

Registered Number SC 117121

BRITISH ENERGY GENERATION (UK) LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2006



Registered Office

Systems House  
Alba Campus  
Livingston  
EH54 7EG

# **British Energy Generation (UK) Limited**

## **Directors and Advisers**

### **DIRECTORS**

Stephen Billingham	
Bill Coley	
Andrew Spurr	
Peter Wakefield	(appointed 6 February 2006)
Sir Robert Walmsley	
Jeremy Western	
Roy Anderson	(resigned 17 November 2006)
Philip Blackburn	(resigned 12 September 2005)
Peter Webster	(resigned 16 October 2006)

### **COMPANY SECRETARY**

Robert Armour

### **REGISTERED OFFICE**

Systems House  
Alba Campus  
Livingston  
EH54 7EG

### **AUDITORS**

PricewaterhouseCoopers LLP  
Erskine House  
68 73 Queen Street  
Edinburgh  
EH2 4NH

### **SOLICITORS**

MacRoberts  
152 Bath Street  
Glasgow  
G2 4TB

## **British Energy Generation (UK) Limited Directors' Report**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2006

### **PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

The Company's principal activity for the first three months of the year was the generation and sale of electricity. On 1 July 2005, the Company transferred its trade and assets at book value to its subsidiary undertaking, British Energy Generation Limited, as committed as part of the Restructuring of the Group which took place on 14 January 2005. For the remaining nine months of the year the Company incurred certain costs which it subsequently recharged to Group companies.

It is the intention of the Directors that the Company will act as an intermediate holding company within the Group and will continue to incur costs on behalf of other Group companies which it will then recharge.

References to the Group are to British Energy Group plc, the ultimate holding company of British Energy Generation (UK) Limited, and its subsidiaries including this Company. References to 'British Energy' are to British Energy Group plc.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The management of the business and the execution of the Company's strategy are subject to a number of risks. A discussion of these risks and uncertainties, in the context of the Group as a whole, is provided in the Financial Review on pages 14 to 21 of the Group's Annual Report and Accounts for the year ended 31 March 2006, which does not form part of this report.

### **KEY PERFORMANCE INDICATORS**

The Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of British Energy Generation (UK) Limited. The development, performance and position of the Company's trading activities is discussed within the Review of Operating Performance on pages 9 to 13 of the Group's Annual Report and Accounts for the year ended 31 March 2006, which does not form part of this report.

### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's financial risk management objectives and policies, including policies for hedging transactions, are discussed in the Group's Annual Report and Accounts for the year ended 31 March 2006 in the Risk Management Section on pages 19 to 21 of the Financial Review, which does not form part of this report.

### **SHARE CAPITAL**

Details of the Company's share capital are included at note 19.

### **RESULTS AND DIVIDENDS**

The result for the year is set out in the profit and loss account on page 8. The profit for the financial year of £480m (2005 £6,275m) was transferred to reserves.

The Directors recommend the payment of an interim dividend of £641m (2005 £nil).

### **EVENTS AFTER THE BALANCE SHEET DATE**

An interim dividend of £641m was proposed and approved by the Board of Directors on 21 December 2006 (2005 £nil).

### **RESEARCH AND DEVELOPMENT**

In the first three months of the year the Company spent £1m on research and development (2005 £3m) and these costs have been expensed within Materials and Services in the profit and loss account. This was primarily scientific and engineering research activity that was directed towards securing further improvements in the reliability, performance and safety of the Company's generating business and related activities.

### **DIRECTORS AND THEIR INTERESTS**

The Directors of the Company throughout the year and at 31 March 2006 are listed on page 2.

None of the Directors had an interest in the shares of the Company during the year.

The interests of the Directors at 31 March 2006 in the ordinary shares of the ultimate holding company, British Energy Group plc are detailed in the Group's Annual Report and Accounts for the year ended 31 March 2006, except for those which are detailed below.

# British Energy Generation (UK) Limited Directors' Report

## Ordinary Shares in British Energy Group plc

Andrew Spurr  
Peter Wakefield  
Peter Webster  
Jeremy Western

	31 March 2006 No of shares	31 March 2005 or date of appointment No of shares
	7	7
	163	163

## Executive Share Options in British Energy Group plc

Details of British Energy Group plc Share Options Schemes are set out in the Remuneration Committee Report of that company

## Executive Share Options in British Energy Limited (formerly British Energy plc)

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 holders of options in British Energy Limited have not been permitted 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. Directors' interests in Executive and SAYE share options over ordinary shares in British Energy Limited are as follows:

