also reviews the pay and benefits of other senior staff to ensure that fair and robust remuneration policies exist.

During the year the Committee reviewed and subsequently revised its Terms of Reference which were endorsed by the Board. The revised Terms of Reference continue to comply with the Combined Code on Corporate Governance, June 2006 and can be reviewed on our website. Copies may also be obtained from the Company Secretary.

The Committee is made up of the Non-Executive Directors identified on page 39. The other Non-Executive Directors have attended, by invitation, some of the meetings during the year. Details of attendance by members of the Committee are set out on page 39. The Committee continues to be chaired by Bob Davies. During the year the Committee met nine times.

## Advisers to the Committee

Bill Coley continued to attend throughout the year to give advice as required by the Committee. In accordance with good practice he was not present when matters affecting his own terms and conditions were being discussed. It is the intention of the Committee that he will continue to attend at its invitation.

The Group's Human Resources Director is Secretary to the Committee.

The Committee has appointed Hewitt New Bridge Street to give advice on general remuneration matters including market data comparisons. They have also been involved in giving advice concerning the issues relating to the implementation of the Performance Share Plan (see below) and the management of the other equity incentive plans (including the all-employee Share Incentive Plan). They have no other connections with the Group other than providing advice on executive pay.

Mercers Human Resources Consulting LLP has provided advice on pensions issues to the Group.

Clifford Chance LLP has provided legal advice to the Committee during the year.

## Remuneration Policy

The Group's remuneration policy aims to attract, retain and incentivise management with the appropriate professional, managerial and operational expertise necessary to achieve the Group's objectives and deliver shareholder value.

The Committee's aim is that the total package (including benefits and incentives) is broadly competitive both in terms of the UK market and in terms of the international market for executives with nuclear experience.

The Committee's policy is that base salaries are positioned broadly around the market median with incentive opportunities that reflect the Group's overall strategy and the challenges it faces. The Committee believes that overall packages should be aligned to shareholder interests to create sustainable long-term shareholder value.

In particular it is the Committee's policy that:

- a significant proportion of the remuneration of the Chief Executive and the senior management team should be variable and linked to the performance of the Group. Under normal circumstances, the variable element would include a share-based incentive; however current restrictions do not permit this (see section 3 below);
- the movement in base pay of the Executive Directors and the senior staff should be broadly in line with the increases awarded to other staff recognising the need from time to time to adjust salaries to the external market;
- in determining the link between base and variable pay the Group should be mindful of its safety and environmental priorities; and
- there should be a strong and clear link between reward and performance against agreed stretch targets both in the short and long-term.

## Elements of Remuneration

In determining the remuneration package of each Executive Director the Committee considers five main elements, each of which is benchmarked against the external market. The benchmarking process draws comparisons across a wide range of organisations, predominately major UK listed public companies, including utility companies. Benchmarking also involves consultation with the Committee's external advisers and commercial providers of remuneration surveys.

### 1. Base Pay

Base pay and benefits are reviewed annually. The Committee aims to maintain individual salaries at or about the market median, taking into account experience, level of responsibility and individual performance. The base pay of Executive Directors and senior staff was last reviewed as at 1 July 2007. The current annual base salary levels for the Executive Directors are as follows: Bill Coley £725,000 and Stephen Billingham £465,000.

### 2. Annual Bonus Plan

As discussed in last year's report, on 1 April 2007 a new annual bonus plan was introduced for Executive Directors and other senior staff. Under this plan the maximum potential bonus opportunity was set at 150% for each Executive Director. The targets for 2007/08 covered the key performance indicators of the business including Adjusted EBITDA, cash, unplanned losses, unit operating margin, revenue, cost control, plant life extension, project delivery and outage performance. All bonus targets were underpinned by safety and environmental conditions. Following an assessment of performance against targets, the Committee awarded 75% of salary to both Bill Coley and Stephen Billingham.

It is the Committee's intention that broadly the same structure will apply in 2008/09.

### 3. Share Options and Incentive Schemes

#### Performance Share Plan

Shareholders approved a new long-term incentive arrangement in the form of a Performance Share Plan at the AGM in 2007. The Committee was to adopt a policy that would initially restrict awards to the following levels:

- Chief Executive: 150% of salary.
- Executive Director: 125% of salary.
- Other senior team members: 100% of salary.

Awards were to be subject to a Total Shareholder Return (TSR) performance condition measuring the Group's performance over a three year period relative to a comparator group of 23 companies involved in mining, oil extraction and electricity production, i.e. energy in its widest sense. It had been the intention of the Committee to make awards under the plan to the Executive Directors and those reporting directly to the Chief Executive shortly after approval by shareholders. However, in the light of the wide-ranging confidential strategic discussions that have been continuing for most of the past year, the Group took legal advice regarding the implementation of this scheme. It concluded that it would be inappropriate to implement any share-based incentive scheme for the senior team members and Executive Directors whilst these strategic discussions were continuing.

In view of this, an alternative cash-based long-term incentive plan, with reward being determined by the Group's financial performance over a three year period, was introduced for senior team members. The Model Code on Directors Dealings in Securities (Model Code) rules have not allowed for an alternative incentive arrangement to be put in place for the Executive Directors Bill Coley and Stephen Billingham.

#### Chief Executive's Previous Incentive Arrangements

As Bill Coley had historically not participated in the former Long-Term Deferred Bonus Plan he was subject to separate arrangements which included grants of share options.

Two grants of options have been made to him in December 2005 and November 2006. Both grants of options were subject to a performance condition related to nuclear output during the 2007/08 financial year. Subject to the achievement of the performance condition these options would vest in December 2008 and November 2009 respectively.

The targets set were:

- A minimum nuclear output of 53.6TWh at which 75% of options would vest.
- A maximum nuclear output of 59TWh at which 100% of options would vest.

Nuclear output for 2007/08 was 50.3TWh and as a result neither grant of options will vest and accordingly they have lapsed.

### Share Incentive Plan

The Committee thinks that all British Energy employees should have the opportunity to become shareholders. It has therefore approved the use of two all-employee share plans: the Share Incentive Plan and the Sharesave Scheme.

Previously the Executive Directors declined their invitation to participate in the Group's all-employee Share Incentive Plan (SIP). As disclosed last year, the Committee would not expect this to be the case for any award to be made under the SIP for 2007/08. The value of this award has been determined as £1,710 for each Executive Director.

### Sharesave Scheme

Executive Directors are entitled to participate in the all-employee Sharesave Scheme, which is offered to all employees on the same terms in line with HMRC regulations, for which there are no performance conditions.

**4. Retirement Benefits**

Stephen Billingham is a member of the British Energy Generation Group (BEGG) of the Electricity Supply Pension Scheme, which will provide part of his pension entitlement. He is also the recipient of other benefits under an Unfunded Unapproved Retirement Benefit Scheme.

Bill Coley is not a member of any Group pension scheme nor was any payment made to him in lieu of any pension arrangement.

The details of Stephen Billingham's accrued entitlement under the defined benefits schemes are as follows:

| Name | Age at 31 March 2008 | Accrued pension at 31 March 2007 | Increase in accrued pension (excluding inflation) | Increase in accrued pension | Transfer value of increase in accrued benefit | Accrued pension at 31 March 2008 | Transfer value of pension at 31 March 2007 | Transfer value of pension at 31 March 2008 | Increase in transfer value less contributions made by Directors |
|---|---|---|---|---|---|---|---|---|---|
| S Billingham | 49 | 30,236 | 15,703 | 16,881 | 195,867 | 47,117 | 290,866 | 549,714 | 258,848 |

The information in the table above has been subject to audit as required by the Companies Act 1985.

The accrued entitlements shown are those which would be paid annually on retirement based on service to the end of the year. The transfer value does not represent a sum due or paid to the individual and cannot meaningfully be added to annual remuneration.

The accrual rate for Stephen Billingham is 1/30 per annum subject to total pension from all sources not exceeding two-thirds of final salary. He is required to make contributions of 5% of base salary. This is achieved by sacrificing salary equivalent to the contribution. The salary shown in the Directors' Emoluments table on page 46 is net of the salary sacrifice on earnings above the Permitted Maximum defined in the rules of the scheme.

As indicated last year, Executive Directors and senior staff hired in the future will not be offered membership of BEGG nor any Unfunded Unapproved Retirement Benefit Scheme. Instead new appointments will be offered a supplement to salary to allow them to make their own pension arrangements with suitable cover for life insurance and permanent disability.

**5. Other Benefits**

Other benefits are available to Executive Directors. These differ by individual but will comprise some or all of the following:

- A company car (or allowance in lieu) and fuel.
- Medical and additional life insurance.
- Reimbursement of telephone rental, mobile phone and business call costs.
- Subscriptions to professional bodies.
- Eligibility to participate in the all-employee Sharesave Scheme and Share Incentive Plan.
- Accommodation and relocation expenses.

### Share Ownership Guidelines

Share ownership guidelines have been adopted that encourage Executive Directors and those reporting directly to the Chief Executive to build up the following levels of share ownership:

- Chief Executive 150% of salary
- Finance Director 100% of salary
- Other direct reports 50% salary

The expectation is that these levels of ownership will be achieved through the retention of at least half of the after tax number of shares acquired through the Group's share plans and would be met within five years from the introduction of the Performance Share Plan in April 2007. However, because of Model Code rules, the Executive Directors are currently unable to participate in the Group's share-based Performance Share Plan

### Service Contracts

The Committee's policy is to set service contract notice periods at one year or less without any express provision in respect of termination. If it is ever necessary to offer longer notice or contract period to new Executive Directors who are externally recruited, it is the Committee's position to reduce these as soon as possible after the initial contract has expired.

Stephen Billingham has a 12 month rolling contract and Bill Coley has a six month rolling contract. The same notice period applies if the Group or Executive Director serves notice.

The dates of the current service contracts are:

Bill Coley, 13 September 2005 and Stephen Billingham, 13 October 2004.

### External Non-Executive Appointment

The Committee permits Executive Directors to accept external non-executive directorships provided they do not cause a conflict or inhibit the Director's ability to work for the Group. It is recognised that those appointments increase the Director's commercial knowledge and business expertise to the general benefit of the Group and the wider public interest. Each such appointment, including the details of emoluments is subject to Board approval. The Board has determined that any compensation receivable in respect of these appointments is paid directly to, and retained by, the Executive Director.

During the year Bill Coley held Non-Executive Directorships with Peabody Energy Corporation, receiving fees of $143,106, CT Communications Inc, receiving fees of $172,438; and Jahna Management receiving fees of $15,000. All fees relate to the year ended 31 December 2007.

Stephen Billingham held no external appointments.

### Non-Executive Directors

The remuneration of Non-Executive Directors is determined by the Board without the participation of the Director concerned. Appointed for three years the Non-Executive Directors do not have service contracts, they are not eligible to participate in any of the Group's share schemes and they do not receive any pension provision from the Group.

The expiry dates of the Chairman and the current Non-Executive Director appointments are:

| Name | Expiry date |
|---|---|
| A Montague | 30/11/2008 |
| P Colombani | 31/05/2009 |
| J Delucca | 31/01/2010 |
| B Davies | 30/04/2009 |
| I Harley | 31/05/2009 |
| D Pryde | 31/08/2010 |
| R Walmsley | 31/07/2009 |
| R Walvis | 31/08/2010 |

The fee structure, which was effective from 1 September 2004, remained in place throughout the year and applied to all Non-Executive Directors except Sir Adrian Montague.

The fees shown for the Non-Executive Directors in the Directors' Emoluments table include £13,000 for each director (with the exception of Robert Walvis) which was paid in Shares in the Company.

As a result of dealing restrictions since his appointment Robert Walvis has not received his initial £10,000 in Shares or £7,583 worth of Shares as part of his basic fee.

Instead the amount was settled in cash with the expectation that he will, when circumstances permit, use the net proceeds to purchase Shares. These sums are included in the emoluments table on page 46.

The Committee reviewed fees payable to the Chairman during the year. With effect from 1 July 2007 the fees payable to Sir Adrian Montague as Chairman were increased to £275,000 per annum. Of this total £50,000 per annum is paid in the form of Shares in the Company.

## Directors' Emoluments

The table below show Directors' Emoluments for the year ended 31 March 2008.

| Name | Basic salary and fees £000 2008 | Bonus £000 2008 | Compensation for loss of office £000 2008 | Other benefits[4] £000 2008 | Total emoluments excluding pension £000 2008 | Total emoluments excluding pension £000 2007 | Pension contributions £000 2008 |
|---|---|---|---|---|---|---|---|
| A Montague | 268.8 | – | – | – | 268.8 | 225.1 | – |
| S Billingham | 435.7 | 348.8 | – | 16.7 | 801.2 | 400.0 | 28.5 |
| B Coley | 709.0 | 543.8 | – | 149.2 | 1,402.0 | 760.4 | – |
| P Colombani | 74.3 | – | – | – | 74.3 | 74.8 | – |
| J Delucca | 77.5 | – | – | – | 77.5 | 76.8 | – |
| B Davies | 69.0 | – | – | – | 69.0 | 63.4 | – |
| I Harley | 76.1 | – | – | – | 76.1 | 68.0 | – |
| D Pryde | 84.0 | – | – | – | 84.0 | 83.0 | – |
| R Walmsley | 82.3 | – | – | – | 82.3 | 88.3 | – |
| R Walvis[1] | 41.2 | – | – | – | 41.2 | – | – |
| Total emoluments for serving Directors at 31 March 2008 | 1,917.9 | 892.6 | – | 165.9 | 2,976.4 | 1,839.8 | 28.5 |
| Directors who have left during the year: | | | | | | | |
| R Anderson[2] | – | – | – | – | – | 1,405.6 | – |
| C Spottiswoode[3] | 29.8 | – | – | – | 29.8 | 78.8 | – |
| Total emoluments (all Directors) | 1,947.7 | 892.6 | – | 165.9 | 3,006.2 | 3,324.2 | 28.5 |

Notes:
1 Robert Walvis joined British Energy on 30 August 2007.
2 Roy Anderson left British Energy on 17 November 2006.
3 Clare Spottiswoode left British Energy on 19 July 2007.
4 Other benefits include accommodation costs.

The information in the table above has been subject to audit as required by the Companies Act 1985.

## Share and Share Options

The table below shows Directors' shareholdings as at 31 March 2008.

There have been no changes to the Directors' shareholdings set out below except in respect of the payment of part of the Non-Executive Directors' fees in the form of shares.

Directors' Share Dealings

| | 31 March 2008 | 31 March 2007 |
|---|---|---|
| A Montague | 17,340 | 11,793 |
| S Billingham | – | – |
| B Coley | 8,905 | 8,905 |
| P Colombani | 6,714 | 5,242 |
| B Davies | 3,861 | 2,406 |
| J Delucca | 6,793 | 5,295 |
| I Harley | 6,838 | 5,366 |
| D Pryde | 11,829 | 10,331 |
| R Walmsley | 8,218 | 6,720 |
| R Walvis | – | – |

Any ordinary shares required to fulfil options under option schemes may be provided by the British Energy Employee Share Trust (BEEST). As beneficiaries under the BEEST the Directors are deemed to be interested in Shares held by the BEEST which at 31 March 2008 amounted to 685,488 ordinary shares and 912,872 Warrants.

The tables below show options held by serving Directors over British Energy Group plc Shares granted as at 31 March 2008.

| | Options held at 1 April 2007 | Options granted during the year | Options exercised during the year | Options lapsed during the year | Options held at 31 March 2008 | Option exercise price |
|---|---|---|---|---|---|---|
| **Interim plan** | | | | | | |
| S Billingham | 32,838 | – | – | – | 32,838 | – |
| **LT Plan** | | | | | | |
| S Billingham | 54,532 | – | – | – | 54,532 | – |
| **Executive Share Option Plan** | | | | | | |
| B Coley | 240,000 | – | – | 240,000 | – | 500 |
| B Coley | 275,000 | – | – | 275,000 | – | 480 |

Note:
Following assessment of performance criteria Bill Coley's options have lapsed.

| Interim plan | Date exercised | Market price at date of exercise (pence) | Vested 1st Tranche 3 August 2005 | Vested 2nd Tranche 3 August 2006 | Vested 3rd Tranche 3 August 2007 | Expiry date |
|---|---|---|---|---|---|---|
| S Billingham | – | – | 10,946 | 10,946 | 10,946 | 03/08/15 |

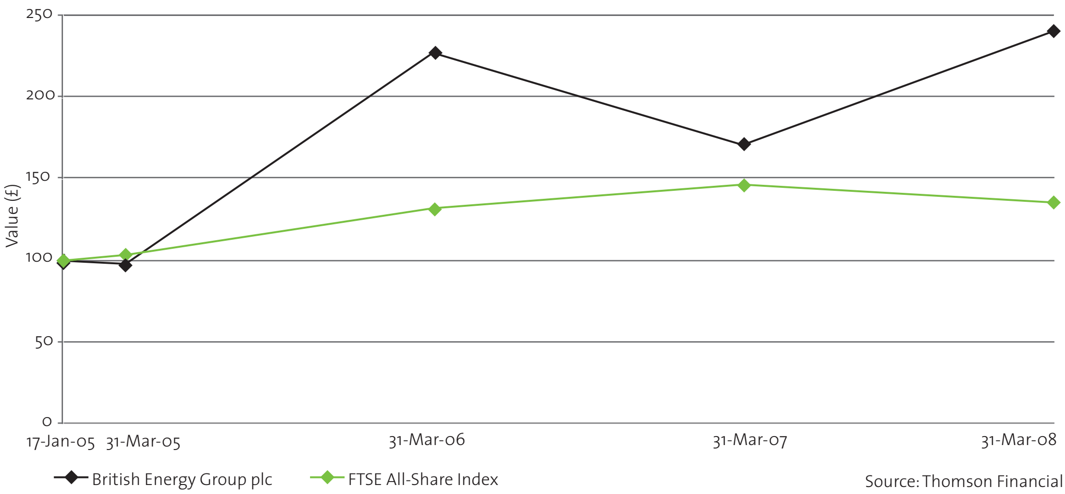
| LT Plan | Date exercised | Market price at date of exercise (pence) | Vested 1st Tranche 24 November 2006 | Vested 2nd Tranche 24 November 2007 | Potential 3rd Tranche 24 November 2008 | Expiry date |
|---|---|---|---|---|---|---|
| S Billingham | – | – | 7,792 | 23,370 | 23,370 | 24/11/16 |

The information in the table above has been subject to audit as required by the Companies Act 1985.

The market price of ordinary shares in British Energy Group plc at 31 March 2008 was 652.5p and the range of closing prices in the year was 672p to 417.75p.

Performance

Total Shareholder Return




Source: Thomson Financial

The graph above shows the value at 31 March 2008 of £100 invested in the shares of British Energy Group plc on 17 January 2005, the first day of trading in British Energy Group plc shares, compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at the intermediate financial year ends.

Approved on behalf of the Board on 15 May 2008.

Bob Davies

**Chairman, Remuneration Committee**

# Other Statutory Information



## Non-adjusting Post Balance Sheet Events

Details of post balance sheet events are provided in note 38 to the consolidated financial statements.

## Substantial Shareholdings

As at 28 May 2008 the Company had been notified of the following interests in 3% or more of the issued ordinary share capital of the Company:

| Holder | % |
|---|---|
| Invesco Limited | 14.97 |
| Prudential Plc/M&G Investment Management Ltd | 7.09 |
| Franklin Resources, Inc | 6.19 |
| Capital Group Companies Inc | 5.10 |
| AllianceBernstein LP | 4.79 |
| Legal & General Investment Management | 4.77 |
| Barclays PLC | 4.21 |

The Company has not been notified of any other interest in the issued ordinary share capital of the Company of 3% or more.

## Policy on Payment of Suppliers

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and abide by the agreed terms. The Company had no trade payables at 31 March 2008 (2007: £nil) and the Group had trade payables of £256m at 31 March 2008 (2007: £200m). During the year, suppliers to the Group were paid within an average of 60 days (2007: 57 days). For the purpose of this analysis supplier purchases exclude payments to BNFL, the Group's principal supplier, which are generally made against an agreed contract profile.

## Charitable and Political Contributions

The Group made charitable donations during the year of £197,499 (2007: £195,485), which included amounts to both registered charities and community groups. No political donations were made during the year (2007: £nil).

## Employees

The Group is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well established formal consultation procedures.

The Group is committed to its equal opportunities policies, which include promoting training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. The policy is supported by a Code of Practice on harassment that recognises that all employees have the right to be treated with dignity and respect.

The Group operates a Share Incentive Plan, which is an all-employee performance related share scheme. More details of the Share Incentive Plan, and the Group's other share schemes, are set out in note 33 to the consolidated financial statements.

## Share Capital and Takeover Directive

Details of British Energy Group plc's share capital are included in note 30.

The Company has two classes of shares, ordinary shares of 10p each and one special rights redeemable preference share of £1 (the Special Share).

The Special Share is redeemable at par at any time after 30 September 2006 at the option of the Secretary of State, after consulting the Company. This share, which may only be held by and transferred to one or more of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The Special Share confers no rights to participate in the capital or profits of the Company beyond its nominal value. The consent of the holder of the Special Share is required for certain matters including the alteration or removal of the provisions in the Company's Articles of Association relating to the Special Share and to the limitations on shareholdings.

In addition, consent of the holder of the Special Share is required in relation to, amongst others, certain amendments to the Articles of Association of British Energy Bond Finance plc, British Energy Limited, British Energy Generation Limited or British Energy Generation (UK) Limited, or a disposal by the Company of its shares in these companies. However, the holder of the Special Share will only be entitled to withhold consent to such an amendment or disposal if, in the holder's opinion, the matter in question would be contrary to the interests of national security.

Where any person other than the Permitted Person as defined in the Articles of Association has an interest of 15% or more in the Company's Shares the Special Shareholder may require that person to dispose of all or part of the relevant shareholding if it believes that the ownership or control of the shares by that person would be contrary to the interests of national security.

As part of the arrangements made at the time of Restructuring, British Energy Group plc has an obligation to make annual Cash Sweep Payments to the NLF should certain criteria be met. The NLF has the right to convert some or all of its entitlement to receive Cash Sweep Payments into convertible shares and to hold or sell those shares. The Cash Sweep Payment percentage was 35.1% as at 31 March 2008. Had the NLF converted the remainder of the Cash Sweep Payment percentage at this date, the NLF would have held up to 35.1% of the enlarged equity share capital of British Energy Group plc.

The Company knows of no agreements between holders of securities which would result in restrictions on transfer of securities or on voting rights.

# Other Statutory Information

The Group has investments in its own shares, held in relation to the Group's share incentive schemes, through shareholdings held by British Energy Employee Share Trust and Abbey National AESOP Trust. At 31 March 2008 1,913,946 Shares were held in trust. The maximum number of own shares held during the year was 1,946,438. Any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of any recommendation of the Company.

The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with normal Scottish company law provisions. The Board has power to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the notice of that meeting.

Rights of termination upon a change of control exist in an IT support contract and in the documentation governing two of BEPET's trading arrangements. Such right of termination is removed however in the case of BEPET if it chooses to collateralise its exposure prior to such change of control by way of cash (or in one of the arrangements, by way of a letter of credit, bank guarantee or similar instrument). Furthermore, the parent company guarantee agreements relating to certain contracts with BNFL for the supply of AGR fuel and spent fuel management services require to be transferred to any new ultimate parent company at the request of BNFL in the event of a change of control. The Company also has the benefit of certain bilateral letter of credit facilities which can be used to support calls for collateral in lieu of cash. These agreements contain provisions which give the lender a right to terminate the respective facility upon a change of control. Although a change of control is not an event of default under the Group's Bonds, holders are entitled individually to require the redemption of their bonds at a make whole amount as a result of a change of control. There are no provisions in place to compensate directors or senior employees on change of control.

## Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting. Authority is delegated to the Audit Committee to approve the fees of PricewaterhouseCoopers LLP.

## Annual General Meeting

The Annual General Meeting will be held at the Murrayfield Stadium Conference Centre on 17 July 2008 at 11 am. A letter from the Chairman detailing the business to be considered at the meeting, together with a Notice of Meeting, accompanies this Annual Report.

This Directors' Report comprising pages 06 to 50 was approved by the Board of Directors on 28 May 2008 and signed on its behalf by:

Robert Armour
**Company Secretary**

# Independent Auditors' Report to the Members of the British Energy Group plc

We have audited the Group financial statements of British Energy Group plc for the year ended 31 March 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated statement of cash flows and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of British Energy Group plc for the year ended 31 March 2008 and on the information in the Remuneration Committee Report that is described as having been audited.

**Respective Responsibilities of Directors and Auditors**
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulations. We also report to you whether, in our opinion, the information given in the Directors' Report (comprising the Directors' Report – Business Review, the Directors' Report – Financial Review, the Directors' Report – Corporate Social Responsibility, the Directors' Report – Corporate Governance, the Directors' Report – Board of Directors and the Directors' Report – Other Statutory Information) is consistent with the Group financial statements.

In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the unaudited part of the Remuneration Committee Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

**Opinion**
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Edinburgh

28 May 2008

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 financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated Income Statement
## for the year ended 31 March 2008

| | Notes | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|---|
| **Revenue** | 4 | **2,811** | 2,999 |
| Operating and energy costs | 5 | **(1,929)** | (1,778) |
| | | **882** | 1,221 |
| Other operating income | 26 | **10** | 93 |
| Cash Sweep Payment credit | 8 | **134** | – |
| Cash Sweep Payment accrual | 9 | **(102)** | (305) |
| Depreciation | 16 | **(238)** | (207) |
| Amortisation of conversion asset | 15 | **(167)** | – |
| Other amortisation | 18 | **(9)** | (6) |
| Unrealised net losses on derivative financial instruments and commodity contracts | 12 | **(3)** | (2) |
| **Operating profit** | | **507** | 794 |
| **Financing (charges)/credits** | | | |
| Interest payable | 10 | **(77)** | (61) |
| Interest receivable | 10 | **89** | 53 |
| Net other finance income | 10 | **19** | 10 |
| **Profit before taxation** | | **538** | 796 |
| Taxation | 11 | **(203)** | (331) |
| **Net profit for the year attributable to shareholders** | | **335** | 465 |
| | | | |
| **Earnings per share (pence):** | | | |
| Basic | 14 | **35.4** | 81.5 |
| Diluted | 14 | **35.2** | 79.9 |

# Consolidated Statement of Recognised Income and Expense
## for the year ended 31 March 2008

| | Notes | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|---|
| Net (losses)/gains on hedged items for the year | 31 | **(102)** | 46 |
| Net actuarial (losses)/gains on retirement benefit obligations for the year | 27 | **(199)** | 68 |
| Tax on items taken directly to equity for the year | 11 | **90** | (35) |
| **Net (expense)/income recognised directly in equity** | | **(211)** | 79 |
| Net profit for the year attributable to shareholders | | **335** | 465 |
| **Total recognised income and expense** | | **124** | 544 |

# Consolidated Balance Sheet
## as at 31 March 2008

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Conversion asset | 15 | **1,993** | – |
| Property, plant and equipment | 16 | **1,665** | 1,710 |
| NLF and nuclear liabilities receivables | 17 | **5,310** | 5,274 |
| Goodwill and intangible assets | 18 | **413** | 390 |
| Trade and other receivables | 19 | **317** | 168 |
| | | **9,698** | 7,542 |
| **Current assets** | | | |
| Conversion asset | 15 | **180** | – |
| Inventories | 20 | **448** | 399 |
| Nuclear liabilities receivable | 17 | **202** | 195 |
| Trade and other receivables | 19 | **451** | 478 |
| Restricted cash and other financial assets | 21 | **286** | 146 |
| Cash and cash equivalents | 21 | **1,028** | 1,101 |
| Derivative financial instruments and commodity contracts | 22 | **53** | 105 |
| | | **2,648** | 2,424 |
| **Total assets** | | **12,346** | 9,966 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 23 | **(61)** | (57) |
| Trade and other payables | 24 | **(659)** | (776) |
| Current tax liability | 11 | **(23)** | (10) |
| Nuclear liabilities | 25 | **(202)** | (195) |
| Provisions for other liabilities and charges | 26 | **(19)** | (25) |
| Derivative financial instruments and commodity contracts | 22 | **(142)** | (74) |
| | | **(1,106)** | (1,137) |
| **Non-current liabilities** | | | |
| Borrowings | 23 | **(455)** | (516) |
| Retirement benefit obligations | 27 | **(216)** | (65) |
| Nuclear liabilities | 25 | **(5,310)** | (5,274) |
| Deferred income tax liability | 11 | **(45)** | (63) |
| Provisions for other liabilities and charges | 26 | **(42)** | (50) |
| NLF liabilities | 28 | **(185)** | (194) |
| Deferred income | 29 | **(5)** | (5) |
| Derivative financial instruments and commodity contracts | 22 | **–** | (15) |
| | | **(6,258)** | (6,182) |
| **Total liabilities** | | **(7,364)** | (7,319) |
| **Net assets** | | **4,982** | 2,647 |
| **Equity** | | | |
| Called up share capital | 30,31 | **103** | 58 |
| Share premium | 31 | **59** | 40 |
| Capital reserve | 31 | **767** | 767 |
| Hedge reserve | 31 | **(71)** | 1 |
| Warrant reserve | 31 | **12** | 24 |
| Retained earnings | 31 | **4,112** | 1,757 |
| **Total shareholders' equity (including non-equity shareholder's interests)** | 31 | **4,982** | 2,647 |

The consolidated financial statements on pages 52 to 95 were approved by the Board of Directors on 28 May 2008 and signed on its behalf by:

Bill Coley

**Bill Coley**
*Chief Executive*

Stephen Billingham

**Stephen Billingham**
*Finance Director*

# Consolidated Statement of Cash Flows
## for the year ended 31 March 2008

| | Notes | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|---|
| **Operating activities** | | | |
| **Operating profit** | | **507** | 794 |
| Depreciation | 16 | **238** | 207 |
| Amortisation of conversion asset | 15 | **167** | – |
| Other amortisation | 18 | **9** | 6 |
| Share-based payments | 6 | **6** | 2 |
| Unrealised net losses on derivative financial instruments and commodity contracts | 12 | **3** | 2 |
| Movement in provisions for other liabilities and charges | | **(17)** | (114) |
| Decrease in Cash Sweep Payment accrual | | **(134)** | – |
| Cash Sweep Payment | | **(171)** | (105) |
| Interest paid | | **(77)** | (61) |
| Interest received | | **87** | 51 |
| NLF liabilities payment | 28 | **(23)** | (22) |
| Difference between pension contributions paid and amounts recognised in consolidated income statement | | **(11)** | (48) |
| Taxation paid | | **(118)** | (49) |
| Increase in inventories | | **(49)** | (57) |
| Increase in trade and other receivables | | **(120)** | (193) |
| (Increase)/decrease in restricted cash and other financial assets | | **(140)** | 60 |
| Increase in trade payables and other payables | | **187** | 257 |
| (Increase)/decrease in intangible assets | | **(22)** | 21 |
| **Net cash inflow generated from operations** | | **322** | 751 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 16 | **(197)** | (224) |
| Purchases of software | 18 | **(10)** | (11) |
| Proceeds from disposal of property, plant and equipment | | **4** | – |
| **Net cash used in investing activities** | | **(203)** | (235) |
| **Cash flows from financing activities** | | | |
| Purchase of own shares for share incentive schemes | 31 | **(2)** | (6) |
| Exercise of Warrants | 31 | **7** | 6 |
| Repayment of borrowings | | **(57)** | (53) |
| Equity dividends paid | 13 | **(140)** | – |
| **Net cash used in financing activities** | | **(192)** | (53) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(73)** | 463 |
| **Cash and cash equivalents at the beginning of the year** | | **1,101** | 638 |
| **Cash and cash equivalents at the end of the year** | 21 | **1,028** | 1,101 |

# Notes to the Financial Statements
## for the year ended 31 March 2008

**1. Presentation of the Financial Statements**

**(i) Description of Business**

British Energy Group plc is engaged in the generation and sale of electricity. References to the Company are to British Energy Group plc, the ultimate holding company of the Group. References to the Group are to the Company and its subsidiaries. The Group operates eight nuclear power stations and one coal-fired power station in the United Kingdom. British Energy Group plc is a public limited company, incorporated and domiciled in Great Britain. British Energy Group plc's ordinary shares are traded on the London Stock Exchange.

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 May 2008.

**(ii) Compliance with Applicable Law and IFRS**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS.

**(iii) Financial Period**

The consolidated financial statements cover the financial year from 1 April 2007 to 31 March 2008, with comparative figures for the financial year from 1 April 2006 to 31 March 2007.

**(iv) Basis of Consolidation**

The consolidated financial statements consolidate the financial statements of British Energy Group plc and the entities it controls (its subsidiaries) drawn up to 31 March each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

A list of subsidiary undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in note 32 to the consolidated financial statements.

**(v) Composition of the Consolidated Financial Statements**

The consolidated financial statements consolidate the financial statements of British Energy Group plc and all of its subsidiary undertakings, and comprise the following:

- consolidated income statement;
- consolidated statement of recognised income and expense;
- consolidated balance sheet;
- consolidated statement of cash flows; and
- notes to the consolidated financial statements.

**(vi) Accounting Convention**

The consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

**(vii) New Accounting Policy**

During the year the NLF converted part of its entitlement to receive Cash Sweep Payments (see note 30). In order to reflect this, the accounting policy 2 (xiii) was adopted which resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the conversion share price of £5.20 over the nominal value of shares issued.

The application of this new accounting policy resulted in shareholders' funds at 31 March 2008 being increased by £2,173m and the profit for the year ended 31 March 2008 being reduced by £167m (see note 15).

**(viii) Change in Accounting Estimate**

On 11 December 2007, British Energy Group plc extended the useful accounting lives of two of the Group's nuclear power stations by five years. The change in accounting estimate has been accounted for prospectively and the effect from 11 December 2007 to 31 March 2008 was to decrease nuclear liability revalorisation by £125m, reduce NLF receivable revalorisation by £125m, reduce the conversion asset amortisation by £13m and reduce property, plant and equipment depreciation by £6m.

As a result of these accounting life extensions for the year ending 31 March 2009, the Group expects that:

- nuclear liability revalorisation will decrease by £7m and NLF receivable revalorisation will decrease by £7m therefore having no income statement impact;
- conversion asset amortisation will reduce by £41m; and
- property, plant and equipment depreciation will reduce by £27m.

**1. Presentation of the Financial Statements (continued)**

**(ix) Parent Company Financial Statements**

British Energy Group plc, the Company, has not adopted IFRS and has therefore drawn up separate financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP). These are presented in the Annual Report on pages 97 to 102.

**2. Accounting Policies**

**(i) Significant Estimates and Judgements Used in Applying Accounting Policies**

The preparation of financial statements in conformity with IFRS requires management to make certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The principal accounting policies adopted by the Group in the consolidated financial statements are as set out below. The application of a number of these policies required the Group to use a variety of estimation techniques and apply judgement to best reflect the substance of underlying transactions.

Significant factors considered when using estimates to assess the carrying value of assets include future electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates. The Group has determined that a number of its accounting policies can be considered significant, in terms of the management judgement that has been required to determine the various assumptions underpinning their application in the consolidated financial statements presented which, under different conditions, could lead to material differences in these statements. The policies where significant judgements have been made are the:

- application of business combination accounting rules;
- accounting for conversion asset;
- accounting for property, plant and equipment;
- accounting for goodwill;
- accounting for coal inventory;
- estimation of liabilities for spent nuclear fuel and decommissioning costs;
- estimation of retirement benefit obligations;
- estimation of fair value of derivative financial instruments and commodity contracts; and
- accounting for deferred tax.

Actual results can differ from estimates.

**(ii) Revenue**

Revenue is recognised by the Group when a sales arrangement exists, delivery of goods or services has occurred, the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits will flow to the Group.

Revenue represents the fair value of the consideration receivable for sales of electricity supplied during the period and sales of other related goods and services. It is shown net of value added tax, electricity purchases relating to short-term balancing and hedging activities, and climate change levy. Revenue is also shown after elimination of sales within the Group.

Wholesale generation and direct supply sales are recognised on an accruals basis with reference to meter readings of electricity supplied. Where required, a management estimate is included of the value of units supplied to customers between the date of their last meter reading and the accounting period end. Where an estimate of electricity supplied is required, the estimate is calculated using historical consumption patterns and is included in trade receivables.

Revenue includes miscellaneous income that comprises mainly services to Magnox in respect of shared sites and the income generated from the Group's role in trading the electrical output of the Nuclear Decommissioning Agency's Magnox nuclear power stations.

**(iii) Fuel Costs – Nuclear Front End**

*Advanced Gas-cooled Reactors (AGR)*

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. All costs are capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

*Pressurised Water Reactor (PWR)*

All front end fuel costs are variable and are capitalised into inventory and subsequently charged to the consolidated income statement in proportion to the amount of fuel burnt.

# Notes to the Financial Statements
for the year ended 31 March 2008

**2. Accounting Policies (continued)**
**(iv) Fuel Costs – Nuclear Back End**
*AGR*
Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise:

(a) a cost per tonne of uranium in AGR fuel, in respect of amounts payable on loading of fuel into any one of the AGR reactors; and
(b) a rebate/surcharge against the cost mentioned in (a) above that is dependent on the out-turn market electricity price in the year and the amount of electricity generated in the year.

The loading related cost and the rebate/surcharge is capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

*PWR*
Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value. Back end fuel costs are capitalised into inventory on loading and charged to the consolidated income statement in proportion to the amount of fuel burnt.

**(v) Unburnt Fuel at Shutdown**
Due to the nature of the nuclear fuel process there will be some unburnt fuel in the reactors at station closure. The costs of this unburnt fuel (final core) are fully provided at the balance sheet date and any changes in the carrying value of nuclear fuel attributed to the final core are charged to the consolidated income statement in the accounting period.

**(vi) Fuel Costs – Eggborough**
Fuel costs for Eggborough are determined on a weighted average cost basis. Fuel costs for Eggborough also include costs of carbon allowances (see note 2 (xv)).

**(vii) Research Expenditure**
Expenditure on scientific and engineering research, preliminary studies and the initiation of new technologies is categorised as research and charged to the consolidated income statement as incurred.

**(viii) Operating Leases**
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged to the consolidated income statement on a straight line basis over the lease term.

**(ix) Foreign Currencies**
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated into sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the consolidated income statement.

**(x) Share-based Payment**
The Group has five share compensation schemes, the Share Incentive Plan, the Deferred Incentive Plan, the Long-Term Deferred Bonus Plan, the Executive Share Option Plan 2004 and the Interim Bonus Plan. The Group accounts for its share compensation schemes in accordance with IFRS 2 – Share-based Payment (IFRS 2).

The fair value of the share compensation schemes is charged to the consolidated income statement over the period from the date the awards were granted to the date at which the compensation is expected to vest on the employees. The corresponding credit is included in total shareholders' equity. The Group issues equity-settled share-based payments to certain employees under the terms of the Group's various employee share compensation schemes. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest.

**(xi) Exceptional Items**
Exceptional items, by their nature, are not indicative of the underlying operating performance of the Group. Exceptional items are material to the results for the year and are of a non-recurring nature and are therefore presented separately.

# Notes to the Financial Statements
for the year ended 31 March 2008

**2. Accounting Policies (continued)**
**(xii) Taxation**
Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in full, using the balance sheet liability method, on temporary differences identified at the balance sheet date using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Temporary differences are differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable profits. Deferred tax assets are only recognised to the extent that it is considered probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is charged to the consolidated income statement except where it relates to items charged or credited to equity in which case the deferred tax is dealt with in equity.

**(xiii) Conversion Asset**
The conversion asset represents the asset which arose following partial exercise of the NLF's conversion right (see note 2 (xviii)).

The partial NLF conversion has been accounted for under IFRS 2. The issue of new shares by British Energy Group plc gave rise to the recording of ordinary share capital, together with a share premium representing the excess of the conversion share price over the nominal value of shares issued. The partial conversion also gave rise to a conversion asset which represents the fair value of the obligation which is removed as a result of the partial exercise of the conversion right. The conversion asset is allocated between current and non-current assets as appropriate on the consolidated balance sheet.

The fair value of the conversion asset recorded as a result of the partial exercise of the conversion right has been deemed to be the fair value of the new equity issued at the conversion date. Following initial recognition, the conversion asset is measured at cost less amortisation and any accumulated impairment losses.

The charge for amortisation is calculated so as to write the conversion asset off on a straight line basis over the estimated useful accounting lives of the nuclear power stations.

**(xiv) Property, Plant and Equipment and Depreciation**
Property, plant and equipment comprises assets acquired or constructed by the Group. Property, plant and equipment (other than assets in the course of construction) are stated in the consolidated balance sheet at cost less accumulated depreciation. The fair value of property, plant and equipment acquired as a result of the Restructuring was deemed to be the cost amount recognised at that date. Cost includes expenditure that is directly attributable to the acquisition of the items. Accumulated depreciation includes additional charges made where necessary to reflect impairment in value.

Assets in the course of construction are stated at cost and not depreciated until commissioned.

The charge for depreciation of property, plant and equipment is based on the straight line method so as to write off the costs of assets, after taking into account provisions for diminution in value, over their estimated useful lives. The asset lives adopted are reviewed annually and for the year ended 31 March 2008 were:

| | |
|---|---|
| AGR power stations | 6 – 15 years |
| PWR power station | 27 years |
| Eggborough power station | 8 years |
| Other buildings | 30 years |
| Other plant and equipment | 18 months – 5 years |

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Expenditure to improve safety or in order to meet increased regulatory standards is also capitalised. Expenditure on major inspection and overhauls of production plant is capitalised, within other plant and equipment, when it meets the asset recognition criteria and is depreciated over the period until the next Outage. For AGR power stations, this depreciation period is two to three years, for the PWR power station it is 18 months and for Eggborough it is four years.

Major spare parts are classified as property, plant and equipment and assigned to individual stations when they are expected to be utilised over more than one period. They are depreciated using the applicable station lifetime estimate.

Gains and losses on the disposal of property, plant and equipment are included in operating profit.

# Notes to the Financial Statements
## for the year ended 31 March 2008

**2. Accounting Policies (continued)**
**(xv) Intangible Assets (excluding Goodwill)**
The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring the specific software in to use, and are amortised using the straight line method over their estimated operational lives for a maximum of five years. Costs directly associated with the development of computer software programmes that are expected to generate economic benefits over a period in excess of one year are also capitalised and amortised over their estimated operational lives.