	At 1 April 2005	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2006	Option exercise price (£)	Date from when exercisable	Expiry date
Andrew Spurr	11,538				11,538	2.60	15/07/2000	14/07/2007
	11,170			(11,170)		5.08	29/06/2001	28/06/2005
	19,700				19,700	5.30	25/06/2002	24/06/2006
	33,754				33,754	2.41	14/07/2003	13/07/2007
	<u>76,162</u>			<u>(11,170)</u>	<u>64,992</u>			
Peter Webster	5,911				5,911	5.08	29/06/2001	28/06/2008
	8,276			(8,276)		5.08	29/06/2001	28/06/2005
	13,597				13,597	5.30	25/06/2002	24/06/2006
	33,398				33,398	2.41	14/07/2003	13/07/2007
	<u>61,182</u>			<u>(8,276)</u>	<u>52,906</u>			
Jeremy Western	11,538				11,538	2.60	15/07/2000	14/07/2007
	10,899			(10,899)		5.08	29/06/2001	28/06/2005
	22,533				22,533	5.30	25/06/2002	24/06/2006
	34,414				34,414	2.41	14/07/2003	13/07/2007
	<u>79,384</u>			<u>(10,899)</u>	<u>68,485</u>			

Exercise of these options is conditional on achievement of an average annual growth in earnings per share of 3% per year ahead of inflation over three consecutive years.

## Sharesave Scheme

	At 1 April 2005	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2006	Option exercise price (£)	Date from when exercisable	Expiry date
Andrew Spurr	4,051			(4,051)		1.36	01/09/2005	28/02/2006
Peter Webster	502			(502)		1.36	01/09/2005	28/02/2006
Jeremy Western	2,141			(2,141)		1.36	01/09/2005	28/02/2006
	8,636			(8,636)		1.36	01/09/2005	28/02/2006
	<u>10,777</u>			<u>(10,777)</u>				

## **British Energy Generation (UK) Limited Directors' Report**

### **POLICY ON PAYMENT OF CREDITORS**

The Company'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 to abide by the agreed terms. The Company had no trade creditors at 31 March 2006 (2005: £7m). Suppliers to the Group were paid within an average of 56 days for the financial year (2005: 68 days). For the purpose of this analysis supplier purchases exclude payments to British Nuclear Fuels plc (BNFL), the Company's principal supplier, which are generally made against an agreed contract profile.

### **CHARITABLE AND POLITICAL CONTRIBUTIONS**

The Company made charitable donations during the year of £213 (2005: £39,550) in support of the community. No political donations were made during the year (2005: £nil).

### **EMPLOYEES**

The Company 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 Company is committed to its equal opportunities policies, which includes 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.

During the year, the Share Incentive Plan, which is an all employee performance related share scheme, was established by the Group. More details of the Share Incentive Plan, and the Group's other share schemes, are set out in the Group's Annual Report and Accounts for the year ended 31 March 2006.

### **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.

### **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 page 2. 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.

This report was approved by the Board of Directors on 21 December 2006 and signed on its behalf by



**ROBERT ARMOUR**  
Company Secretary

**British Energy Generation (UK) Limited**  
**Statement of Directors' Responsibilities**  
**for the year ended 31 March 2006**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company, and of the results 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 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 Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

**British Energy Generation (UK) Limited**  
**Independent Auditors' Report to the Members of British Energy Generation (UK) Limited**  
**for the year ended 31 March 2006**

We have audited the financial statements of British Energy Generation (UK) Limited for the year ended 31 March 2006, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements are prepared under the accounting policies set out therein.

**Respective responsibilities of Directors and auditors**

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also 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 transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 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 financial statements.

**Opinion**

In our opinion:

- the 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 at 31 March 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



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

21 December 2006

**British Energy Generation (UK) Limited**  
**Profit and Loss Account**  
**for the year ended 31 March 2006**

	Notes	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
<b>Turnover</b>			
Continuing activities	2	2	
Discontinued activities	2	103	380
	2	<u>105</u>	<u>380</u>
 Operating costs before exceptional items	3	(82)	(254)
Exceptional operating items	3	483	6,184
Operating costs after exceptional items	3	<u>401</u>	<u>5,930</u>
 <b>Operating profit</b>			
Continuing activities		483	
Discontinued activities		23	6,310
		<u>506</u>	<u>6,310</u>
 <b>Financing (charges)/credits</b>			
Net revaluation charges before exceptional item	6	(1)	(37)
Net interest	6	(25)	(4)
Exceptional revaluation credit	6		6
		<u>(26)</u>	<u>(35)</u>
 <b>Profit on ordinary activities before taxation</b>		<u>480</u>	<u>6,275</u>
 Taxation on profit on ordinary activities	7		
 <b>Profit for the financial year</b>	20	<u>480</u>	<u>6,275</u>