Purchased Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs) are initially recognised at cost within intangible assets. A liability for ROCs is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period. ROCs and LECs have sustainable values and can be used over an unrestricted period and therefore they are not amortised.

Under the EU Emissions Trading Scheme (EU ETS), granted carbon allowances received in a period are initially recognised at nil value within intangible assets. Purchased carbon allowances are initially recognised at cost within intangible assets. Allowances granted are apportioned over the year in line with actual and forecast emissions for the relevant emissions year. A liability is recognised when actual emissions are greater than the granted allowances apportioned for the year. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit. Forward contracts for the purchase or sale of carbon allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated income statement in the unrealised net gains or losses on derivative financial instruments and commodity contracts line. On delivery of forward contracts, carbon allowances are capitalised in intangible assets at cost, with any permanent reduction to bring the carrying value in line with market prices being presented within fuel costs. Carbon allowances have a sustainable value and can be used in settlement of the Group’s EU ETS obligation at any time within the corresponding EU ETS Phase. As a result, carbon allowances are not amortised.

**(xvi) Impairment of Tangible and Intangible Assets (excluding Goodwill)**
At each balance sheet date, the Group reviews its tangible assets and intangible assets (excluding goodwill (see note 2 (xvii))) to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is assessed. If an asset is impaired, a provision is made to reduce the asset’s carrying amount to the estimated recoverable amount.

**(xvii) Goodwill**
Goodwill arising on acquisitions represents the excess of the fair value of the consideration at acquisition compared to the fair value of the identifiable net assets acquired. Goodwill is capitalised as an intangible asset on the consolidated balance sheet. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill balances are assessed for impairment at least annually and at other balance sheet dates if there is any indication of impairment.

**(xviii) NLF Funding Arrangements**
Under the arrangements with the Secretary of State the NLF will fund, subject to certain exceptions, the Group’s qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. To the extent there is any surplus remaining in the NLF after all obligations have been discharged, this amount will be paid to the Secretary of State. The Group is responsible for funding certain excluded or disqualified liabilities and will, in certain circumstances, be required to compensate or indemnify the NLF and the Secretary of State in relation to such liabilities. The Group’s obligations under these arrangements with the Secretary of State are guaranteed by certain companies within the Group.

In consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy Bond Finance plc (formerly British Energy Holdings plc) (a subsidiary of British Energy Group plc) issued £275m in Bonds to the NLF at RED. The Group will also make the following payments to the NLF: (i) an annual contribution (Cash Sweep Payment) initially equal to 65%, reduced to 36% following the partial conversion, of the Group’s adjusted net cash flow, adjusted for certain corporate actions but never to exceed 65% (Cash Sweep percentage); (ii) fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED); and (iii) £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after RED.

The NLF has the right from time to time to convert all or part of the Cash Sweep Payment into convertible shares of British Energy Group plc (the NLF conversion right). On a full conversion of its remaining interest, the NLF would hold up to approximately 35% of the thereby enlarged equity share capital of British Energy Group plc. However, the terms of the convertible shares include a limit on the voting rights of such shares equal to a maximum of 29.9% whilst held by the NLF. See note 30 for more details on the convertible shares.

The annual Cash Sweep Payment accrual can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, it is only recognised and provided for when it becomes determinable and not in any interim financial periods. It will be recorded as an operating cost of the applicable financial year. The annual Cash Sweep Payment accrual becomes payable 25 business days after publication of the Annual Report and Accounts.

**2. Accounting Policies (continued)**
The fixed decommissioning obligations of £20m per annum have been recorded as a liability on the consolidated balance sheet at their discounted value and disclosed as the NLF liability. The NLF liability is reduced as payments are made to the NLF. Each year the financing charges in the consolidated income statement include the revalorisation of NLF liabilities required to discharge one year's discount from the liability.

PWR fuel loaded after RED will increase the qualifying nuclear liability recognised for back end PWR fuel costs as set out above and will increase the NLF receivable by a corresponding amount. The difference between the payment of £150,000 (indexed to RPI) per tonne made to the NLF on the loading of PWR fuel and the increase in the liability recognised upon loading of this fuel is matched against back end fuel costs as the loaded tonnes are burned in the PWR reactor.

**(xix) NLF and Nuclear Liabilities Receivables**
The Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs.

The NLF receivable asset recognised represents the aggregate value of the Nuclear Liabilities Fund and the Government indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities.

The Government indemnity is also provided to cover the cost of services for spent AGR fuel loaded pre-Restructuring. The nuclear liabilities receivable is recognised in respect of the indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities.

The NLF receivable and the nuclear liabilities receivable are stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated income statement include the revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

**(xx) Nuclear Liabilities**
Nuclear liabilities represent provision for the Group's liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning. The provisions represent the Directors' best estimates of the costs expected to be incurred. They are calculated based on the latest technical evaluation of the processes and methods likely to be used, and reflect current engineering knowledge. The provisions are based on such commercial agreements as are currently in place, and reflect the Directors' understanding of the current Government policy and regulatory framework. Given that Government policy and the regulatory framework on which the Group's assumptions have been based may be expected to develop and that the Directors' plans will be influenced by improvements in technology and experience gained from decommissioning activities, liabilities and the resulting provisions are likely to be adjusted.

In recognising the costs of generating electricity, accruals are made in respect of the following:

(a) *Back End Fuel Costs*
The treatment of back end fuel costs in the consolidated income statement has been dealt with under the accounting policies for fuel costs above. These nuclear liabilities cover the reprocessing and storage of spent nuclear fuel and the long-term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements or the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Accruals are included within nuclear liabilities in the consolidated balance sheet, which are based on contractual arrangements and long-term cost forecasts, and which are reviewed regularly and adjusted where necessary.

(b) *Decommissioning of Nuclear Power Stations*
The consolidated financial statements include provision for the full cost of decommissioning the Group's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime.

The liabilities for back end fuel costs and decommissioning are stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated income statement include the revalorisation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

# Notes to the Financial Statements
## for the year ended 31 March 2008

**2. Accounting Policies (continued)**
**(xxi) Financial Instruments**
*Recognition, Classification and Subsequent Measurement of Financial Assets and Liabilities*
IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) requires that all financial assets and liabilities be initially recognised at fair value in the consolidated balance sheet with changes in fair value reported through the consolidated income statement, or the hedge reserve to the extent that effective cash flow hedges exist. Exceptions apply to assets classified as loans and receivables and held-to-maturity investments, which are measured at amortised cost using the effective interest method, and also to equity investments in instruments whose fair value can not be reliably measured, which are recognised and measured at cost. Financial liabilities are measured at fair value or at amortised cost using the effective interest method. The Group measures all debt instruments initially at fair value, and this is taken to be the fair value of the consideration received.

Where financial assets or financial liabilities are measured at amortised cost, transaction costs (any such costs incremental to and directly attributable to the issue of the financial instruments) are included in the calculation of the effective interest rate and are, in effect, amortised through the consolidated income statement over the life of the instrument. Where financial assets or financial liabilities are measured at fair value, transaction costs are recognised immediately in the consolidated income statement.

If there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of an invoice, an impairment loss on the respective trade receivable will be recognised. In such an instance, the carrying value of the receivable is reduced, with the amount of the loss recognised in the consolidated income statement. Impaired trade receivables are derecognised when they are assessed as irrecoverable.

Financial assets are derecognised when the contractual right to the cash flow from the asset expires. Financial liabilities are derecognised when the obligation specified in the contract is extinguished or expires.

*Accounting for Derivatives and Commodity Contracts*
The Group's activities expose it primarily to risks associated with electricity generation, the purchase of fuel for use in the generation process, the purchase of carbon allowances and the supply of electricity to end customers in both the wholesale and retail markets. The Group follows a trading strategy of selling forward a proportion of the Group's output to reduce the Group's exposure to potential falls in the market price of electricity. The use of derivative financial instruments occurs primarily within the Group's electricity trading and coal and carbon allowance procurement activities.

The Board has endorsed the use of derivative financial instruments as hedging tools and the Group uses derivative and non-derivative financial instruments to manage its exposures.

Physical and financially settled instruments are held by the Group to match offsetting physical positions and are not held for proprietary trading purposes.

Where commodity contracts, such as electricity and fuel, are entered into in accordance with the Group's own purchase, sale or usage requirements (own use) they are excluded from the scope of IAS 39 and are accounted for on an accruals basis. Amounts payable or receivable in respect of these contracts are recorded within trade payables and trade receivables respectively.

Where a commodity contract is not entered in to or does not continue to be held to meet the Group's own purchase, sale or usage requirements it is treated as a derivative financial instrument, and the recognition and measurement requirements of IAS 39 are applied. Derivative financial instruments are presented in the derivative financial instruments and commodity contracts line of the consolidated balance sheet.

Derivative financial instruments that are held for trading, as defined by IAS 39, are initially recognised at fair value and all changes in fair value are subsequently accounted for through the unrealised net gains or losses on derivative financial instruments and commodity contracts line of the consolidated income statement. Held for trading assets and liabilities are classified as current in the consolidated balance sheet.

Derivative financial instruments that are designated and are effective as hedges of future cash flows are initially recognised at fair value and changes in the fair value are recognised directly in equity, in the cash flow hedge reserve. The ineffective portion of the hedge is recognised immediately in the consolidated income statement. Hedging instruments are classified as current or non-current with reference to the period of delivery.

The Group designates derivatives as cash flow hedging instruments when it is expected that there will be a high inverse correlation between the changes in fair value of the hedging instrument and the changes in the fair value of the cash flows of the hedged item. This is measured primarily using the dollar offset method. Such correlation is required to be within the limits of 80% to 125% for hedge accounting to be permitted. Prospective and retrospective testing is carried out on a regular basis, at least on each reporting date, to establish whether the assumptions and application criteria for hedge accounting are supported. The Group discontinues hedge accounting where the hedging relationship correlation is outside the required parameters.

**2. Accounting Policies (continued)**

Derivative instruments are de-designated from a hedge relationship when:

- the hedging instrument or item expires or is settled;
- the forecast transaction is no longer considered to be highly probable; and
- the hedging instrument no longer qualifies for hedge accounting under IAS 39 rules.

Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity, in the cash flow hedge reserve, until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement of the period.

*Valuation of Commodity Contracts and Derivatives*

The Group's valuation policy for derivative and other financial instruments is to maximise the use of quoted prices from active trading markets. All contracts that fall within the scope of IAS 39 are valued using observable market prices. Certain long-term structured transactions have been classified as own use and therefore fall outside the scope of IAS 39. The Group considers that the UK electricity market is active for up to two years ahead, with reliable broker quotes and published prices available for this period.

Purchase contracts are valued against the quoted bid price and sales contracts are valued against the quoted offer prices, with no provisions made for liquidity. Valuation adjustments are made for the time value of money, which is applied to all contracts, and credit risk, which will be applied where applicable.

Principal values are undiscounted and are derived from the aggregate volumes and relevant contract prices of those sale and purchase contracts that are within the scope of IAS 39. The principal values provide an indication of the scope of the use of derivatives but do not reflect the risk the Group is exposed to from entering into derivatives.

*Embedded Derivatives*

The Group also evaluates contracts for embedded derivatives, and considers whether any embedded derivatives have to be separated from the underlying host contract and accounted for separately in accordance with IAS 39 requirements. Where embedded derivatives have terms that are not closely related to the terms of the host contract in which they are included, they are accounted for separately from the host contract as derivatives, with changes in the fair value recorded in the consolidated income statement on the unrealised net gains or losses on derivative financial instruments and commodity contracts line, to the extent that the hybrid instrument is not already accounted for at fair value.

If the fair value can not be determined reliably based on the terms and conditions of the embedded derivatives, the fair value of the embedded derivatives is calculated as the difference between the value of the hybrid instrument and the host contract (excluding the derivative element).

*Offsetting of Derivative Assets and Liabilities*

The Group offsets a financial asset and a financial liability and reports the net amount only when the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

*Impact on Effective Tax Rate*

Income tax for interim reporting periods is calculated by applying an estimate of the annual effective tax rate to the interim result excluding IAS 39 adjustments, and by calculating tax at the standard rate for the IAS 39 adjustments arising within the period.

**(xxii) Inventory – Stores**

Inventory held in stores is recorded at the lower of cost and net realisable value. Stores inventory is accounted for using the weighted average cost method.

**(xxiii) Restricted Cash and Other Financial Assets and Cash and Cash Equivalents**

Restricted cash primarily consists of cash pledged as collateral. Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges.

Cash and cash equivalents include cash on hand with banks and short-term deposits with a maturity of three months or less from the date of acquisition.

**(xxiv) Provisions**

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

# Notes to the Financial Statements
for the year ended 31 March 2008

**2. Accounting Policies (continued)**

**(xxv) Employee Benefits – Post Retirement Benefit Obligations**

The Group provides for pension costs in accordance with IAS 19 (2004) – Employee Benefits (IAS 19). Contributions to the Group's defined benefit pension schemes are assessed by qualified actuaries. The Group operates two separate pension arrangements in the UK within the Electricity Supply Pension Scheme, which is a defined benefit scheme. Pension scheme assets are measured using market values, which for securities is based on bid price values. Pension costs are assessed using the projected unit method so that the cost of providing pensions is charged to the consolidated income statement in a manner which spreads the service cost over the expected service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows, discounted using the yields on high quality corporate bonds of appropriate maturity. The expected return on the plan assets and the increase during the period in the present value of the defined benefit obligations arising from the passage of time are included in other finance expenses. Actuarial gains and losses are recognised immediately within the consolidated statement of recognised income and expense.

The capital cost of ex-gratia and supplementary pensions is charged to the consolidated income statement, to the extent that the arrangements can not be covered by any surplus in schemes, in the accounting period in which they are granted.

Certain additional unfunded retirement benefits are provided to eligible employees. The cost and actuarial gains and losses of providing such benefits is charged to the consolidated income statement and consolidated statement of recognised income and expense respectively.

**(xxvi) New Accounting Standards**

The following accounting standards have been adopted by the Group this year:

- IFRS 7 – Financial Instruments: Disclosures (IFRS 7)
- IAS 1 – Amendments to IAS 1 Presentation of Financial Statements (IAS 1)

The impact of the adoption of these standards has been to expand the disclosures provided in relation to financial instruments and the management of capital.

The following accounting interpretations have been adopted by the Group this year:

- IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (IFRIC 7)
- IFRIC 8 – Scope of IFRS 2 (IFRIC 8)
- IFRIC 9 – Reassessment of Embedded Derivatives (IFRIC 9)
- IFRIC 10 – Interim Financial Reporting and Impairment (IFRIC 10)

The application of these interpretations has had no impact on the Group's accounting policies.

The following accounting standards and interpretations which have not been applied in these financial statements have been issued but are not yet effective:

- IFRS 8 – Operating Segments (IFRS 8)
- IAS 23 (R) – IAS 23 (Revised) – Borrowing Costs (IAS 23 (R))
- IFRIC 11 – IFRS 2: Group and Treasury Share Transactions (IFRIC 11)
- IFRIC 12 – Service Concession Arrangements (IFRIC 12)
- IFRIC 13 – Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008) (IFRIC 13)
- IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14)

The adoption of these standards and interpretations is not expected to have a material impact on the Group's financial statements.

**3. Segmental Information**

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.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 4. Output and Revenue

The analysis of output that is unaudited is as follows:

| | Year ended 31 March 2008 TWh | Year ended 31 March 2007 TWh |
|---|---|---|
| **Output** | | |
| AGR nuclear power stations | **40.5** | 42.3 |
| PWR nuclear power station | **9.8** | 8.9 |
| Coal-fired power station – Eggborough | **8.1** | 7.2 |
| **Total output** | **58.4** | 58.4 |

An analysis of revenue is as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Revenue** | | |
| Wholesale generation sales | **1,307** | 1,328 |
| Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers | **1,070** | 1,252 |
| **Revenue from generated electricity** | **2,377** | 2,580 |
| Energy supply costs recharged to customers | **367** | 362 |
| Renewable energy purchases recharged to customers | **56** | 46 |
| Miscellaneous income | **11** | 11 |
| **Total revenue** | **2,811** | 2,999 |

All sales are made to external customers.

### 5. Operating and Energy Costs

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Fuel costs – nuclear | **300** | 278 |
| Fuel costs – Eggborough | **227** | 156 |
| Total fuel costs | **527** | 434 |
| Materials and services | **583** | 562 |
| Staff costs (see note 6) | **396** | 374 |
| **Operating costs of generated electricity** | **1,506** | 1,370 |
| Energy supply costs recharged to customers | **367** | 362 |
| Renewable energy purchases recharged to customers | **56** | 46 |
| **Total operating and energy costs** | **1,929** | 1,778 |

Operating and energy costs are stated after charging/(crediting):

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Research expenditure | **15** | 13 |
| Operating lease costs | **8** | 5 |
| Movement in provision for unburnt fuel at station closure | **(2)** | (21) |
| Movement in provision against stores inventory | **1** | 2 |
| Movement in provision for doubtful debts (see note 19) | **1** | 1 |
| Write down of carbon allowances (see note 18) | **58** | 41 |

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 5. Operating and Energy Costs (continued)
**Auditors' Remuneration**

It is the Group's policy to engage the external auditors, PricewaterhouseCoopers LLP, on assignments where their expertise and experience with the Group are important, or where they win work on a competitive basis. An analysis of auditors' remuneration and expenses which arose in the year ended 31 March 2008 is provided below:

| | Year ended 31 March 2008 £000 | Year ended 31 March 2007 £000 |
|---|---|---|
| **Audit fees payable for the Group's annual financial statements** | **622** | 680 |
| **Fees payable for other services:** | | |
| Audit of the Company's subsidiaries pursuant to legislation | **177** | 175 |
| Other services pursuant to legislation | **135** | 177 |
| Other services | **490** | 1,540 |
| Taxation services | **124** | 179 |
| | **926** | 2,071 |
| **Fees payable in respect of the Group's pension schemes:** | | |
| Audit | **40** | 35 |
| **Total auditors' remuneration and expenses** | **1,588** | 2,786 |

Included within fees payable for other services in the year ended 31 March 2007 was £1,253,000 of costs that were recharged to a third party.

PricewaterhouseCoopers LLP acted as auditors to the Group's pension schemes. The appointment of auditors to the Group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the Group. These audit fees are borne by the Group.

### 6. Employee Information
**(i) Staff costs**

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Salaries | **295** | 271 |
| Social security costs | **32** | 29 |
| Pension costs (see note 27) | **70** | 68 |
| Amounts capitalised | **(7)** | (5) |
| Share-based payments (see note 33) | **6** | 2 |
| Severance costs | **–** | 9 |
| **Total staff costs** | **396** | 374 |

Amounts capitalised are transferred to property, plant and equipment and recorded within the additions line of note 16.

For the year ended 31 March 2007 severance costs of £9m were included in staff costs, which included £5m of pension past service costs.

**(ii) Employee numbers**

Average number of employees by category during the year were:

| | 2008 Number | 2007 Number |
|---|---|---|
| Power stations: | | |
| Nuclear | **4,263** | 4,148 |
| Eggborough | **280** | 275 |
| Engineering, technical and corporate support | **1,578** | 1,516 |
| **Average number of employees** | **6,121** | 5,939 |

# Notes to the Financial Statements
for the year ended 31 March 2008

### 7. Key Management Compensation
The remuneration of key management personnel during the year was as follows:

| | Year ended 31 March 2008 £000 | Year ended 31 March 2007 £000 |
|---|---|---|
| Salaries and other short-term employee benefits | **5,941** | 3,403 |
| Termination benefits | **–** | 1,489 |
| Post employment benefits | **214** | 182 |
| Share-based payments | **13** | 91 |
| **Total of key management compensation** | **6,168** | 5,165 |

Key management personnel comprises Executive and Non-Executive members of the Board of Directors together with those members of senior management who report directly to the Chief Executive. On 17 November 2006 a senior management reorganisation took place which increased the number of individuals defined as key management. As a result of this change, the 2007 definition of key management was amended and the table above only includes their emoluments since this date.

Emoluments of key management personnel are borne by the following subsidiary companies: British Energy Limited, British Energy Power and Energy Trading Limited and British Energy Generation Limited. The amounts received by the Non-Executive Directors in respect of their services as Non-Executive Directors were £803,000 (2007: £758,000).

Full details of the remuneration and share interests of the Board of Directors for the year ended 31 March 2008 and 2007 are set out in the Remuneration Committee Report on pages 42 to 48.

### 8. Cash Sweep Payment Credit
As part of the Contribution Agreement made at the time of Restructuring, the Group has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund should certain criteria be met. Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. The Group obtained agreement from the NLF and the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion, which took place in the year, so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of British Energy Group plc's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for this year; the remaining £171m obligation was paid in July 2007.