**Statement of Total Recognised Gains and Losses**  
**for the year ended 31 March 2006**

There were no recognised gains and losses other than those included in the profit and loss account above

The accompanying notes are an integral part of these financial statements

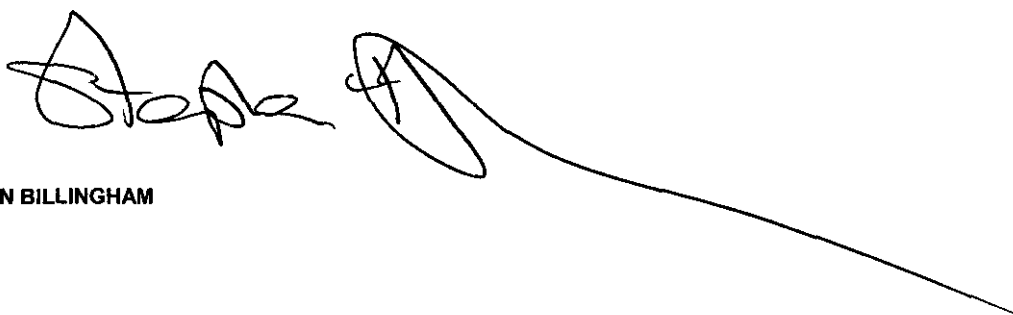


**British Energy Generation (UK) Limited**  
**Balance Sheet**  
**as at 31 March 2006**

	Notes	2006 £m	2005 £m
<b>Fixed assets</b>			
Tangible assets	8		241
Investments	9	<u>1,084</u>	<u>601</u>
		<u>1,084</u>	<u>842</u>
<b>Current assets</b>			
Stocks	10		84
Debtors amounts falling due within one year	11	11	4,618
Debtors amounts falling due after more than one year	12		966
Investments – liquid funds			15
		<u>11</u>	<u>5,683</u>
<b>Creditors amounts falling due within one year</b>	13	<u>(562)</u>	<u>(5,463)</u>
<b>Net current (liabilities)/assets</b>		<u>(551)</u>	<u>220</u>
<b>Total assets less current liabilities</b>		<b>533</b>	<b>1,062</b>
<b>Creditors amounts falling due after more than one year</b>	14		(476)
<b>Provisions for liabilities and charges</b>	15		<u>(533)</u>
<b>Net assets</b>		<u><b>533</b></u>	<u><b>53</b></u>
<b>Capital and reserves</b>			
Called up share capital	19		
Share premium	20	72	72
Capital reserve	20	46	46
Profit and loss account	20	415	(65)
<b>Shareholders' funds</b>	20	<u><b>533</b></u>	<u><b>53</b></u>

The accompanying notes are an integral part of these financial statements

The financial statements were approved by the Board of Directors on 21 December 2006 and signed on its behalf by



**STEPHEN BILLINGHAM**  
Director

**British Energy Generation (UK) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2006**

**1 ACCOUNTING POLICIES**

**(i) Basis of Preparation**

The financial statements are prepared under the historical cost convention and in accordance with accounting standards applicable in the United Kingdom

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 the Company's accounting policies and confirm that they continue to be the most appropriate. A number of the policies require the Company 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. Estimates of output, costs and timing of associated cash flows, as well as the expected regulatory framework, are key factors used to apply the stated policies for long term nuclear liabilities and decommissioning.

The Company is an intermediate holding company but has taken the exemption provided by the Companies Act 1985 and not prepared group financial statements as it is a member of the British Energy Group plc group of companies for which group financial statements are prepared.

In accordance with FRS 1 (Revised) Cash Flow Statements, a cash flow statement is not presented since the Company is a wholly owned subsidiary.

**(ii) Turnover**

**Before the Transfer of Trade and Assets**

Turnover represents sales of electricity and sales of other related goods. Turnover is shown net of value added tax.

Wholesale generation sales are recognised on an accruals basis with reference to meter readings or where required based on management's best estimation of electricity supplied.

**After the Transfer of Trade and Assets**

Turnover represents management charges made to other Group companies.

**(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 stock and charged to the profit and loss account in proportion to the amount of fuel burnt.

**(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 stock and charged to the profit and loss account 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 profit and loss account in the year.

**(vi) Research and Development Expenditure**

Expenditure, including that incurred on scientific and engineering research, which relates to preliminary studies and the initiation of new techniques not yet adopted, is charged to the profit and loss account as incurred. All other maintenance, repairs and renewals are charged to the profit and loss account during the financial period in which they are incurred.