### 9. Cash Sweep Payment Accrual
Under the terms of the Restructuring, the Group has an obligation to make payments to the NLF should certain criteria be met. The basis of the Cash Sweep Payment accrual, which remains subject to review by the NLF, is as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| (Decrease)/increase in cash (as per the consolidated statement of cash flows) | **(73)** | 463 |
| Increase/(decrease) in restricted cash | **178** | (111) |
| Increase in restricted cash excluded from Cash Sweep Payment accrual | **(1)** | (1) |
| Increase/(decrease) in restricted cash for Agreed Collateral Purposes | **177** | (112) |
| Other | **1** | – |
| Increase in available cash | **105** | 351 |
| Cash Sweep Payments to the NLF | **171** | 105 |
| Administration payment to the NLF | **1** | – |
| Transfer (to)/from Forecast Expenditure Reserve | **(55)** | 22 |
| Equity dividends paid | **140** | – |
| Amounts received from issue or sale of ordinary shares | **(7)** | (6) |
| Cash required to be (retained)/released to meet Target Amount | **(67)** | 1 |
| Adjusted net cash flow | **288** | 473 |
| Weighted average payment percentage | **35.4%** | 64.4% |
| **Cash Sweep Payment accrual** | **102** | 305 |

# Notes to the Financial Statements
## for the year ended 31 March 2008

**9. Cash Sweep Payment Accrual (continued)**
An accrual for the Cash Sweep Payment of £102m (2007: £305m) is included in trade and other payables within current liabilities (see note 24). In July 2007 a reduced Cash Sweep Payment of £171m for the year ended 31 March 2007 was paid (see note 8).

**Target Amount and Cash Required to be Retained to Meet Target Amount**
The Target Amount is £490m plus the Incremental Collateral Amount, which is the amount by which cash applied to providing collateral for the generation, sale and purchase by the Group of electricity (i.e. for Agreed Collateral Purposes) exceeds £200m. Any increase or decrease in the Incremental Collateral Amount shall automatically increase or decrease the Target Amount by the same amount. The restricted cash for Agreed Collateral Purposes at 31 March 2008 is £267m (2007: £90m), therefore the Target Amount and cash required to be retained to meet the Target Amount at the balance sheet dates are as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Cash required to be retained to meet Target Amount in prior years | **490** | 491 |
| Base Target Amount | **(490)** | (490) |
| Incremental collateral in excess of £200m (see above) | **(67)** | – |
| **Target Amount at 31 March** | **(557)** | (490) |
| **Cash required to be (retained)/released to meet Target Amount** | **(67)** | 1 |

**Payments to NLF**
Payments to NLF represent the aggregate of any payments made by or on behalf of the Group to the NLF during the year, excluding fixed decommissioning payments of £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED) and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into Sizewell B reactor after RED.

**Forecast Expenditure Reserve**
The Group has increased the Forecast Expenditure Reserve by £55m (2007: £22m reduction) to £210m (2007: £155m). The Forecast Expenditure Reserve will be used to meet capital expenditure commitments and non-recurring maintenance and repair of a capital nature which is payable in the following financial year, as well as to fund capital expenditure, as defined in the underlying agreements.

**Weighted Average Payment Percentage**
The weighted average payment percentage has decreased from 64.4% at 31 March 2007 to 35.4% at 31 March 2008 principally as a result of the NLF's partial conversion into equity of its Cash Sweep Payment right in June 2007. The remainder of the decrease relates to the exercise of 6,955,809 British Energy Group plc's Warrants and the Cash Sweep Payment, offset by the impact of the dividend payment made during the year. At 31 March 2008 there were 6,764,057 unexercised Warrants remaining.

**Payment Percentage**
The NLF Cash Sweep percentage is 35.1% at 31 March 2008 (2007: 64.0%).

**10. Financing Charges/(Credits)**

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Interest payable:** | | |
| Interest payable on bonds | **40** | 44 |
| Other interest and finance charges payable | **37** | 17 |
| **Total interest payable** | **77** | 61 |

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Interest receivable:** | | |
| Interest receivable | **(89)** | (53) |
| **Total interest receivable** | **(89)** | (53) |

### 10. Financing Charges/(Credits) (continued)

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Other finance (income)/expenses:** | | |
| Revalorisation of nuclear liabilities (see note 25) | 248 | 413 |
| Revalorisation of nuclear liabilities receivable | (150) | (175) |
| Revalorisation of NLF receivable | (98) | (238) |
| Revalorisation of contracts provision (see note 26) | 2 | 6 |
| Revalorisation of NLF liabilities (see note 28) | 15 | 17 |
| **Net revalorisation charges** | 17 | 23 |
| Expected return on plan assets in the pension schemes (see note 27) | (182) | (164) |
| Interest on defined benefit obligations (see note 27) | 146 | 131 |
| **Net credit to finance charges for retirement benefit obligations** | (36) | (33) |
| **Net other finance income** | (19) | (10) |

### 11. Taxation

#### (i) Analysis of Tax Charge for the Year

*Tax Charged to the Consolidated Income Statement*

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Current tax:** | | |
| UK Corporation tax | | |
| Current year | 176 | 59 |
| Prior year | 29 | – |
| | 205 | 59 |
| **Deferred tax:** | | |
| Temporary differences | | |
| Current year | 21 | 273 |
| Prior year | (23) | (1) |
| | (2) | 272 |
| **Tax charged to the consolidated income statement** | 203 | 331 |

*Tax on Items Taken Directly to Equity*

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Deferred tax:** | | |
| Net actuarial (losses)/gains on retirement benefit obligations | (60) | 21 |
| (Losses)/gains on hedged items | (30) | 14 |
| **Tax on items taken directly to equity** | (90) | 35 |

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 11. Taxation (continued)

**(ii) Reconciliation of the Total Tax Charge**

The tax expense in the consolidated income statement for the year is higher (2007: higher) than the standard rate of corporation tax in the UK of 30% (2007: 30%). The differences are reconciled below:

| | **Year ended 31 March 2008 £m** | Year ended 31 March 2007 £m |
|---|---|---|
| Profit before taxation | **538** | 796 |
| Tax on profit at the UK standard rate of corporation tax of 30% (2007: 30%) | **161** | 239 |
| Non tax-deductible Cash Sweep Payment accrual net of Cash Sweep Payment credit and conversion asset amortisation | **41** | 92 |
| Effect on deferred tax of substantively enacted future changes in tax rates | **(4)** | – |
| Other non tax-deductible or non-taxable items | **(1)** | 1 |
| Adjustment to deferred tax for prior years | **(23)** | (1) |
| Adjustment to current tax for prior years | **29** | – |
| **Taxation charged to the consolidated income statement** | **203** | 331 |

**(iii) Deferred Income Tax Liability**

An analysis of the movements in deferred tax assets and liabilities is shown below. Deferred tax assets and liabilities have been offset as they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

| | Accelerated capital allowances £m | Tax losses £m | Advance corporation tax £m | Decom-missioning £m | Retirement benefit obligations £m | Contracts provision £m | Derivative financial instruments and commodity contracts £m | Other timing differences £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 March 2006** | (316) | 261 | 77 | 102 | 64 | 46 | 8 | 2 | 244 |
| Prior year credit/(charge) to consolidated income statement | 19 | (45) | – | 22 | – | – | – | 5 | 1 |
| **Adjusted balance as at 1 April 2006** | (297) | 216 | 77 | 124 | 64 | 46 | 8 | 7 | 245 |
| (Charge)/credit to consolidated income statement | (1) | (215) | – | – | (24) | (31) | 1 | (3) | (273) |
| Recognised in the statement of recognised income and expense (see note 31) | – | – | – | – | (21) | – | (14) | – | (35) |
| **As at 31 March 2007** | (298) | 1 | 77 | 124 | 19 | 15 | (5) | 4 | (63) |
| Prior year credit to consolidated income statement | 5 | 18 | – | – | – | – | – | – | 23 |
| **Adjusted balance as at 1 April 2007** | (293) | 19 | 77 | 124 | 19 | 15 | (5) | 4 | (40) |
| Credit/(charge) to consolidated income statement | 9 | (19) | – | 2 | (14) | (3) | 1 | (1) | (25) |
| Effect of substantively enacted future changes in tax rates | 19 | – | – | (9) | (5) | – | (1) | – | 4 |
| Recognised in the statement of recognised income and expense (see note 31) | – | – | – | – | 60 | – | 30 | – | 90 |
| Transfer to current tax | – | – | (74) | – | – | – | – | – | (74) |
| **As at 31 March 2008** | **(265)** | **–** | **3** | **117** | **60** | **12** | **25** | **3** | **(45)** |

**11. Taxation (continued)**

Within the £45m net deferred tax liability (2007: £63m) there are deferred tax assets of £220m (2007: £240m) and deferred tax liabilities of £265m (2007: £303m). £5m (2007: £78m) of deferred tax asset is expected to be recovered within the next 12 months and £43m (2007: £12m) of deferred tax liability is expected to be settled within the next 12 months. At 31 March 2008, the Group has not recognised a deferred tax asset relating to tax losses of approximately £45m (2007: £32m) as the timing of utilisation of these losses is currently uncertain.

**(iv) Current Tax Liability**

| | 2008 £m | 2007 £m |
|---|---|---|
| **As at 1 April** | **10** | – |
| Current year tax charge | **176** | 59 |
| Prior year tax charge | **29** | – |
| Payments made during the year | **(118)** | (49) |
| Utilisation of advance corporation tax | **(74)** | – |
| **As at 31 March** | **23** | 10 |

**12. Unrealised Net Losses on Derivative Financial Instruments and Commodity Contracts**

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| **Unrealised net losses on derivative financial instruments and commodity contracts** | **3** | 2 |

The unrealised net losses on derivative financial instruments and commodity contracts of £3m (2007: £2m) represent the net movements in the fair value of held for trading derivative financial instruments and commodity contracts in the year. Further details of the Group's derivative financial instruments and commodity contracts are set out in note 22.

**13. Dividends Paid, Declared and Proposed**

| | Year ended 31 March 2008 pence per share | Year ended 31 March 2007 pence per share | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|---|---|
| **Paid:** | | | | |
| 2007 Base dividend, paid as a final dividend | **13.6** | – | **140** | – |
| **Declared:** | | | | |
| 2007 Additional dividend, paid as an interim dividend | **14.5** | – | **150** | – |
| **Proposed:** | | | | |
| 2008 Base dividend, payable as a final dividend | **13.6** | 13.6 | **141** | 140 |

The additional dividend declared was paid on 3 April 2008 and is therefore not recognised as a distribution in these consolidated financial statements as it was not paid until after the balance sheet date.

The proposed base dividend is subject to approval by members at the Annual General Meeting on 17 July 2008. If approved, the dividend will be payable to shareholders on British Energy Group plc's shareholder register at close of business on 27 June 2008 and will be paid on 31 July 2008.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 14. Earnings Per Share

| | Year ended 31 March 2008 | Year ended 31 March 2007 |
|---|---|---|
| **Basic earnings per share** | | |
| Net profit for the year attributable to shareholders (£m) | **335** | 465 |
| Weighted average share capital (number of shares) | **946,439,433** | 570,769,647 |
| **Earnings per share (pence)** | **35.4** | 81.5 |
| **Diluted earnings per share** | | |
| Net profit for the year attributable to shareholders (£m) | **335** | 465 |
| Diluted weighted average share capital (number of shares) | **951,958,947** | 582,148,528 |
| **Diluted earnings per share (pence)** | **35.2** | 79.9 |
| **Adjusted earnings per share** | | |
| Net profit for the year attributable to shareholders (£m) | **335** | 465 |
| Adjustment in respect of Cash Sweep Payment credit (£m) | **(134)** | – |
| Adjustment in respect of Cash Sweep Payment accrual (£m) | **102** | 305 |
| Adjustment in respect of conversion asset amortisation (£m) | **167** | – |
| Adjusted net profit for the year attributable to shareholders (£m) | **470** | 770 |
| Basic weighted average share capital (number of shares) | **946,439,433** | 570,769,647 |
| Adjustment to weighted average share capital for timing of partial conversion share issue (number of shares) | **81,147,538** | – |
| Maximum Cash Sweep conversion at balance sheet date (number of shares) | **559,718,765** | 1,027,081,460 |
| Adjusted weighted average share capital (number of shares) | **1,587,305,736** | 1,597,851,107 |
| **Adjusted earnings per share (pence)** | **29.6** | 48.2 |

**Basic Earnings Per Share**
The basic earnings per share for the year has been calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

**Diluted Earnings Per Share**
The diluted earnings per share calculation is based on the weighted average of 946,439,433 (2007: 570,769,647) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 5,519,514 (2007: 11,378,881) in respect of Warrants.

**Adjusted Earnings Per Share**
The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment accrual of £102m (2007: £305m) and the net profit for the year attributable to shareholders of £335m (2007: £465m) 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 accrual is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves (see note 9).

The adjusted earnings per share has been calculated by excluding the following from the net profit for the year attributable to shareholders:

- the Cash Sweep Payment credit relating to the year ended 31 March 2007;
- the Cash Sweep Payment accrual for the year; and
- the amortisation of the conversion asset for the year.

The weighted average share capital is adjusted by the number of shares that would have been in issue if:

- the NLF had fully converted their remaining interest at the balance sheet date; and
- the partial conversion had taken place at the start of the year, rather than during the year.

## 15. Conversion Asset

| | 2008 £m | 2007 £m |
|---|---|---|
| **Non-current assets** | | |
| Conversion asset | **1,993** | – |
| **Current assets** | | |
| Conversion asset | **180** | – |
| **Total conversion asset** | **2,173** | – |

The following table illustrates the movement in the conversion asset for the year ended 31 March 2008.

| | Total £m |
|---|---|
| **Cost arising on conversion** | |
| Arising on partial NLF conversion | 2,340 |
| **As at 31 March 2008** | **2,340** |
| **Accumulated amortisation** | |
| Charge for the year | 167 |
| **As at 31 March 2008** | **167** |
| **Carrying amount** | |
| **As at 31 March 2008** | **2,173** |

On 30 May 2007 the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy Group plc. On 1 June 2007 British Energy Group plc received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over allotment option of a further 50 million shares in the Company. As a result on 6 June 2007 British Energy Group plc issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue the Cash Sweep Payment percentage was reduced to approximately 36% and resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the exercise of the conversion right.

The conversion asset is amortised over the estimated useful accounting lives of the Group's nuclear power stations. The amortisation of the conversion asset is recognised in the amortisation of conversion asset line in the consolidated income statement.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 16. Property, Plant and Equipment

| | Power stations £m | Other land and buildings £m | Other plant and equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 31 March 2006 | 1,676 | 39 | 196 | 1,911 |
| Additions | 83 | – | 141 | 224 |
| Disposals | (1) | – | (42) | (43) |
| **As at 31 March 2007** | 1,758 | 39 | 295 | 2,092 |
| Additions | 81 | – | 116 | 197 |
| Disposals | (1) | (4) | (26) | (31) |
| **As at 31 March 2008** | **1,838** | **35** | **385** | **2,258** |
| **Accumulated depreciation** | | | | |
| As at 31 March 2006 | 151 | – | 67 | 218 |
| Charge for the year | 132 | – | 75 | 207 |
| Disposals | (1) | – | (42) | (43) |
| **As at 31 March 2007** | 282 | – | 100 | 382 |
| Charge for the year | 135 | – | 103 | 238 |
| Disposals | (1) | – | (26) | (27) |
| **As at 31 March 2008** | **416** | **–** | **177** | **593** |
| **Carrying amount** | | | | |
| **As at 31 March 2008** | **1,422** | **35** | **208** | **1,665** |
| As at 31 March 2007 | 1,476 | 39 | 195 | 1,710 |

Property, plant and equipment with a carrying amount of £237m (2007: £260m) is subject to security restrictions (see note 23).

Included in property, plant and equipment is £18m (2007: £11m) of capital work in progress which is not depreciated.

### 17. NLF and Nuclear Liabilities Receivables

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Non-current assets** | | |
| NLF receivable | **3,344** | 3,246 |
| Nuclear liabilities receivable | **1,966** | 2,028 |
| | **5,310** | 5,274 |
| **Current assets** | | |
| Nuclear liabilities receivable | **202** | 195 |
| **Total NLF and nuclear liabilities receivables** | **5,512** | 5,469 |

The NLF receivable asset represents amounts that will be reimbursed by the NLF equal to the qualifying nuclear liabilities recognised at the balance sheet date. The balance recognised at 31 March 2008 is receivable after more than one year and is restricted in its use. This matches the uncontracted nuclear liabilities and decommissioning costs (see note 25), included in non-current liabilities.

The nuclear liabilities receivable represents amounts due under the historic BNFL contracts which will be reimbursed by the Government. This matches the contracted nuclear liabilities included in current and non-current liabilities (see note 25).

### 18. Goodwill and Intangible Assets

| | Goodwill £m | Software £m | ROCs and LECs £m | Carbon allowances £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 31 March 2006 | 345 | 29 | 27 | 34 | 435 |
| Additions | – | 11 | 40 | 44 | 95 |
| Disposals | – | – | (30) | (34) | (64) |
| **As at 31 March 2007** | 345 | 40 | 37 | 44 | 466 |
| Additions | – | 10 | 69 | 58 | 137 |
| Disposals | – | – | (44) | (102) | (146) |
| **As at 31 March 2008** | **345** | **50** | **62** | **–** | **457** |
| **Accumulated amortisation and other charges** | | | | | |
| As at 31 March 2006 | 23 | 6 | – | – | 29 |
| Charge for the year | – | 6 | – | – | 6 |
| Write down | – | – | – | 41 | 41 |
| **As at 31 March 2007** | 23 | 12 | – | 41 | 76 |
| Charge for the year | – | 9 | – | – | 9 |
| Write down | – | – | – | 58 | 58 |
| Disposals | – | – | – | (99) | (99) |
| **As at 31 March 2008** | **23** | **21** | **–** | **–** | **44** |
| **Carrying amount** | | | | | |
| **As at 31 March 2008** | **322** | **29** | **62** | **–** | **413** |
| As at 31 March 2007 | 322 | 28 | 37 | 3 | 390 |

**Goodwill**

Goodwill of £345m arose on the completion of the acquisition at RED. Under the requirements of IFRS 3 – Business Combinations (IFRS 3), during the year ended 31 March 2006 £23m was charged to the consolidated income statement to reduce goodwill in relation to recognition of a deferred tax asset at 31 March 2006, which at RED did not satisfy the recognition criteria within IFRS 3 due to uncertainty of recoverability. Additionally during that year £23m was credited within the tax charge in the consolidated income statement to reflect the recognition of the deferred tax asset.

For impairment testing purposes goodwill has been fully allocated to one cash generating unit being the total of the Group's operating and generating assets. There were no intangible assets with indefinite useful lives allocated to the cash generating unit.

The recoverable amount of the cash generating unit at 31 March 2008 was determined using estimated fair value less costs to sell. The calculation of fair value less costs to sell was based on a discounted cash flow valuation over the lives of the power stations, using available market information to reflect the amount that the Group estimates that it could have obtained, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

The calculation of fair value less costs to sell for the cash generating unit is most sensitive to the following key assumptions:

- electricity prices;
- projected output;
- fuel costs;
- other operating costs and investment;
- Cash Sweep Payment obligation; and
- value attributable to potential nuclear new build development.

The Group's approach in determining the key assumptions was as follows:

Electricity prices were based on contracted and projected commodity prices for electricity. Projected market prices for electricity were based on an external market view of projected long-term electricity prices.

Projected output was based on expected levels of output over the expected operating lives of the power stations using the Group's own engineering projections which considered historical performance, plant degradation, plant maintenance activity and investment, and allow for scheduled timings of outages and refuelling. Where possible these assumptions were validated externally.

# Notes to the Financial Statements
## for the year ended 31 March 2008

**18. Goodwill and Intangible Assets (continued)**
Fuel costs were based on contracted and projected commodity prices, for coal and nuclear fuel, and using the Group's own engineering projections for consumption having considered historical consumption data and projected plant performance.

Other operating costs and investment was estimated using the Group's own engineering projections, where relevant, and having considered historical performance, plant degradation, plant maintenance activity and investment. The estimates of other operating costs and investment used in the discounted cash flow projection were consistent with those used in the Group's three year business plan. In subsequent periods the growth rate applied to other operating costs was based on the RPI and fully reflects the expected operating lives of the power stations.

The impairment calculations made allowance for projected levels of Cash Sweep Payment. The projection used the Cash Sweep percentage as at 31 March 2008 as a starting point, with adjustments in subsequent years to allow for retentions of undistributed cash following payment of dividends in line with the Group's dividend policy as set out on pages 25 and 26 in the Financial Review. A pre-tax discount rate of 17% (2007: 23%) was used (equivalent to a post-tax discount rate of 9% (2007: 9%)).

The Group's value attributable to potential nuclear new build development has been assessed by the Directors.

With regard to the assessment of value of the cash generating unit, the Group is of the opinion that, based on current knowledge, reasonably possible changes in any of the above key assumptions would not cause the carrying value to exceed the recoverable amount.

**Software**
Software is amortised over its estimated operational life for a maximum of five years. The amortisation of software is recognised in the other amortisation line of the consolidated income statement.

**ROCs and LECs**
ROCs and LECs have a sustainable value and can be used in settlement of an obligation over an undefined period and therefore, on this basis, ROCs and LECs are not amortised. Included within additions of £69m in the year (2007: £40m) are ROCs and LECs with a value of £9m (2007: £8m) which were produced internally.