**British Energy Generation (UK) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2006**

**(vii) Pensions and Other Post Retirement Benefits**

The Company participates in a multi employer defined benefit plan. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities and in accordance with FRS 17 – Retirement Benefits (FRS 17), the Company accounts for its contributions to the plan as if it is a defined contribution plan.

**(viii) NLF Funding Arrangements**

Under the arrangements with the Secretary of State, the Nuclear Liabilities Fund (NLF) will fund, subject to certain exceptions, the Company'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 Company 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 Company's obligations under these arrangements with the Secretary of State are guaranteed by certain companies in the Group.

In consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy Holdings plc issued £275m in Bonds to the NLF at the Restructuring Effective Date. The Group will also now make the following payments to the NLF: (i) an annual contribution (Cash Sweep Payment) initially equal to 65% of British Energy Group's adjusted net cash flow, adjusted for certain corporate actions but never to exceed 65% (Cash Sweep percentage), and (ii) fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations are currently scheduled to close).

The NLF has the right from time to time to convert all or part of the Cash Sweep Payment into convertible shares of the Group (the NLF Conversion Right). On a full conversion, the NLF would hold up to 65% of the thereby enlarged equity share capital of the Group. 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.

The annual Cash Sweep Payment can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, this Company will only recognise and provide for it 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 becomes payable 25 business days after publication of the Group's Annual Report and Accounts.

The fixed decommissioning obligations of £20m per annum have been recorded as a liability on the balance sheet at their discounted values 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 profit and loss account include the revaluation of NLF liabilities required to discharge one year's discount from the liability.

**(ix) Tangible Fixed Assets and Depreciation**

Fixed assets comprise assets acquired or constructed by the Company. Expenditure of a capital nature incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is also capitalised. Other expenditure including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost less accumulated depreciation. 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 carrying values of fixed assets are reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.

The charge for depreciation of fixed assets 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 subject to regular review and for the year ended 31 March 2006 were:

AGR power stations	25-35 years
Other buildings	40 years
Other plant and equipment	5 years

Overhaul costs, being the costs incurred in relation to statutory outages, are capitalised (in other plant and equipment) and depreciated over the period until the next statutory outage. For AGR power stations, this depreciation period is three years.

Included within the power station category are strategic spares, which are carried at the lower of cost and net realisable value and depreciated over the life of the asset to which they relate.

**(x) 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.

**British Energy Generation (UK) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2006**

**(xi) Stocks of Fuel and Stores**

Stocks of fuel and stores are valued at the lower of cost and net realisable value. The nuclear fuel stock includes capitalised front end and back end costs including the rebate/surcharge but is reduced by the provision for unburnt fuel at shutdown (note 1 (v)).

**(xii) NLF and Nuclear Liabilities Receivables**

The Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities 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 liabilities.

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

The NLF receivable and the nuclear liabilities receivable are stated in the 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 profit and loss account include the revaluation of these receivables required to match the revaluation of the nuclear liabilities.

**(xiii) Nuclear Liabilities**

Nuclear liabilities represent provision for the Company'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 our 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 against the income from sales, accruals are made in respect of the following:

**a) Back End Fuel Costs**

The treatment of back end fuel costs in the profit and loss account has been dealt with under the accounting policies for fuel costs above. These nuclear liabilities cover 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. Where accruals are based on contractual arrangements they are included within creditors. Other accruals are based on long term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

**b) Decommissioning of Nuclear Power Stations**

The financial statements include provision for the full cost of decommissioning the Company'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.

Accruals and provisions for back end fuel costs and decommissioning are stated in the 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 profit and loss account include the revaluation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

**(xiv) Deferred Taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred. 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 reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where it is more likely than not that the assets will be realised.

**(xv) Liquid Funds**

Cash which is placed on term deposits which mature more than one day after the end of the financial year or invested in commercial paper, is classified under current asset investments in the balance sheet and the movement in liquid funds is disclosed under management of liquid resources in the cash flow statement.