**Carbon Allowances**
Carbon allowances are not amortised because they are held to settle the Group's EU ETS obligation and therefore have a sustainable value. During the year the Group took delivery of Phase I carbon allowances, which had been purchased under forward contracts. In line with the Group's accounting policy, these carbon allowances were recognised within intangible assets at cost. Subsequently, a write down of £58m (2007: £41m) was charged to the consolidated income statement to reflect a reduction in market prices of Phase I carbon allowances. During the year these allowances were used to settle the Group's 2007 EU ETS obligation, therefore the write down has had no impact on the carrying value of carbon allowances at 31 March 2008.

**19. Trade and Other Receivables**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Non-current assets** | | |
| Trade receivables: | | |
| Wholesale customers | 292 | 168 |
| Other receivables | 25 | – |
| | 317 | 168 |
| **Current assets** | | |
| Trade receivables: | | |
| Wholesale customers | 178 | 184 |
| Retail customers | 199 | 222 |
| Other receivables | 36 | 44 |
| Prepayments | 38 | 28 |
| | 451 | 478 |
| **Total trade and other receivables** | 768 | 646 |

Non-current trade receivables of £292m (2007: £168m) relate to cash receipts from an interest bearing capped collateral power sales contract, which will be received in the period up to 2011. There is also £28m in relation to this contract included within current wholesale trade receivables.

Non-current other receivables of £25m (2007: £nil) relate to financial security for transmission connection and construction agreements at four potential nuclear new build sites.

**19. Trade and Other Receivables (continued)**
Trade receivables are stated net of provisions for doubtful debts of £7m at 31 March 2008 (2007: £8m) that relate only to retail customer trade receivables. Movements in the provision for doubtful debts of trade receivables were as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| As at 1 April | 8 | 9 |
| Charge for the year | 4 | 4 |
| Amounts written off | (2) | (2) |
| Unused amounts released | (3) | (3) |
| **As at 31 March** | 7 | 8 |

Trade receivables are analysed in the table below. Of the trade receivables held with wholesale counterparties, 98% (2007: 96%) are of an investment grade quality of at least A– rated. Over 70% (2007: over 75%) of the amounts receivable from large industrial and commercial retail customers are insured. With respect to the trade receivables that are neither past due nor impaired, there are no indications as at the reporting date that they will not meet their payment obligations.

| | 2008 £m | 2007 £m |
|---|---|---|
| **Analysis of trade receivables** | | |
| Retail and wholesale trade receivables neither impaired nor past due | 653 | 553 |
| Retail trade receivables past due but not impaired: | | |
| Within 29 days | 11 | 13 |
| 30 to 59 days | 2 | 3 |
| 60 to 179 days | 2 | – |
| Over 180 days | 1 | 5 |
| **Total trade receivables** | 669 | 574 |

The Group does not typically renegotiate the terms of trade receivables. However, if a negotiation does take place, the outstanding balance is included in the analysis based on the original payment terms. There were no significant renegotiated balances outstanding at 31 March 2008 or 31 March 2007.

**20. Inventories**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current assets** | | |
| Unburnt nuclear fuel in reactors | 993 | 1,032 |
| Provision for unburnt fuel at station closure | (799) | (801) |
| Net unburnt nuclear fuel in reactors | 194 | 231 |
| Other nuclear fuel and uranium | 157 | 83 |
| Coal | 41 | 39 |
| Stores | 56 | 46 |
| **Total inventories** | 448 | 399 |

**21. Restricted Cash and Other Financial Assets and Cash and Cash Equivalents**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current assets** | | |
| Cash used for collateral | 267 | 90 |
| Other financial assets | 13 | 51 |
| Other restricted cash | 6 | 5 |
| Total restricted cash and other financial assets | 286 | 146 |
| Cash and cash equivalents | 1,028 | 1,101 |
| **Total restricted cash and other financial assets and cash and cash equivalents** | 1,314 | 1,247 |

At 31 March 2008 restricted cash and other financial assets and cash and cash equivalents amounted to £1,314m (2007: £1,247m) with maturity dates due within one year.

At 31 March 2008 £267m (2007: £90m) was invested in various currencies to support collateral arrangements. During the year ended 31 March 2008 these funds earned a weighted average interest rate of 4.88% (2007: 3.72%). Availability of cash invested to support collateral arrangements is restricted over the periods of the relevant collateralised positions.

# Notes to the Financial Statements
## for the year ended 31 March 2008

**21. Restricted Cash and Other Financial Assets and Cash and Cash Equivalents (continued)**
Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges. These funds are non-interest bearing and availability of the cash pledged is restricted pending settlement of the related forward instrument.

Cash not immediately required for business purposes is invested in line with the Group's treasury policy. At 31 March 2008 all cash investments not used to support collateral arrangements were due to mature within three months. The investments made during the year ended 31 March 2008 have a weighted average interest rate of 5.84% (2007: 4.92%).

As at 31 March 2008 and 2007, all cash and cash equivalent deposits are with counterparties with investment grades of at least AAA for money market funds, or a short-term rating of A1, P1 or F1 for all other deposits, as per the Group's treasury management policy.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank of £1,028m (2007: £1,101m).

**22. Financial Instruments and Derivatives**
**Overview**
The Group's principal financial instruments include derivative commodity contracts for the sale and purchase of electricity, purchase of coal and carbon allowances, interest bearing debt, loans, investments in short-dated commercial paper, cash held in collateral accounts, cash and short-term deposits.

The main financial risks faced by the Group are trading risks in respect of the sale of electricity. Electricity trading risks include exposure to electricity price fluctuations, balancing of output volume with contractual commitments, commodity (coal, carbon allowances and uranics) price risk and counterparty credit risk. These are managed by the Group's Trading and Sales division which operates within policies and procedures that are approved and monitored by the Board. The Trading and Sales division is not permitted to take speculative open positions.

Non-trading financial risks, including liquidity, interest rate and foreign exchange risks are managed by the Group's central treasury department which also operates within policies and procedures that are approved and monitored by the Board. The treasury department is not permitted to take speculative open positions.

The foregoing discussion and the Financial Risk Management section of the Financial Review summarises how the Group manages its exposures to risks in respect of electricity prices, output balancing, commodity prices, counterparty credit risk, liquidity, interest rates and foreign exchange rates. Full details of the Group's risks and the strategy for managing those exposures are set out in the Financial Review on pages 14 to 27. The Group also has an exposure to risks associated with fluctuations in the debt and equity markets through the pension schemes; further details of the pension schemes are provided in note 27.

**Fair Values**
Set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities.

| | **Book value 2008 £m** | **Fair value 2008 £m** | Book value 2007 £m | Fair value 2007 £m |
|---|---|---|---|---|
| **Derivative financial instruments and commodity contracts** | | | | |
| **Financial assets** | | | | |
| Held for trading | **53** | **53** | 82 | 82 |
| Hedging relationships | **–** | **–** | 23 | 23 |
| | **53** | **53** | 105 | 105 |
| **Financial liabilities** | | | | |
| Held for trading | **(43)** | **(43)** | (69) | (69) |
| Hedging relationships | **(99)** | **(99)** | (20) | (20) |
| | **(142)** | **(142)** | (89) | (89) |
| **Total derivative financial instruments and commodity contracts** | **(89)** | **(89)** | 16 | 16 |

At 31 March 2008 and 2007 all derivative financial instruments and commodity contracts financial assets were included in current assets in the consolidated balance sheet. At 31 March 2008, £142m (2007: £74m) of the derivative financial instruments and commodity contracts financial liabilities were classified as current liabilities with none classified as non-current liabilities (2007: £15m) in the consolidated balance sheet.

Of the derivative financial instruments and commodity contracts resting with a counterparty, 81% (2007: 95%) are of an investment grade quality of at least A– rated. The decrease in the percentage from the prior year is due to the increase in the volume of open contracts for the purchase of green energy, the majority of which rest with unrated counterparties.

**22. Financial Instruments and Derivatives (continued)**
At 31 March 2008 and 2007 the maximum exposure to credit risk is the fair value of the derivative financial instruments and commodity contract assets above.

Other financial assets and liabilities comprise the following:

| | Book value 2008 £m | Fair value 2008 £m | Book value 2007 £m | Fair value 2007 £m |
|---|---|---|---|---|
| **Other financial assets and liabilities** | | | | |
| **Financial assets** | | | | |
| NLF and nuclear liabilities receivables | **5,512** | **5,512** | 5,469 | 5,469 |
| Trade receivables | **669** | **669** | 574 | 574 |
| Other receivables | **25** | **25** | – | – |
| Restricted cash and other financial assets | **286** | **286** | 146 | 146 |
| Cash and cash equivalents | **1,028** | **1,028** | 1,101 | 1,101 |
| | **7,520** | **7,520** | 7,290 | 7,290 |
| **Financial liabilities** | | | | |
| Borrowings | **(516)** | **(525)** | (573) | (578) |
| Trade payables | **(256)** | **(256)** | (200) | (200) |
| Accruals | **(337)** | **(337)** | (472) | (472) |
| Back end fuel costs contracted | **(2,168)** | **(2,168)** | (2,223) | (2,223) |
| Provisions for other liabilities and charges | **(12)** | **(12)** | (16) | (16) |
| NLF liabilities | **(208)** | **(208)** | (216) | (216) |
| | **(3,497)** | **(3,506)** | (3,700) | (3,705) |
| **Total other financial assets and liabilities** | **4,023** | **4,014** | 3,590 | 3,585 |

At 31 March 2008 and 2007 the maximum exposure to credit risk is the fair value of the other financial assets above.

Details of the categories of financial assets and liabilities are set out below.

**Derivative Financial Instruments and Commodity Contracts**
All contracts for the sale of electricity through British Energy Direct, most long-term structured sales contracts and all coal procurement contracts are categorised as being held for the Group's own purchase, sale or usage requirements and are therefore accounted for on an accruals basis because they are outside the scope of IAS 39.

GTMA and ISDA contracts are within the scope of IAS 39 as the Group follows the industry practice of net settling these contracts. As a result, all changes in fair value impact the consolidated income statement for those contracts which do not qualify for cash flow hedge accounting. The movements in fair value in the year are presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement.

Cash flow hedge accounting has been utilised wherever possible to ensure that earnings continue to be recognised in line with the Group's operational strategies by reflecting the earnings effects of derivative instruments in the same period as the hedged item affects earnings. The variability of cash flows arising from a highly probable forecast sale of electricity under an existing variable priced own use sales contract has been designated as a hedged item for cash flow hedge accounting purposes. Fair value changes of those GTMA and ISDA contracts which meet the requirements for cash flow hedge accounting are deferred in equity, within the hedge reserve, until settlement of the hedging instrument or hedged item.

Options contracts are recognised at fair value, with movements in fair value being presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement.

Exposures have been expressed as net positions by counterparty wherever there is the intention and ability to legally set off assets and liabilities.

*(i) Held for Trading*
The Group classifies as 'held for trading' short-term contracts, contracts which are not designated as cash flow hedges and contracts which have been de-designated from hedging relationships. Typically the term of these contracts does not exceed 12 months with prices fixed at inception.

The fair value of derivative financial instruments and commodity contracts asset and liability positions are valued, where possible, using quoted market prices. More details on the method for determining fair value is set out in note 2 (xxi). The fair value of held for trading instruments equals the book value at 31 March 2008 and 31 March 2007.

# Notes to the Financial Statements
## for the year ended 31 March 2008

**22. Financial Instruments and Derivatives (continued)**
At 31 March 2008 the Group had held for trading assets of £53m (2007: £82m) and liabilities of £43m (2007: £69m). The movement in the fair value in the year is presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement and totals a loss of £3m (2007: £2m) before tax.

The principal value of held for trading derivative financial instruments and commodity contracts at 31 March 2008 was £969m (2007: £903m). The £969m falls due within one year whilst at 31 March 2007 of the £903m, £856m fell due within one year and £47m fell due after more than one year but not more than three years. Included within the principal value of £969m (2007: £903m) is £792m (2007: £531m) relating to contracts where there will be a contractual outflow of cash from purchase contracts, all falling due within one year. As at 31 March 2007 of the £531m, £495m fell due within one year and £36m fell due after more than one year but not more than three years.

*(ii) Hedging Relationships*
As at 31 March 2008 and 31 March 2007, cash flow hedges were in place up to 31 March 2009 with the uncertain cash flow values on certain variable priced sales contracts being hedged by fixed price GTMA and ISDA transactions. The fair value of hedging instruments equals the book value at 31 March 2008 and at 31 March 2007. At 31 March 2008 the Group had cash flow hedging instrument liabilities of £99m (2007: £20m) and no cash flow hedging instrument assets (2007: £23m). The movement in hedging relationships in the year was £102m (2007: £46m) and is presented as a debit (2007: credit) to the hedge reserve within equity.

There are no forecast transactions previously thought to be available for hedge accounting that are no longer expected to occur.

The principal value of derivative financial instruments and commodity contracts which are hedging relationships at 31 March 2008 was £91m (2007: £259m). The £91m falls due within one year whilst at 31 March 2007 of the £259m, £150m fell due within one year and £109m fell due after more than one year but not more than three years.

**Other Financial Assets and Liabilities**
The book value of the NLF and nuclear liabilities receivables is equal to the fair value, refer to note 17 for details of the valuation.

The carrying values of trade receivables, trade payables and accruals are equal to their fair values.

The fair values of restricted cash and other financial assets and cash and cash equivalents are equal to the book values due to short-term maturities. Details of the interest rate profile of these financial assets are included in note 21.

Borrowings consist of the Group's Bonds and the fair value has been estimated using the quoted closing clean market price at the balance sheet date. Details of the interest rate and maturity profile of these financial liabilities are included in note 23.

The basis of valuation of back end fuel costs is included in note 25.

The book value of provisions and other charges is equal to the fair value.

The book value of the NLF liabilities is equal to the fair value, refer to note 28 for details of the valuation.

**Foreign Exchange**
The Group uses foreign exchange contracts and other derivative instruments as deemed necessary to economically hedge the primary market exposures associated with the Group's underlying assets, liabilities and committed transactions. During the year ended 31 March 2008 the Group had three main sources of exposure to potential foreign currency risk. These exposures related to contracts for the purchase of coal and uranics, which are predominantly in US dollars, and the purchase of carbon allowances, which are in Euros.

The Group has a number of different contracts in place to purchase coal, some of which include pricing which is subject to dollar exchange rate movements. Refer to note 36 for details of the Group's commitments to purchase coal.

The Group incurs pass through foreign currency costs relating to the supply, conversion and enrichment of uranium at the average exchange rate relevant to the fuel supplied. As at 31 March 2008, the Group had foreign currency commitments for nuclear fuel amounting to £70m (2007: £131m) out of a total fuel commitment of £1,440m (2007: £1,568m) (see note 36).

During the year the Group has been involved in the purchase of £58m (2007: £44m) of Phase I carbon allowances at the Euro foreign exchange rate ruling at the time of the transaction (see note 2 (ix)). Additionally the Group has £14m (2007: £81m) of commitments to purchase forward carbon allowances at 31 March 2008. At 31 March 2008, the Group had a net total of £9m (2007: £13m) of forward contracts in place to economically hedge its exposure to movements in prices of Phase II carbon allowances.

There are potential future foreign currency receivables in respect of amounts outstanding from the sale of Bruce Power. When these cash flows become more certain in the future, the Group will evaluate currency hedging opportunities.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 23. Borrowings

| | 2008 £m | 2007 £m |
|---|---|---|
| **The borrowings mature as follows:** | | |
| **Current liabilities** | | |
| Amounts falling due within one year | **61** | 57 |
| **Non-current liabilities** | | |
| Amounts falling due after more than one year but not more than two years | **65** | 61 |
| Amounts falling due after more than two years but not more than five years | **154** | 176 |
| Amounts falling due in more than five years | **236** | 279 |
| | **455** | 516 |
| **Total borrowings** | **516** | 573 |

Borrowings comprise the following:

| | 2008 £m | 2007 £m |
|---|---|---|
| Long-term "project finance" loan – sterling | **111** | 123 |
| Bonds – sterling | **405** | 450 |
| **Total borrowings** | **516** | 573 |

Total debt of £516m (2007: £573m) comprised:

- a long-term "project finance" loan of £111m (2007: £123m) secured on the assets of Eggborough Power Limited (EPL), a subsidiary company that operates the Eggborough coal-fired power station. The loan bears interest at a rate of 7.0% (2007: 7.0%); and
- an aggregate principal amount of £405m (2007: £450m) sterling denominated guaranteed bonds due between 2009 and 2022. The bonds bear interest at a rate of 7.0% (2007: 7.0%).

The effective interest rate of the Group's fixed rate borrowings is 7.0% (2007: 7.0%).

The long-term "project finance" loan is secured by a mortgage over the shares of EPL, an assignment of the EPL Share Purchase Agreement and Tax Deed of Covenant and a debenture comprising fixed and floating charges over EPL's assets.

The bonds are supported by a guarantee provided jointly and severally on a senior basis by British Energy Group plc and certain subsidiaries of the Group.

**Interest on borrowings**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Interest on borrowings fall due as follows:** | | |
| Amounts falling due within one year | **36** | 40 |
| Amounts falling due after more than one year but not more than two years | **32** | 36 |
| Amounts falling due after more than two years but not more than five years | **69** | 81 |
| Amounts falling due in more than five years | **81** | 101 |
| **Total interest payable on borrowings** | **218** | 258 |

**Credit facilities**
During the year ended 31 March 2008 the Group increased its committed letter of credit facilities to £350m (2007: £300m). These facilities contain covenants for the benefit of the facility providers, to support the collateral requirements of the Group's trading business. The balance of £350m now comprises five separate bilateral facilities (2007: three). Two of the five bilateral facilities, totalling £175m, expire in June 2008 and September 2008 with the remaining three facilities, totalling £175m expiring in September 2009. All five facilities were undrawn in the year ended 31 March 2008.

The Group had an undrawn receivables financing facility of up to a maximum of £60m subject to the level of the Group's trade receivables, which expired in the year ended 31 March 2008.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 24. Trade and Other Payables

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current liabilities** | | |
| NLF liabilities (see note 28) | **23** | 22 |
| Trade payables | **256** | 200 |
| Other taxes and social security | **43** | 82 |
| Cash Sweep Payment accrual (see note 9) | **102** | 305 |
| Accruals | **235** | 167 |
| **Total trade and other payables** | **659** | 776 |

### 25. Nuclear Liabilities

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current liabilities** | | |
| Nuclear liabilities | **202** | 195 |
| **Non-current liabilities** | | |
| Nuclear liabilities | **5,310** | 5,274 |
| **Total nuclear liabilities** | **5,512** | 5,469 |

Movements in the nuclear liabilities in the year ended 31 March 2008 are as follows:

| | Back end fuel costs contracted £m | Back end fuel costs uncontracted £m | Decom-missioning £m | 2008 Total £m |
|---|---|---|---|---|
| As at 31 March 2007 | 2,223 | 340 | 2,906 | **5,469** |
| Charged to the consolidated income statement: | | | | |
| Revalorisation (see note 10) | 150 | 23 | 75 | **248** |
| Payments in the year | (205) | – | – | **(205)** |
| **As at 31 March 2008** | **2,168** | **363** | **2,981** | **5,512** |

**Back End Fuel Costs Contracted**
Accruals for AGR spent fuel services relating to fuel loaded into reactors up to RED are based on the terms of the Historic Liability Funding Agreement (HLFA) with BNFL. The pattern of payments within the HLFA were fixed (subject to indexation by RPI) at RED and will be funded by the Government under the Government indemnity.

**Back End Fuel Costs Uncontracted**
Provisions for services relating to the disposal of associated nuclear waste of both PWR and AGR stations along with the storage and disposal of PWR spent fuel are based on cost estimates derived from the latest technical assessments.

**Decommissioning**
The costs of decommissioning the power stations have been estimated on the basis of on-going technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The estimates are designed to reflect the costs of making the sites of the power stations available for alternative use in accordance with the Group's decommissioning strategy.

**Accounting Life Extension**
During the year ended 31 March 2008 the discounted decommissioning liabilities reduced following the extension of the accounting lives of Hinkley Point B and Hunterston B power stations by five years to 2016. As a result of the accounting life extensions, the level of undiscounted estimated nuclear decommissioning liabilities remains unchanged, however, the decommissioning workstreams will occur later, therefore reducing the discounted nuclear decommissioning liabilities by £125m. The Government has indemnified the Group for any future shortfall of NLF funding in respect of qualifying decommissioning costs and therefore the reduction in discounted nuclear decommissioning liabilities is fully offset by a corresponding decrease in the NLF receivable. As a result there is no net revalorisation impact for this change in the consolidated income statement.

### 25. Nuclear Liabilities (continued)

**Projected Payment Details**

Based on current estimates of station lives and lifetime output projections, the following table shows, in current prices, the likely undiscounted payments, the equivalent sums discounted at 3% real per annum to the balance sheet date and the amounts accrued to date.

| | Back end fuel costs contracted £m | Back end fuel costs uncontracted £m | Decom-missioning £m | **2008 Total £m** | 2007 Total £m |
|---|---|---|---|---|---|
| Undiscounted | 2,709 | 2,773 | 9,357 | **14,839** | 14,500 |
| Discounted | 2,168 | 515 | 2,981 | **5,664** | 5,610 |
| Accrued to date | 2,168 | 363 | 2,981 | **5,512** | 5,469 |

The differences between the undiscounted and discounted amounts reflect the fact that the costs concerned will not fall due for payment for a number of years. The differences between the discounted amounts and those accrued to date will be charged to the consolidated income statement over the remaining station lives since they relate to future use of fuel.

Under the terms of the contracts with BNFL referred to above and in accordance with the projected pattern of payments for decommissioning and other liabilities, taking account of the decommissioning fund arrangements described in note 2 (xx), the undiscounted payments in current prices are expected to become payable as follows:

| | Back end fuel costs contracted £m | Back end fuel costs uncontracted £m | Decom-missioning £m | **2008 Total £m** | 2007 Total £m |
|---|---|---|---|---|---|
| Within five years | 1,040 | 16 | 17 | **1,073** | 1,225 |
| 6–10 years | 891 | 32 | 933 | **1,856** | 1,828 |
| 11–25 years | 778 | 153 | 2,417 | **3,348** | 3,141 |
| 26–50 years | – | 390 | 1,256 | **1,646** | 1,632 |
| 51 years and over | – | 2,182 | 4,734 | **6,916** | 6,674 |
| | **2,709** | **2,773** | **9,357** | **14,839** | 14,500 |

### 26. Provisions for Other Liabilities and Charges

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Current liabilities** | | |
| Contracts provision | **17** | 15 |
| Other provisions | **2** | 10 |
| | **19** | 25 |
| **Non-current liabilities** | | |
| Contracts provision | **25** | 37 |
| Other provisions | **17** | 13 |
| | **42** | 50 |
| **Total provisions for other liabilities and charges** | **61** | 75 |

Movements in provisions for other liabilities and charges in the year ended 31 March 2008 are as follows:

| | Contracts provision £m | Other provisions £m | **2008 Total £m** |
|---|---|---|---|
| As at 1 April 2007 | 52 | 23 | **75** |
| Arising during the year | – | 5 | **5** |
| Utilised in the year | (2) | – | **(2)** |
| Payments in the year | (10) | (9) | **(19)** |
| Revalorisation (see note 10) | 2 | – | **2** |
| **As at 31 March 2008** | 42 | 19 | **61** |

# Notes to the Financial Statements
## for the year ended 31 March 2008

**26. Provisions for Other Liabilities and Charges (continued)**

**(i) Contracts Provision**

The Group's portfolio of commodity contracts was fair valued at RED as part of the application of acquisition accounting. The net contracts provision is being utilised over the lives of the contracts fair valued at RED and is expected to be fully utilised by 2011 with the current portion of £17m expected to be utilised within the next 12 months. The provision utilisation of £2m (2007: £76m) is presented in the other operating income line of the consolidated income statement. Other operating income also includes an £8m (2007: £nil) realisation of a contingent asset relating to the Group's disposal of its interest in Bruce Power LP. For the year ended 31 March 2007 a release of £17m was also presented in the other operating income line of the consolidated income statement.

**(ii) Other Provisions**

Other provisions are made up of severance provisions, provisions for onerous leases, a provision for additional unfunded retirement benefits (see note 27) and a provision for Eggborough site restoration costs. £2m (2007: £10m) of the other provisions is expected to be utilised within the next 12 months in relation to severance and onerous leases. Accordingly, this is classified as a current liability. The remainder of the other provisions are classified as non-current.

**27. Retirement Benefit Obligations**

**(i) Pension Schemes**

The Group operates two separate defined benefit pension arrangements in the UK within the Electricity Supply Pension Scheme (ESPS), the British Energy Generation Group (BEGG) for the majority of employees and the British Energy Combined Group (BECG) for the employees at Eggborough power station. The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups.

The cash funding requirements of the pension schemes are determined by triennial actuarial valuations by the independent scheme actuaries. The most recent triennial valuations of the BEGG and BECG schemes were carried out at 31 March 2007 and have been agreed by the Trustees. Any deficiency disclosed in the BEGG or BECG schemes following a triennial actuarial valuation will be funded by the Group. The balance sheet valuations for accounting purposes under IAS 19 have been carried out by a separate independent actuary using the projected unit method.

**(ii) Contributions**

The Group contributed 22.4% (2007: 22.4%) to the BEGG pension scheme and 19.7% (2007: 19.7%) to the BECG pension scheme as employer's normal contributions for the year ended 31 March 2008. Members who do not participate in the salary conversion arrangement and who are required to pay employee contributions contribute 5% (2007: 5%) and 6% (2007: 6%) to the BEGG and BECG schemes respectively. Members who participate in the salary conversion arrangements have their salaries reduced by 5% (2007: 5%) or 6% (2007: 6%) depending on whether they are members of the BEGG or BECG scheme, these monies being paid to the BEGG and BECG schemes as additional employer contributions.

Additional agreed employer contributions were paid towards the BEGG scheme's funding deficit of £20m for the year ended 31 March 2008 (2007: £20m). For the year ended 31 March 2007, £40m of agreed accelerated contributions was also paid towards the BEGG scheme's funding deficit. The Group made additional employer contributions of £1m (2007: £1m) to the BECG scheme in the year.

The 31 March 2007 triennial actuarial valuation of the BEGG scheme has been agreed with a funding deficit of £174m at that date. From 1 April 2008 the rate of employer's regular contributions for future service benefits under the BEGG scheme increased from 22.4% to 27.3%. Additional employer contributions will be paid towards the BEGG scheme's funding deficit at a rate of £35m per annum paid monthly from 1 April 2008 until 31 December 2013. The requirement for additional contributions will be reviewed as part of the next triennial valuation as at 31 March 2010.

The 31 March 2007 triennial actuarial valuation of the BECG scheme has been agreed with a funding deficit of £3m at that date. From 1 April 2008 the rate of employer's regular contributions for future service benefits under the BECG scheme increased from 19.7% to 22.2%. The Group will continue to make additional employer contributions towards the BECG scheme's funding deficit, having regard to appropriate funding advice.

The Group expects to contribute a total of £119m, including additional employer contributions, to the schemes in the year ending 31 March 2009.

At 31 March 2008 there was £7m (2007: £7m) of contributions owed to the pension schemes included in accruals.

**27. Retirement Benefit Obligations (continued)**

**(iii) Amounts Recognised in the Consolidated Balance Sheet**

The amounts recognised in the consolidated balance sheet under IAS 19 in respect of the Group's funded defined benefit pension schemes are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Fair value of plan assets | **2,710** | 2,671 |
| Present value of funded defined benefit obligations | **(2,926)** | (2,736) |
| **Retirement benefit obligations recognised in the consolidated balance sheet** | **(216)** | (65) |

Certain additional retirement benefits are provided to eligible employees. These obligations are unfunded and the liability recorded at 31 March 2008 was £6m (2007: £5m) and is included within other provisions (see note 26).

**(iv) Plan Assets, Expected Rates of Return and Benefit Obligations**

Changes in the fair value of plan assets are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Opening fair value of plan assets | **2,671** | 2,455 |
| Expected return on plan assets (see note 10) | **182** | 164 |
| Actuarial (losses)/gains | **(145)** | 6 |
| Contributions by employer | **85** | 125 |
| Contributions by plan participants | **8** | 7 |
| Benefits paid | **(91)** | (86) |
| **Closing fair value of plan assets** | **2,710** | 2,671 |

The plan assets include investments in the Group's equity, amounting to less than 1% (2007: less than 1%) of plan assets.

The major categories of plan assets and their expected rates of return are as follows:

| | 2008 Expected return % | 2008 £m | 2007 Expected return % | 2007 £m |
|---|---|---|---|---|
| Equities | **8.00** | **1,188** | 8.30 | 1,326 |
| Bonds | **5.20** | **1,054** | 4.80 | 865 |
| Property | **6.25** | **241** | 6.55 | 270 |
| Hedge funds | **6.50** | **107** | 6.80 | 103 |
| Other | **5.00** | **120** | 5.00 | 107 |
| **Total** | | **2,710** | | 2,671 |

The expected long-term rate of return on assets assumption was developed with consideration to the current level of expected returns on risk free investments (primarily Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The actual return on plan assets was £37m (2007: £170m), £145m less than (2007: £6m more than) the expected return on assets at the beginning of the year.

Changes in the present value of the defined benefit obligations are as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Opening defined benefit obligations | **2,736** | 2,670 |
| Current service cost | **70** | 68 |
| Past service cost | **4** | 9 |
| Interest cost (see note 10) | **146** | 131 |
| Contributions by plan participants | **8** | 7 |
| Actuarial losses/(gains) | **53** | (63) |
| Benefits paid | **(91)** | (86) |
| **Closing defined benefit obligations** | **2,926** | 2,736 |

For the year ended 31 March 2007, £9m and £1m were contributed to the pension schemes from the Group's severance provisions established in previous years in relation to past service costs and current service costs respectively.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 27. Retirement Benefit Obligations (continued)
**(v) Actuarial Assumptions**
The major assumptions used by the actuaries in determining the defined benefit obligations were:

| | 2008 % p.a. | 2007 % p.a. |
|---|---|---|
| Price inflation | **3.30** | 3.00 |
| Rate of general increase in salaries | **4.80** | 4.50 |
| Rate of increase of pensions in payment | **3.30** | 3.00 |
| Discount rate | **6.00** | 5.40 |

*Mortality Assumptions*
The mortality assumptions used for the triennial actuarial valuations as at 31 March 2007 for the BEGG and BECG schemes have also been adopted for the IAS 19 determination of both schemes' defined benefit obligations as at 31 March 2008. These assumptions are based on the 00 series tables published by the Continuous Mortality Investigations Bureau. The life expectancy assumptions for members at age 65 are as follows:

| | 2008 Male years | 2008 Female years | 2007 Male years | 2007 Female years |
|---|---|---|---|---|
| Currently aged 65 | **21.6** | **24.0** | 18.2 | 21.1 |
| Currently aged 45 | **23.5** | **25.9** | 18.2 | 21.1 |

**(vi) Amounts Recognised in the Consolidated Income Statement**
Amounts recognised in the consolidated income statement in respect of the retirement benefit obligations are as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Current service cost (see note 6) | **70** | 67 |
| Past service cost (see note 6) | **–** | 5 |
| Expected return on plan assets in the pension schemes (see note 10) | **(182)** | (164) |
| Interest on defined benefit obligations (see note 10) | **146** | 131 |
| **Total amounts recognised in the consolidated income statement** | **34** | 39 |

The current service cost charge for the year is included in staff costs in the consolidated income statement, and comprises £70m (2007: £67m) in respect of the funded defined benefit pension schemes. Additionally for the year ended 31 March 2007 £1m was also recognised in respect of the unfunded pension scheme (see note 6). The interest cost and expected return on plan assets are included in finance charges in the consolidated income statement.

**(vii) Amounts Recognised in the Consolidated Statement of Recognised Income and Expense**
Amounts recognised in the consolidated statement of recognised income and expense in respect of the retirement benefit obligations are as follows:

| | Year ended 31 March 2008 £m | Year ended 31 March 2007 £m |
|---|---|---|
| Actual return less expected return on pension plan assets | **(145)** | 6 |
| Experience gains/(losses) arising on defined benefit obligations | **17** | (25) |
| Changes in assumptions underlying present value of defined benefit obligations | **(70)** | 88 |
| **Net actuarial (losses)/gains on retirement benefit obligations for the year** | **(198)** | 69 |

The cumulative amount of actuarial gains and losses, before deferred tax, recognised in the consolidated statement of recognised income and expense in respect of funded retirement benefit obligations is a net gain of £41m (2007: £239m).

An actuarial loss of £1m (2007: £1m) has also been recognised in the consolidated statement of recognised income and expense in respect of the unfunded pension scheme, therefore the total actuarial loss taken to equity is £199m (2007: £68m gain) (see note 31).

**27. Retirement Benefit Obligations (continued)**

**(viii) History of Experience Gains and Losses**

The history of schemes' deficits is as follows:

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m |
|---|---|---|---|---|
| Fair value of plan assets | **2,710** | 2,671 | 2,455 | 1,962 |
| Present value of funded defined benefit obligations | **(2,926)** | (2,736) | (2,670) | (2,343) |
| **Retirement benefit obligation recognised in the consolidated balance sheet** | **(216)** | (65) | (215) | (381) |

The history of experience gains and losses is as follows:

| | 2008 £m | As % of plan assets/ obligations 2008 % | 2007 £m | As % of plan assets/ obligations 2007 % | 2006 £m | As % of plan assets/ obligations 2006 % | 2005 £m | As % of plan assets/ obligations 2005 % |
|---|---|---|---|---|---|---|---|---|
| Actual return less expected return on pension plan assets | **(145)** | **(5)** | 6 | – | 312 | 13 | 2 | – |
| Experience gains/(losses) arising on defined benefit obligations | **17** | **1** | (25) | (1) | 16 | 1 | – | – |
| Changes in assumptions underlying present value of defined benefit obligations | **(70)** | **(2)** | 88 | 3 | (240) | (9) | 80 | 3 |

**(ix) Sensitivity Analysis**

| Impact of changing material assumptions | 2008 Increase/ decrease in assumption | 2008 Indicative effect on scheme liabilities % | 2007 Increase/ decrease in assumption | 2007 Indicative effect on scheme liabilities % |
|---|---|---|---|---|
| Price inflation | **0.25%** | **+/–4** | 0.25% | +/–5 |
| Rate of general increase in salaries | **0.25%** | **+/–1** | 0.25% | +/–2 |
| Rate of increase of pensions in payment | **0.25%** | **+/–3** | 0.25% | +/–3 |
| Discount rate | **0.25%** | **–/+5** | 0.25% | –/+5 |
| Mortality | **1 year** | **+/–2** | 1 year | +/–3 |

**28. NLF Liabilities**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current liabilities** | | |
| NLF liabilities (see note 24) | **23** | 22 |
| **Non-current liabilities** | | |
| NLF liabilities | **185** | 194 |
| **Total NLF liabilities** | **208** | 216 |

Movements in the NLF liabilities in the year ended 31 March 2008 are as follows:

| | 2008 £m |
|---|---|
| As at 1 April 2007 | **216** |
| Charged to the consolidated income statement: | |
| Revalorisation (see note 10) | **15** |
| Payments in the year | **(23)** |
| **As at 31 March 2008** | **208** |

The NLF liabilities represent the Group's commitment arising on Restructuring to make fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED) discounted at 3% real to its net present value.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 29. Deferred Income

| | 2008 £m | 2007 £m |
|---|---|---|
| As at 31 March | **5** | 5 |

The deferred income recorded relates to consideration received for two options, an Asset Option and a Share Option, which were granted as part of the Restructuring. If exercised, subject to a number of conditions as summarised below, the options would enable the participants in the long-term “project finance” loan to acquire the Eggborough power station assets (Asset Option) or to acquire the shares in Eggborough Power Limited (Share Option) which operates the coal-fired power station. In addition, the Group has a pre-emption right if the participants in the long-term “project finance” loan sell or transfer their options to a third party.

The options may be exercised at any time prior to 31 August 2009 following which the participants in the long-term “project finance” loan may acquire the shares in, or assets of, Eggborough Power Limited on 31 March 2010 in consideration of, approximately £104m subject to certain adjustments depending on the condition of the power station and cancellation of the outstanding debt (currently estimated to be £83m) or at any time prior to 31 August 2009 on the occurrence of an event of default in consideration for a fee (which varies depending on the type of event of default) and the cancellation of the outstanding debt at such time.

The options, if unexercised, expire on 31 March 2010.

The deferred income will be realised upon the exercise or expiry of the options as described above.

### 30. Called Up Share Capital

| | 2008 £m | 2007 £m |
|---|---|---|
| **Authorised:** | | |
| 2,800,000,000 (2007: 2,800,000,000) ordinary shares of 10p each | **280** | 280 |
| 2,000,000,000 (2007: 2,000,000,000) convertible shares of 10p each | **200** | 200 |
| One (2007: one) special rights redeemable preference share of £1 | **–** | – |
| | **480** | 480 |

| | 2008 £m | 2007 £m |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| Equity shareholders’ funds: | | |
| 1,033,550,744 (2007: 576,594,935) ordinary shares of 10p each | **103** | 58 |
| | **103** | 58 |
| Non-equity shareholder’s funds: | | |
| One (2007: one) special rights redeemable preference share of £1 | **–** | – |
| | **–** | – |
| Called up share capital | **103** | 58 |

Movements in each class of shares were as follows:

| | Ordinary shares of 10p each | | Convertible shares of 10p each | | Redeemable preference shares of £1 each | |
|---|---|---|---|---|---|---|
| | Number | £ | Number | £ | Number | £ |
| **As at 1 April 2006** | 570,195,496 | 57,019,550 | – | – | 1 | 1 |
| Warrants exercised | 6,399,439 | 639,944 | – | – | – | – |
| **As at 31 March 2007** | 576,594,935 | 57,659,494 | – | – | 1 | 1 |
| Arising on NLF partial conversion | – | – | 450,000,000 | 45,000,000 | – | – |
| Re-designation of convertible shares as ordinary shares | 450,000,000 | 45,000,000 | (450,000,000) | (45,000,000) | – | – |
| Warrants exercised | 6,955,809 | 695,581 | – | – | – | – |
| **As at 31 March 2008** | **1,033,550,744** | **103,355,075** | **–** | **–** | **1** | **1** |

**30. Called Up Share Capital (continued)**
On 30 May 2007 the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy Group plc. On 1 June 2007 British Energy Group plc received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over allotment option of a further 50 million shares in the Company. As a result on 6 June 2007 British Energy Group plc issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue the Cash Sweep Payment percentage was reduced to approximately 36% and resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the partial conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the partial exercise of the conversion right.

**Ordinary Shares**
The holders of ordinary shares are entitled to be paid any profits of British Energy Group plc available for distribution and determined to be distributed. On the winding up of British Energy Group plc, holders of ordinary shares will be entitled to receive the nominal capital paid up or credited as paid up on the shares together with any further amounts available to be paid which will be allocated proportionately to holders of ordinary shares. The holders of ordinary shares are entitled to receive notice of general meetings and to attend, speak and vote at such meetings.

**Convertible Shares**
The NLF has the right from time to time to convert all or part of its entitlement to the Cash Sweep Payment into convertible shares in British Energy Group plc (the NLF conversion right). On a full conversion of its remaining interest, the NLF would hold up to approximately 35% of the thereby enlarged equity share capital of British Energy Group plc. Subsequent to a conversion, the NLF may dispose of its convertible shares (which on disposal become ordinary shares) at any time subject to certain restrictions. Amongst other things, the NLF may not exercise the NLF conversion right or dispose of any convertible shares if such disposal would require British Energy Group plc to have produced listing particulars or a prospectus more than five times in a consecutive period of 7.5 years. The convertible shares may only be held by Nuclear Liabilities Fund Limited or its successor in title, a Minister of the Crown, the Treasury, a department, non-departmental body or other agency of the Crown, any body corporate established by statute some or all of the members of which are appointed by a Minister of the Crown or other UK Government entity or any person directly or indirectly wholly-owned by, or held on trust for, the Secretary of State or other Minister of the Crown.

Save in respect of voting rights, the convertible shares have the same rights, are subject to the same restrictions and rank pari passu with the ordinary shares of British Energy Group plc in all respects. The number of votes that the holder of the convertible shares is entitled to exercise in respect of its holding of convertible shares is the lesser of: (i) 29.9% (and, for this purpose, taking into account the voting rights attributable to any other ordinary shares held or acquired by any person acting in concert with the holder); and (ii) the number of convertible shares which the holder would otherwise be entitled to vote if the convertible shares were ordinary shares. The convertible shares will convert into ordinary shares of British Energy Group plc automatically on transfer to a third party by the holder but are not convertible at the election of the holder prior to such a transfer.

**Special Rights Redeemable Preference Share of £1**
The Special Share is redeemable at par at any time after 30 September 2006 at the option of the Secretary of State, after consulting British Energy Group plc. This share, which may only be held by and transferred to one or more of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The Special Share confers no rights to participate in the capital or profits of British Energy Group plc beyond its nominal value. The consent of the holder of the Special Share is required for certain matters including the alteration or removal of the provisions in British Energy Group plc's Articles of Association relating to the Special Share and to the limitations on shareholdings.

In addition, consent of the holder of the Special Share is required in relation to, amongst others, certain amendments to the Articles of Association of British Energy Bond Finance plc, British Energy Limited, British Energy Generation Limited or British Energy Generation (UK) Limited, or a disposal by British Energy Group plc of its shares in these companies. However, the holder of the Special Share will only be entitled to withhold consent to such an amendment or disposal if, in the holder's opinion, the matter in question would be contrary to the interests of national security. The Articles of Association include full details of these restrictions.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 30. Called Up Share Capital (continued)
**Warrants**
On Restructuring 29,298,286 Warrants of £0.98 were allotted. The Warrants are freely exercisable at the option of the Warrant holder. The subscription rights may be exercised at any time in respect of certificated Warrants on lodging of a duly completed subscription notice and remittance of the subscription price or, in respect of Warrants held in uncertificated form, if CREST Co. Limited receives a properly authenticated dematerialised instruction and payment through CREST in accordance with its rules. In the year ended 31 March 2008 6,955,809 (2007: 6,399,439) of these Warrants were exercised leaving 6,764,057 (2007: 13,719,866) unexercised. The Warrants entitle the holder to subscribe to acquire an equivalent number of ordinary shares at a subscription price of £0.98 per share within five years of Restructuring.

**Own Shares**
The Group has investments in its own shares, held in relation to the Group's share incentive schemes, through shareholdings held by British Energy Employee Share Trust and Abbey National AESOP Trust. The value of these shares is presented within total equity. At 31 March 2008 1,913,946 (2007: 1,478,545) shares were held in trust. The maximum number of own shares held during the year was 1,946,438 (2007: 1,497,849).

### 31. 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 |
|---|---|---|---|---|---|---|---|
| **As at 1 April 2006** | 57 | 24 | 767 | (31) | 35 | 1,249 | 2,101 |
| Net profit for the year attributable to shareholders | – | – | – | – | – | 465 | 465 |
| Net income recognised directly in equity | – | – | – | 46 | – | 68 | 114 |
| Deferred tax on items recognised directly in equity (see note 11) | – | – | – | (14) | – | (21) | (35) |
| Total income for the year | – | – | – | 32 | – | 512 | 544 |
| Share-based payments (see note 33) | – | – | – | – | – | 2 | 2 |
| Purchase of own shares for share incentive schemes | – | – | – | – | – | (6) | (6) |
| Exercise of Warrants | 1 | 16 | – | – | (11) | – | 6 |
| **As at 31 March 2007** | 58 | 40 | 767 | 1 | 24 | 1,757 | 2,647 |
| Net profit for the year attributable to shareholders | – | – | – | – | – | 335 | 335 |
| Net expense recognised directly in equity | – | – | – | (102) | – | (199) | (301) |
| Deferred tax on items recognised directly in equity (see note 11) | – | – | – | 30 | – | 60 | 90 |
| Total (expenses)/income for the year | – | – | – | (72) | – | 196 | 124 |
| Equity dividends paid (see note 13) | – | – | – | – | – | (140) | (140) |
| Shares issued | 45 | 2,295 | – | – | – | – | 2,340 |
| Capital reduction | – | (2,295) | – | – | – | 2,295 | – |
| Share-based payments (see note 33) | – | – | – | – | – | 6 | 6 |
| Purchase of own shares for share incentive schemes | – | – | – | – | – | (2) | (2) |
| Exercise of Warrants | – | 19 | – | – | (12) | – | 7 |
| **As at 31 March 2008** | **103** | **59** | **767** | **(71)** | **12** | **4,112** | **4,982** |

**(i) Called Up Equity Share Capital**
Called up equity share capital represents the nominal value of shares in issue (see note 30).

**(ii) Share Premium**
The share premium recorded at 31 March 2008 of £59m (2007: £40m) represents the excess of the fair value of Warrants exercised and Warrant proceeds received since Restructuring over the nominal value of the shares issued on exercise.

As a result of the partial conversion by the NLF on 6 June 2007 additional share premium of £2,295m was recognised during the year (see note 30). On 22 October 2007 the Court of Session in Edinburgh approved a £2,295m reduction of British Energy Group plc's share premium account, thereby creating distributable reserves of this value. The reduction of the share premium reserve by £2,295m equates to the amount of new share premium created in relation to the NLF partial conversion.

**31. Equity (continued)**
**(iii) Capital Reserve**
The Restructuring involved bondholders and significant creditors compromising their claims against the Group in exchange for, amongst other things, the issue of Bonds (see note 23) by British Energy Bond Finance plc (a wholly-owned subsidiary of British Energy Group plc) and new ordinary shares of British Energy Group plc. The capital reserve was created on the issue of shares at RED and represents the excess of the fair value of the claims of the significant creditors and bondholders over the legal liability foregone. The capital reserve is not distributable.

**(iv) Hedge Reserve**
The £102m loss (2007: £46m gain) in the hedge reserve in the year reflects the fair value movement, before the deferred tax credit of £30m (2007: £14m charge), of the contracts that have been designated as cash flow hedging instruments. This movement comprises an £84m net loss (2007: £3m gain) on hedging instruments recognised in the year, plus an £18m loss (2007: £43m gain) relating to amounts released from the hedge reserve as contracts are delivered and included in the consolidated income statement (see note 22).

Where hedge accounting is permitted, gains and losses on hedging instruments are recognised directly in equity until the contract is settled, at which point the gain or loss is transferred to the consolidated income statement. When trades are de-designated as hedging instruments, cumulative gains or losses are retained in equity until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement of the period.

**(v) Warrant Reserve**
On Restructuring the shareholders in British Energy plc were entitled to receive Shares and Warrants in British Energy Group plc. The Warrants entitle the holder to subscribe for ordinary shares in British Energy Group plc within five years of the Restructuring. As the Warrants are exercised this reserve will be transferred to share capital and the share premium account. During the year, 6,955,809 Warrants (2007: 6,399,439) were exercised resulting in an increase of 6,955,809 ordinary shares (2007: 6,399,439), an increase to share premium of £19m (2007: £16m) and a reduction in the warrant reserve of £12m (2007: £11m). The proceeds received in the year in relation to the exercise of the Warrants amounted to £7m (2007: £6m).

**(vi) Retained Earnings**
Total income and expense in the year comprises the profit attributable to shareholders of £335m (2007: £465m), net actuarial gains and losses on retirement benefit obligations for the year of £199m loss (2007: £68m gain) and related deferred tax credit of £60m (2007: £21m charge).

An equity dividend of £140m (2007: £nil) was paid to ordinary shareholders from retained earnings during the year (see note 13).

As discussed above, £2,295m (2007: £nil) has been credited to retained earnings in relation to the approved capital reduction.

Under IFRS 2 £6m (2007: £2m) has been credited to retained earnings in relation to the Share Incentive Plan, the Deferred Incentive Plan and the Long-Term Deferred Bonus Plan (see note 33).

During the year £2m (2007: £6m) of own shares were purchased from the market and held in trust in order to satisfy obligations in relation to the Group's share incentive schemes.

**32. Principal Group Companies**
Details of British Energy Group plc's principal subsidiary undertakings, which are consolidated into the Group's financial statements, are as follows:

| | Country of incorporation | Proportion of ownership interest and voting power % | Principal activity |
|---|---|---|---|
| British Energy Bond Finance plc (formerly British Energy Holdings plc) | Great Britain | 100 | Holding Company |
| British Energy Limited | Great Britain | 100 | Holding Company |
| British Energy Generation Limited | Great Britain | 100 | Generation and sale of electricity |
| British Energy Power and Energy Trading Limited | Great Britain | 100 | Energy trading |
| British Energy Direct Limited | Great Britain | 100 | Sale of electricity |
| Eggborough Power Limited | Great Britain | 100 | Generation and sale of electricity |

A full list of subsidiary undertakings will be annexed to British Energy Group plc's next annual return.

# Notes to the Financial Statements
## for the year ended 31 March 2008

### 33. Share-based Payments
The expense recognised for share-based payments in respect of employee services received during the year ended 31 March 2008 was £6m (2007: £2m) (see note 6) and related entirely to equity-settled share-based payment transactions. Details of each of the employee share plans are given below.

**Share Incentive Plan**
Under the Share Incentive Plan (SIP), employees, including the Executive Directors, who are resident in the UK and meet the service requirements, are eligible for awards under the SIP. Awards under the SIP are limited each year by relevant tax legislation and for the year ended 31 March 2008 will take the form of free shares. The value of the annual award is linked to performance conditions and in respect of the year ended 31 March 2008 these performance conditions related to cost control, unplanned losses and length of the fixed nuclear book. These are considered to be non-market conditions under IFRS 2 and dividends attach to the awards, therefore the shares are fair valued at the market value on the date of grant. The free shares are initially held in a trust and vest unconditionally for participating employees after being held within the trust for three years contingent upon participants being in continued employment by the Group. Any dividends paid on shares held within the trust are converted into additional shares.

The following table illustrates the number of, and movements in, share awards under this scheme during the year:

| | **2008 Number** | 2007 Number |
|---|---|---|
| Outstanding at 1 April | **748,933** | – |
| Granted during the year | **483,527** | 764,308 |
| Forfeited during the year | **(36,353)** | (15,375) |
| Exercised | **(4,110)** | – |
| **Unvested at 31 March** | **1,191,997** | 748,933 |

The fair value of shares granted during the year was £5.43 per share (2007: £6.93).

The shares exercised in the year related to individuals who left the Group's employment and were permitted to exercise early their shares in accordance with the scheme rules. The weighted average share price of awards exercised during the year was £5.29.

**Deferred Incentive Plan**
The Deferred Incentive Plan (DIP) is available to selected senior employees who are eligible to receive conditionally awarded options in shares in British Energy Group plc at nil cost. The value of the annual award is linked to performance conditions and in respect of the year ended 31 March 2008 these performance conditions related to cost control, unplanned losses and length of the fixed nuclear book. The share options vest over a period of between one and three years from the date of grant dependent on the percentage of performance targets achieved and the contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year.

| | **2008 Number** | 2007 Number |
|---|---|---|
| Granted during the year | **348,947** | – |
| Forfeited during the year | **(12,355)** | – |
| Exercised | **(707)** | – |
| **Unvested at 31 March** | **335,885** | – |

The fair value of options granted during the year was £5.43 per share.

The share options exercised in the year related to individuals who left the Group's employment and were permitted to exercise early their shares in accordance with the scheme rules. The weighted average share price of options exercised during the year was £5.72.

The remaining contractual life of options outstanding at 31 March 2008 was 9.2 years.

**33. Share-based Payments (continued)**

**Long-Term Deferred Bonus Plan**

The Long-Term Deferred Bonus Plan (LT Plan) was available to certain Executive Directors and selected senior executives who were eligible to receive conditionally awarded options in shares in British Energy Group plc at nil cost. There was no award made in the year in respect of this scheme and no further awards are to be made under this scheme. For previous awards granted, the share options vest over a three year period from the date of grant and the contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year:

| | **2008 Number** | 2007 Number |
|---|---|---|
| Outstanding at 1 April | **276,852** | – |
| Granted during the year | **–** | 296,301 |
| Forfeited during the year | **(4,804)** | (1,672) |
| Exercised | **(24,097)** | (17,777) |
| **Outstanding at 31 March** | **247,951** | 276,852 |
| **Exercisable at 31 March** | **141,048** | 57,256 |

The fair value of options granted during the year ended 31 March 2007 was £4.86.

The weighted average share price of options exercised during the year was £5.37 per share (2007: £4.65). The remaining contractual life of options outstanding at 31 March 2008 was 8.7 years (2007: 9.7 years).

**British Energy Executive Share Option Plan 2004**

The British Energy Executive Share Option Plan 2004 was available to certain full-time directors or qualifying employees. The options outstanding at 31 March 2007 related to two grants of awards and were subject to a performance condition related to nuclear output during the year ended 31 March 2008. These performance conditions were not met in the year and the awards have subsequently lapsed. No further awards are to be made under this scheme.

The following table illustrates the number of, the exercise prices of, and movements in share options under this scheme during the year:

| | **2008 Number** | **Weighted average exercise price 2008 £** | 2007 Number | Weighted average exercise price 2007 £ |
|---|---|---|---|---|
| Outstanding at 1 April | **515,000** | **4.89** | 240,000 | 5.00 |
| Granted during the year | **–** | **–** | 275,000 | 4.80 |
| Lapsed following assessment of performance criteria | **(515,000)** | **–** | – | – |
| **Outstanding at 31 March** | **–** | **–** | 515,000 | 4.89 |
| **Exercisable at 31 March** | **–** | **–** | – | – |

**Interim Bonus Plan**

The Interim Bonus Plan (IBP) is a deferred bonus scheme which related to the year ended 31 March 2005. The awards were granted to members of the Executive Committee either wholly in shares (in the case of Executive Directors) or in shares and in cash (in the case of Executive Committee members). The awards were based on a proportion of salary and vest over a three year period, with one third of the award vesting immediately, one third after one year and the final third after two years. The contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year. The exercise price of these options is £nil.

| | **2008 Number** | 2007 Number |
|---|---|---|
| Outstanding at 1 April | **57,206** | 101,910 |
| Settled during the year | **–** | (44,704) |
| **Outstanding at 31 March** | **57,206** | 57,206 |
| **Exercisable at 31 March** | **57,206** | 38,138 |

The remaining contractual life of options outstanding at 31 March 2008 was 7.3 years (2007: 8.3 years).

# Notes to the Financial Statements
for the year ended 31 March 2008

**33. Share-based Payments (continued)**
**Share Option Schemes Granted by British Energy Limited**
Share options were granted in previous years by British Energy Limited. Legal advice has been obtained to the effect that the changes in the corporate structure of the Group as a result of the Restructuring did not trigger the early exercise provisions under these options. The Remuneration Committee decided not to allow holders of the options in British Energy Limited to roll them over into options over shares in British Energy Group plc. The options granted by British Energy Limited are still capable of exercise, but immediately on exercise the shares will be converted into shares in British Energy Group plc in the ratio of 50:1. Accordingly the effective exercise price of the options is significantly higher than the current share price and it is unlikely the options will be exercised.

**34. Contingent Assets**
The Group has certain contingent assets as a result of its disposal of its 82.4% interest in Bruce Power LP. During the year the Group received a payment of C$15m as additional consideration in respect of the restart of Bruce A Units 3 and 4. This has been recognised within the consolidated income statement in other operating income (see note 26).

The treatment of expenditure at the Bruce Power Station during the period of the Group's part ownership is currently being considered by the Canadian tax authorities and could result in a rebate of a material amount of tax to the Group (see note 35).

**35. 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; it is impracticable to provide an estimate of the potential amount of the tax rebate. 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 Ontario Power Generation (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.

On 7 December 2006, the consortium served a notice of arbitration on British Energy Limited and British Energy International Holdings Limited in relation to the purchase price payable by the consortium on the purchase of Bruce Power LP. 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, Watson Wyatt. 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.

The consortium has also commenced legal proceedings against Watson Wyatt, David Proctor (an actuary and one of their employees) and Mebs Merali (an actuary and former employee) who were responsible for evaluating the Bruce Power pension plan and post-completion adjustment to the purchase price payable by the consortium. On 15 May 2007 Watson Wyatt and David Proctor served notice of a third party action on British Energy Limited and British Energy International Holdings Limited seeking an indemnity against any amounts for which they may be found liable. On 11 September 2007 Mebs Merali served a similar notice on British Energy Limited and British Energy International Holdings Limited. The Group expects to defend the claims. British Energy Limited and British Energy International Holdings Limited commenced a fourth party claim against Bruce Power LP and Bruce Power Inc in respect of the third party claim by Watson Wyatt and David Proctor and a separate third party claim by Mebs Merali on 21 February 2008 and 20 February 2008 respectively, seeking a contribution, indemnity and relief from any damages/costs for which British Energy Limited and British Energy International Holdings Limited may be found liable or incur in the third party claims or the arbitration by the consortium. The arbitration proceedings in the claim by the consortium commenced on 10 March 2008.

**35. Contingent Liabilities (continued)**
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.

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.

**36. Financial Commitments**
**(i) Capital Commitments**

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Capital expenditure contracted but not provided:** | | |
| Property, plant and equipment | **29** | 24 |
| Intangible assets | **27** | 104 |
| **Total capital commitments** | **56** | 128 |

**(ii) Operating Lease Commitments**
At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Within one year | **–** | 5 |
| In the second to fifth years inclusive | **2** | 8 |
| Later than five years | **2** | 7 |

**(iii) Other Contractual Commitments**
Under contractual arrangements, the Group has the following nuclear fuel commitments at 31 March 2008:

| | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | Thereafter £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Commitments to purchase in the year** | 190 | 181 | 123 | 121 | 108 | 717 | **1,440** |

At 31 March 2008, the estimated minimum commitment for the supply of coal was 1m tonnes (2007: 4m tonnes), which, at contract prices on 31 March 2008, equates to approximately £96m (2007: £139m), all of which falls due within one year. At 31 March 2007 3m tonnes with an approximate value of £116m fell due within one year and 1m tonnes with an approximate value of £23m fell due after more than one year but not more than three years.

In addition to the liabilities and provisions recognised and described in the notes to the consolidated financial statements, the Group has provided certain guarantees and commitments in respect of the extent of capital expenditure by Eggborough Power Limited. The Group also enters into commitments to purchase and sell electricity in the normal course of business.

The Group has a commitment to make the Cash Sweep Payment as described in note 2 (xviii). The annual Cash Sweep Payment accrual can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, it is only recognised and provided for when it becomes determinable. At 31 March 2008, £102m has been accrued (2007: £305m).

# Notes to the Financial Statements
## for the year ended 31 March 2008

**37. Related Parties**
British Energy Group plc is a public limited company owned by the Company's shareholders and operates within an extensive contractual framework established as part of the Restructuring. The most significant contract, in terms of the limitations it places on the business, is the Contribution Agreement between the Secretary of State and British Energy Group plc. Within this contractual framework, British Energy Group plc is managed independently by the Board, which continues to direct the finances and operating policies of the Group and is subject to the normal private sector disciplines, fiduciary duties and Companies Act requirements. British Energy Group plc considers that no party is a controlling party under the terms of IAS 24 – Related Party Disclosures (IAS 24).

The following transactions were carried out with related parties:

**(i) Entities with Significant Influence over the Group**
The Group considers Her Majesty's Government (HMG) to be a related party due to the significant influence exercised by HMG following the Group's Restructuring. The following transactions took place during the year with HMG and sponsored bodies under its control:

- HMG meets the Group's historic contracted nuclear liabilities to BNFL, a Government controlled body. The nuclear liabilities receivable is recognised on the consolidated balance sheet in relation to these liabilities and decreased from £2,223m at 31 March 2007 to £2,168m at 31 March 2008.
- The Group made payments to the NLF of £24m (2007: £29m). The payments were in relation to fixed decommissioning funding contributions of £23m (2007: £22m) and £1m (2007: £1m) in respect of the Group's share of the NLF's administration costs. In the year ended 31 March 2007 a payment of £6m was made in respect of PWR fuel loaded into Sizewell B reactor, with no equivalent payment made in the year ended 31 March 2008.
- The Group made payments to BNFL of £289m (2007: £295m) during the year in respect of front and back end fuel costs. In addition, under the Government indemnity in respect of historic nuclear liabilities, consideration of £205m (2007: £197m) was passed to BNFL in the year. The balance outstanding due to BNFL at the end of the year was £16m (2007: £16m). Amounts due from the Group to BNFL at 31 March 2008 under the Historic Liability Funding Agreement amounted to £2,168m (2007: £2,223m).
- The Group is required to make Cash Sweep Payments to the NLF depending on certain criteria being met. See note 9 for further details.

The NLF, a Government controlled company, was issued with Bonds of £275m by British Energy Bond Finance plc as part of the Restructuring on 15 January 2005, however, as they are bearer bonds the Group is unable to confirm the total value held by the NLF at 31 March 2008. The outstanding amount of Bonds issued to the NLF is included within the £405m of sterling bonds outstanding at 31 March 2008, see note 23 for further details.

The Group has also entered into a number of material transactions in its normal course of business with other sponsored bodies and departments of HMG including HM Revenue and Customs.

**(ii) Key Management Personnel**
The compensation of key management personnel is set out in note 7.

**38. Non-adjusting Post Balance Sheet Events**
On 21 March 2007, the Government announced its intention to phase out industrial buildings allowances with effect from 1 April 2008. The phasing out of industrial buildings allowances was not included in the 2007 Finance Act and so is not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of this change, calculated at 28%, is that it would increase the net deferred tax liability by £37m to £82m.

# Parent Company Financial Statements Independent Auditors' Report to the Members of British Energy Group plc

We have audited the parent company financial statements of British Energy Group plc for the year ended 31 March 2008 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Committee Report that is described as having been audited.

We have reported separately on the Group financial statements of British Energy Group plc for the year ended 31 March 2008.

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the Annual Report, the Remuneration Committee Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration Committee Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration Committee Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report (comprising the Directors' Report – Business Review, the Directors' Report – Financial Review, the Directors' Report – Corporate Social Responsibility, the Directors' Report – Corporate Governance, the Directors' Report – Board of Directors and the Directors' Report – Other Statutory Information) is consistent with the parent company financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Remuneration Committee Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Remuneration Committee Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Remuneration Committee Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Remuneration Committee Report to be audited.

**Opinion**
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the parent company financial statements and the part of the Remuneration Committee Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Edinburgh

28 May 2008

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 financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Parent Company Financial Statements
# Balance Sheet
## as at 31 March 2008

| | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **3,887** | 1,541 |
| **Current assets** | | | |
| Debtors | 5 | **553** | 530 |
| **Creditors: amounts falling due within one year** | | | |
| Amounts due to subsidiary undertakings | 6 | **(144)** | (15) |
| **Net current assets** | | **409** | 515 |
| **Total assets less current liabilities** | | **4,296** | 2,056 |
| **Capital and reserves** | | | |
| Called up equity share capital | 7,8 | **103** | 58 |
| Share premium | 8 | **59** | 40 |
| Capital reserve | 8 | **767** | 767 |
| Warrant reserve | 8 | **12** | 24 |
| Profit and loss account | 8 | **3,355** | 1,167 |
| **Total shareholders' funds (including non-equity shareholder's interests)** | 8 | **4,296** | 2,056 |

The parent company financial statements on pages 97 to 102 were approved by the Board of Directors on 28 May 2008 and signed on its behalf by:

**Bill Coley**
*Chief Executive*

**Stephen Billingham**
*Finance Director*

# Parent Company Financial Statements
# Notes to the Financial Statements
## for the year ended 31 March 2008

**1. Accounting Policies**

**(i) Basis of Preparation**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. British Energy Group plc's financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom and are therefore being presented separately from the consolidated financial statements of the British Energy Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

References to the Company are to British Energy Group plc, the ultimate holding company of the British Energy Group. References to the Group are to the Company and its subsidiaries. These financial statements cover the financial year from 1 April 2007 to 31 March 2008, with comparative figures for the financial year from 1 April 2006 to 31 March 2007.

In preparing the financial statements for the current year, British Energy Group plc has adopted FRS 29 – Financial Instruments: Disclosures (FRS 29). British Energy Group plc is exempt from the requirements of FRS 29 because the Company is included in British Energy Group plc's publicly available consolidated financial statements for the year ended 31 March 2008, which include disclosures that comply with IFRS 7 – Financial Instruments: Disclosures (IFRS 7), the equivalent International Financial Reporting Standard.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

In accordance with FRS 18 – Accounting Policies, the Directors have reviewed British Energy Group plc's accounting policies and confirm that they are the most appropriate. A number of the policies require British Energy Group plc to use a variety of estimation techniques. Significant factors considered when assessing the carrying value of assets include future electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates.

British Energy Group plc has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting a profit and loss account, statement of total recognised gains and losses and cash flow statement. Accordingly neither a profit and loss account, statement of total recognised gains and losses, nor a cash flow statement is presented in these financial statements.

**(ii) Fixed Asset Investments**

Investments in subsidiaries are initially recorded at the cost of shares allotted. Fixed asset investments are stated at cost less provisions for diminution in value. The carrying value of all fixed asset investments is regularly assessed for permanent impairment and provision made, if appropriate.

**(iii) Taxation**

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on all timing differences that have originated but not reversed by the balance sheet date. Timing differences are differences between taxable profits and those stated in the financial statements. Deferred tax is measured, on an undiscounted basis, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are only recognised to the extent that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is recognised in the profit and loss account except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses in which case the deferred tax is recognised directly in that statement.

**(iv) Share-based Payment**

British Energy Group plc has five share compensation schemes, the Share Incentive Plan, the Deferred Incentive Plan, the Long-Term Deferred Bonus Plan, the Executive Share Option Plan 2004 and the Interim Bonus Plan. British Energy Group plc accounts for its share compensation schemes in accordance with FRS 20 – Share-based Payment.

British Energy Group plc issues equity-settled share-based payments to certain employees of its subsidiaries under the terms of the Company's various employee share compensation schemes. The fair value of the share compensation schemes is recognised in investments with the corresponding credit included in shareholders' equity.

# Parent Company Financial Statements Notes to the Financial Statements for the year ended 31 March 2008

**2. Profits and Dividends of British Energy Group plc**
**(i) Profits**
The retained profit for the financial year attributable to British Energy Group plc was £27m (2007: £510m). In the year ended 31 March 2007 £500m of dividends were received from subsidiary undertakings. British Energy Group plc has distributable reserves at 31 March 2008 of £3,344m (2007: £1,162m).

British Energy Group plc has no employees (2007: nil).

**(ii) Dividends Paid, Declared and Proposed**

| | **Year ended 31 March 2008 pence per share** | Year ended 31 March 2007 pence per share | **Year ended 31 March 2008 £m** | Year ended 31 March 2007 £m |
|---|---|---|---|---|
| **Paid:** | | | | |
| 2007 Base dividend, paid as a final dividend | **13.6** | – | **140** | – |
| **Declared:** | | | | |
| 2007 Additional dividend, paid as an interim dividend | **14.5** | – | **150** | – |
| **Proposed:** | | | | |
| 2008 Base dividend, payable as a final dividend | **13.6** | 13.6 | **141** | 140 |

The additional dividend declared was paid on 3 April 2008 and was therefore not recognised as a distribution in the parent company financial statements as it was not paid until after the balance sheet date.

The proposed base dividend is subject to approval by members at the Annual General Meeting on 17 July 2008. If approved, the dividend will be payable to shareholders on British Energy Group plc's shareholder register at close of business on 27 June 2008 and will be paid on 31 July 2008.

**3. Summary of Directors' Emoluments**

| | **Year ended 31 March 2008 £000** | Year ended 31 March 2007 £000 |
|---|---|---|
| Total emoluments, including pension contributions: | | |
| As Directors | **803** | 758 |
| For management services: | | |
| Salaries and other benefits | **1,310** | 1,466 |
| Performance related bonuses | **893** | – |
| Pension costs | **29** | 46 |
| | **3,035** | 2,270 |
| Compensation for loss of office | **–** | 1,100 |
| | **3,035** | 3,370 |

Emoluments of all the Directors are borne by British Energy Limited but are included in the above amounts.

Full details of the remuneration and share interests of the Directors for the year ended 31 March 2008 are set out in the Remuneration Committee Report on pages 42 to 48.

### 4. Fixed Asset Investments

| | £m |
|---|---|
| **Cost and net book value** | |
| As at 31 March 2007 | 1,541 |
| Additions | 6 |
| Arising on partial NLF conversion (see note 8) | 2,340 |
| **As at 31 March 2008** | **3,887** |

Investments relate wholly to investments in subsidiary undertakings.

Details of British Energy Group plc's principal subsidiary undertakings are as follows:

| | Country of registration and operation | Class of share | Subsidiary share-holding % | Company share-holding % | Principal activity |
|---|---|---|---|---|---|
| British Energy Bond Finance plc (formerly British Energy Holdings plc) | Scotland | Ordinary | – | 100 | Holding Company |
| British Energy Limited | Scotland | Ordinary | 100 | – | Holding Company |
| British Energy Generation Limited | England and Wales | Ordinary | 100 | – | Generation and sale of electricity |
| British Energy Power and Energy Trading Limited | Scotland | Ordinary | 100 | – | Energy trading |
| British Energy Direct Limited | England and Wales | Ordinary | 100 | – | Sale of electricity |
| Eggborough Power Limited | England and Wales | Ordinary | 100 | – | Generation and sale of electricity |

A full list of subsidiary undertakings will be annexed to British Energy Group plc's next annual return.

### 5. Debtors

| | **2008 £m** | 2007 £m |
|---|---|---|
| Amounts due from subsidiary undertakings | **553** | 530 |

Amounts due from subsidiary undertakings, which originated post Restructuring, bear interest at LIBOR plus 2% and are repayable on demand.

### 6. Creditors: Amounts Falling due Within One Year

| | **2008 £m** | 2007 £m |
|---|---|---|
| Amounts due to subsidiary undertakings | **144** | 15 |

Amounts due to subsidiary undertakings, which originated post Restructuring, bear interest at LIBOR plus 2% and are repayable on demand.

# Parent Company Financial Statements
# Notes to the Financial Statements
## for the year ended 31 March 2008

### 7. Called Up Share Capital

| | 2008 £m | 2007 £m |
|---|---|---|
| **Authorised:** | | |
| 2,800,000,000 (2007: 2,800,000,000) ordinary shares of 10p each | **280** | 280 |
| 2,000,000,000 (2007: 2,000,000,000) convertible shares of 10p each | **200** | 200 |
| One (2007: one) special rights redeemable preference share of £1 | **–** | – |
| | **480** | 480 |

| | 2008 £m | 2007 £m |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| Equity shareholders' funds: | | |
| 1,033,550,744 (2007: 576,594,935) ordinary shares of 10p each | **103** | 58 |
| | **103** | 58 |
| Non-equity shareholder's funds: | | |
| One (2007: one) special rights redeemable preference share of £1 | **–** | – |
| | **–** | – |
| **Called up share capital** | **103** | 58 |

For details of the rights of each class of British Energy Group plc's shares and the Company's employee share option schemes refer to notes 30 and 33 respectively in the Group's financial statements.

### 8. Reconciliation of Movement in Shareholders' Funds and Movement in Reserves

| | Called up equity share capital £m | Share premium £m | Capital reserve £m | Warrant reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|
| **As at 31 March 2006** | 57 | 24 | 767 | 35 | 655 | 1,538 |
| Net profit for the year attributable to shareholders | – | – | – | – | 510 | 510 |
| Share-based payments | – | – | – | – | 2 | 2 |
| Exercise of Warrants | 1 | 16 | – | (11) | – | 6 |
| **As at 31 March 2007** | 58 | 40 | 767 | 24 | 1,167 | 2,056 |
| Net profit for the year attributable to shareholders | – | – | – | – | 27 | 27 |
| Equity dividends paid (see note 2) | – | – | – | – | (140) | (140) |
| Shares issued | 45 | 2,295 | – | – | – | 2,340 |
| Capital reduction | – | (2,295) | – | – | 2,295 | – |
| Share-based payments | – | – | – | – | 6 | 6 |
| Exercise of Warrants | – | 19 | – | (12) | – | 7 |
| **As at 31 March 2008** | **103** | **59** | **767** | **12** | **3,355** | **4,296** |

British Energy Group plc has distributable reserves of £3,344m (2007: £1,162m).

**(i) Called Up Equity Share Capital**
Called up equity share capital represents the nominal value of shares in issue (see note 7).

On 30 May 2007 the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy Group plc. On 1 June 2007 British Energy Group plc received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over allotment option of a further 50 million shares in the Company. As a result on 6 June 2007 British Energy Group plc issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue the Cash Sweep Payment percentage was reduced to approximately 36% and resulted in the recognition of an investment in British Energy Bond Finance plc (formerly British Energy Holdings plc) of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the conversion share price of £5.20 over the nominal value of shares issued. The investment in British Energy Bond Finance plc relates to the conversion asset recognised in British Energy Generation Limited and represents the fair value of British Energy Group plc's obligation, which was removed as a result of the exercise of the conversion right. It should be noted that whilst British Energy Group plc has the commitment to make the Cash Sweep Payment as described in the Contribution Agreement, the Company has agreed with British Energy Generation Limited that British Energy Generation Limited will make the required contribution on behalf of the Company.

**8. Reconciliation of Movement in Shareholders' Funds and Movement in Reserves (continued)**

**(ii) Share Premium**

The share premium recorded at 31 March 2008 of £59m (2007: £40m) represents the excess of the fair value of Warrants exercised and Warrant proceeds received since Restructuring over the nominal value of the shares issued on exercise.

As a result of the partial conversion by the NLF on 6 June 2007 additional share premium of £2,295m was recognised during the year. On 22 October 2007 the Court of Session in Edinburgh approved a £2,295m reduction of British Energy Group plc's share premium account, thereby creating distributable reserves of this value. The reduction of the share premium reserve by £2,295m equates to the amount of new share premium created in relation to the NLF partial conversion.

**(iii) Warrant Reserve**

On Restructuring the shareholders in British Energy plc were entitled to receive Shares and Warrants in British Energy Group plc. The Warrants entitle the holder to subscribe for ordinary shares in British Energy Group plc within five years of the Restructuring. As the Warrants are exercised this reserve will be transferred to share capital and the share premium account. During the year, 6,955,809 Warrants (2007: 6,399,439) were exercised resulting in an increase of 6,955,809 ordinary shares (2007: 6,399,439), an increase to share premium of £19m (2007: £16m) and a reduction in the warrant reserve of £12m (2007: £11m). At 31 March 2008 there were 6,764,057 (2007: 13,719,866) of unexercised Warrants. The proceeds received in the year in relation to the exercise of the Warrants amounted to £7m (2007: £6m).

**9. Contingent Liabilities**

British Energy Group plc 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.

British Energy Group plc has given a guarantee and indemnity to the Secretary of State for Business, Enterprise and Regulatory Reform and the Nuclear Liabilities Fund along with a number of other group companies in respect of the Nuclear Liabilities Funding Agreement.

British Energy Group plc has provided a debenture comprising fixed and floating charges to the Secretary of State for Business, Enterprise and Regulatory Reform and the Nuclear Liabilities Fund along with a number of other group companies in respect of any decommissioning default payment.

British Energy Group plc has provided a debenture comprising fixed and floating charges to Barclays Bank along with a number of other group companies in respect of all sums due under the Eggborough Finance Credit Agreement, the Capacity and Tolling Agreement and the Second Intercompany Loan Agreement.

British Energy Group plc has given a guarantee in relation to the obligations of British Energy Bond Finance plc under a Trust Deed creating guaranteed bonds.

**10. Financial Commitments**

**(i) Capital Commitments**

British Energy Group plc has no capital commitments at 31 March 2008 (2007: £nil).

**(ii) Other Contractual Commitments**

British Energy Group plc has a commitment to make the Cash Sweep Payment as described in the Contribution Agreement. As permitted by this Agreement, British Energy Group plc has agreed with British Energy Generation Limited that British Energy Generation Limited will make the required contribution on behalf of the Company.

# Financial Summary

| | **Year ended 31 March 2008 £m** | Year ended 31 March 2007 £m | Year ended 31 March 2006 £m | 2 July 2004* to 31 March 2005 £m |
|---|---|---|---|---|
| **Results** | | | | |
| Revenue | **2,811** | 2,999 | 2,593 | 499 |
| Operating profit | **507** | 794 | 635 | 69 |
| Profit before tax | **538** | 796 | 599 | 60 |
| Net profit | **335** | 465 | 430 | 41 |
| Dividends on ordinary shares | **140** | – | – | – |
| **Balance Sheet** | | | | |
| Net assets | **4,982** | 2,647 | 2,101 | 1,621 |
| Net current assets | **1,542** | 1,287 | 810 | 456 |
| Nuclear liabilities (discounted) | **5,512** | 5,469 | 5,237 | 5,143 |
| Capital expenditure | **207** | 235 | 220 | 35 |
| Net funds/(debt) | **798** | 674 | 218 | (220) |
| **Ratios** | | | | |
| Dividends per ordinary share (p/share) | **13.6** | – | – | – |
| Basic earnings per share (p/share) | **35.4** | 81.5 | 75.9 | 7.3 |
| Adjusted earnings per share (p/share) | **29.6** | 48.2 | 33.3 | 2.6 |

* The results are those of the acquired Group from the date of acquisition, 14 January 2005.

# Shareholder Information

**Shareholder Analysis as at 31 March 2008**
**Ordinary shares – £0.10**

| Range | Number of holdings | % | Balance as at 31 March 2008 | % of ISC |
|---|---|---|---|---|
| 1 to 9 | 26,568 | 39.68 | 181,106 | 0.02 |
| 10 to 49 | 32,269 | 48.20 | 596,063 | 0.06 |
| 50 to 99 | 3,581 | 5.06 | 214,109 | 0.02 |
| 100 to 999 | 2,765 | 4.40 | 877,234 | 0.08 |
| 1,000 to 9,999 | 916 | 1.37 | 2,241,883 | 0.22 |
| 10,000 to 49,999 | 274 | 0.41 | 6,381,861 | 0.62 |
| 50,000 to 99,999 | 120 | 0.18 | 8,579,318 | 0.83 |
| 100,000 to 249,999 | 144 | 0.22 | 23,870,881 | 2.31 |
| 250,000 to 1,000,000 | 186 | 0.28 | 100,618,799 | 9.74 |
| 1,000,001 to Highest | 128 | 0.20 | 889,989,490 | 86.10 |
| **Total** | **66,951** | **100.00** | **1,033,550,744** | **100.00** |

**Directors**
Sir Adrian Montague (Chairman)
Bill Coley (Chief Executive)
Stephen Billingham (Finance Director)
Pascal Colombani*
Bob Davies*
John Delucca*
Ian Harley*
David Pryde*
Sir Robert Walmsley*
Robert Walvis*

* Non-Executive Directors

**Company Secretary**
Robert Armour

**Registered Office**
GSO Business Park
East Kilbride
G74 5PG

**Registered Number**
SC 270184

**Auditors**
PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

**Registrars**
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Tel: 08713842045

**Shareholder Enquiries**
Equiniti are the Company's Registrars. Their address and telephone number appear above.

Alternatively, shareholders can access their website at http://www.equiniti.com and can check their registered holding at www.shareview.co.uk

In the event of any such enquiries, such as the loss of a share certificate, or to notify a change of address, shareholders should write to the Company's Registrars at the above address.

**Website**
www.british-energy.com

**Share Dealing Service**
Shareview Dealing is a telephone and internet service from Equiniti which offers a simple and convenient way to buy or sell British Energy shares. Further details may be obtained at www.shareview.co.uk/dealing or by telephone on 0845 603 7037. A postal dealing service is also available.

Charges as at May 2008 are:

**Certificated**

| | |
|---|---|
| Internet | 0.5% min. £15.00 |
| Telephone | 1% (up to £50,000) min. £25.00 |

**Nominee**

| | |
|---|---|
| Internet | 0.5% min. £12.50 |
| Telephone | 0.5% (up to £50,000) min. £17.50 |

**Share Price Information**
British Energy's share price is broadcast on BBC1 Ceefax, page 221, and on Channel 4 Teletext, page 521. It also appears in the financial columns of the national press and on the Company's website.

**CREST**
In conjunction with its Registrars, British Energy has established arrangements to offer a special CREST service for British Energy shareholders, which will allow them to hold shares through CREST while still receiving Company information. Further details about this nominee service can be obtained from the Registrars.

**Taxation Information**
For former British Energy plc shareholders who elected to receive British Energy Group plc Shares and Warrants on Restructuring in January 2005 the relevant base cost of these Shares and Warrants for capital gains purposes are 262.875 pence per Share and 172.375 pence per Warrant.

Information with regard to the tax implications for former British Energy plc shareholders on Restructuring, including a sample capital gains calculation for tax year 2005/06, can be found on the Company's website www.british-energy.com

# Glossary

**AGR (Advanced Gas-Cooled Reactor)**
The second generation of 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 Bond Finance plc (formerly British Energy Holdings plc).

**British Energy Direct**
British Energy Direct Limited.

**BERR**
Department of Business, Enterprise and Regulatory Reform.

**BETTA**
British Electricity Transmission and Trading Arrangements.

**BNFL**
British Nuclear Fuels plc.

**BNGSL**
British Nuclear Group Sellafield Limited.

**BCU (Boiler Closure Unit)**
Concrete and steel structure forming part of the reactor pressure boundary unique to Hartlepool and Heysham 1.

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

**BSUoS**
Balancing Services Use of System.

**Clean Dark Spread**
The price of electricity less the cost of coal and carbon.

**Contribution Agreement**
The agreement dated 14 January 2005 and now between the Secretary of State, NLF, British Energy Generation Limited, British Energy Group plc and British Energy Bond Finance plc (as amended from time to time).

**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.

**DUoS**
Distribution Use of System.

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

**Environmental Events**
Environmental events are events arising from both radioactive and non-radioactive wastes or discharges above permitted levels or breaches of permitted conditions at British Energy sites, including nuclear power stations, district survey laboratories and offices.

**EPL**
Eggborough Power Limited.

**EU ETS**
European Union Emissions Trading Scheme.

**Forward market price**
The average of the mid-point of the daily closing prices over the relevant year for forward annual baseload power (starting with the average forward price of the next six month winter and following six month summer season contracts and thereafter the average forward price of the same following six month summer season contract and subsequent six month winter contract) as reported on European Daily Electricity Markets, published by Heren Energy.

**GTMA**
Grid Trade Master Agreement.

**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.

**Investment in Plant**
Investment expenditure on plant projects, major repairs and strategic spares across the whole Group.

**ISDA**
International Swap Dealers Association.

# Glossary

**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 50MW thermal, that takes into account recent advances in combustion and abatement technologies to introduce revised limits for releases of $SO_2$, NOx 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.

**Levy Exemption Certificates (LECs)**
The climate change levy is a tax on the use of energy in industry, commerce and the public sector. The purpose of the levy is to encourage the efficient use of energy, therefore a range of measures are in place to assist energy users to improve energy efficiency, one of which is the exemption for the use of renewable power. LECs are provided as proof that this exemption is valid. 1 LEC equals 1MWh of renewable energy.

**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.

**Load Factor**
The electricity produced by a power station expressed as a percentage of the electricity it could have produced if operating at its reference energy generation over a fixed time period, usually one year.

**Lost Time Accident (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 Combustion Plant 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.

**Nuclear Reportable Events (NRE)**
Nuclear Reportable Events are events reported to the Nuclear Installations Inspectorate in compliance with British Energy's nuclear site licences.

**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.

**PiP**
The Performance Improvement Programme.

# Glossary

**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.

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

**Renewables Obligation Scheme**
Scheme introduced by Utilities Act 2000 requiring electricity suppliers to ensure a proportion of sales are derived from renewable sources.

**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 year and to remove the effect of one year'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.

**Shares**
Ordinary shares in British Energy Group plc.

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

**TNUoS**
Transmission Use of System.

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

**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.

**Unplanned Energy Loss**
In the context of Unplanned Capability Loss Factor, unplanned energy loss is energy that was not produced during the period because of unplanned shutdowns, outage extensions, or unplanned load reductions due to causes under plant management control. Causes of energy losses are considered to be unplanned if they are not scheduled at least four weeks in advance.

**UKLA**
United Kingdom Listing Authority.

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

# Index

Designed and produced by Emperor Design Consultants Ltd
Telephone 020 7729 9090 www.emperordesign.co.uk

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**Printed on Mega Matt paper and board. Mega Matt has a content of 50% totally chlorine free pulp from sustainable forests and 50% recycled fibre. Vegetable based inks were used throughout. The printer meets Environment Agency Standards. All waste and recycling processes are managed by contractors who are ISO 14001 registered.**

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