**British Energy Generation (UK) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2006**

**2 OUTPUT AND TURNOVER**

The analysis of output that is unaudited is as follows

	2006 TWh	2005 TWh
Output	<u>4.6</u>	<u>16.6</u>

The analysis of turnover is as follows

	2006 £m	2005 £m
<b>Continuing activities</b>		
Management charges	2	
<b>Discontinued activities</b>		
Electricity generation	103	379
Miscellaneous income		1
	<u>103</u>	<u>380</u>
<b>Total turnover</b>	<u>105</u>	<u>380</u>

Electricity generation represents the sale of electricity to British Energy Power and Trading Limited for the period from 1 April 2005 to 30 June 2005

**3 OPERATING COSTS**

	2006 £m	2005 £m
<b>Continuing activities</b>		
Staff costs	2	
<b>Discontinued activities</b>		
Fuel	29	66
Materials and services	30	124
Staff costs (note 4)	13	49
Depreciation	5	15
	<u>77</u>	<u>254</u>
Energy supply costs	3	
	<u>80</u>	<u>254</u>
<b>Operating costs before exceptional items</b>	<u>82</u>	<u>254</u>
<b>Exceptional operating items</b>		
Materials and services		(4,921)
Depreciation		(70)
Amounts credited to non operational assets	(483)	(483)
Restructuring exceptionals		(710)
	<u>(483)</u>	<u>(6,184)</u>
<b>Operating costs after exceptional items</b>	<u>(401)</u>	<u>(5,930)</u>
<b>Analysis of exceptional operating items</b>		
	2006 £m	2005 £m
Fixed asset write up		(73)
Write up of investments	(483)	(483)
Write back of provision for doubtful debts		(3,695)
Loan waived by parent undertaking		(1,226)
Depreciation – corporate headquarters		3
Recognition of NLF receivable		(314)
Recognition of nuclear liabilities receivable		(505)
Restructuring impact on nuclear liabilities		62
Recognition of NLF liability		49
Accrual release		(2)
	<u>(483)</u>	<u>(6,184)</u>

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The exceptional operating credit amounting to £483m is further explained as follows

- The Directors reassessed the carrying value of the Company's investment in British Energy Generation Limited to bring it into line with net assets, therefore necessitating a reversal of the provision amounting to £483m

Exceptional operating credits amounting to £6,184m were reported in the year ended 31 March 2005. These amounts are further explained as follows

- At 31 March 2005 the Directors reassessed the fixed asset carrying values, in line with the requirements of FRS 11 Impairment of Fixed Assets and Goodwill, to determine whether any revisions to fixed asset carrying values were appropriate. The carrying value of the nuclear stations was calculated by discounting the expected future cash flows from continued use of the assets, having made appropriate assumptions regarding future operating performance. Following the review the carrying value of fixed assets was increased by £73m at 31 March 2005 to reflect reversal of previous impairment losses
- The Directors reassessed the carrying value of the Company's investments in British Energy Generation Limited and British Energy Investment Limited to bring them into line with the net assets or their original cost, therefore necessitating a reversal of the provision amounting to £478m and £5m respectively
- The £3,695m provision against group receivables was reversed to reflect the improved recoverability of these balances following Restructuring
- On Restructuring various group loans were waived resulting in a credit of £1,226m for the year ended 31 March 2005
- An exceptional operating charge of £3m was recorded in the year to 31 March 2005 in order to align the carrying value of the corporate headquarters at Peel Park, East Kilbride, Scotland to its market value
- On Restructuring, the market value of the decommissioning fund of £145m and £69m of Bonds issued by British Energy Holdings plc to the decommissioning fund were transferred to the NLF receivable, which was then revalued to bring its value into line with the present value of qualifying nuclear liabilities of £528m. This therefore resulted in an exceptional credit of £314m being recognised on Restructuring
- On 14 January 2005, a nuclear liabilities receivable of £505m was recognised, which will be used to fund services for spent AGR fuel loaded pre-Restructuring
- The £62m exceptional charge represented the combined impact of the reduction in amounts payable to BNFL under the revised terms that became effective on 14 January 2005 and the increase in spent fuel service costs relating to moving from a burnt basis to a load basis
- An exceptional charge of £49m was reflected in the year to 31 March 2005 to reflect the Company's share of the Group's £20m per annum payments due to the NLF (NLF liability)

	2006 £m	2005 £m
<b>Operating costs are stated after charging</b>		
Research and development	<u>1</u>	<u>3</u>

The auditors' remuneration for audit services was £30,000 (2005 £177,000) which was borne by British Energy Limited

#### **4 EMPLOYEE INFORMATION**

##### **(a) Staff costs**

	2006 £m	2005 £m
Salaries	11	40
Social security costs	1	4
Pension costs (note 18)	3	5
<b>Total staff costs</b>	<u>15</u>	<u>49</u>

##### **(b) Employee numbers**

	No	No
Average number of employees during the year	<u>302</u>	<u>1,068</u>

Average number of full time equivalent employees by category during the year were

	No	No
Power stations	237	945
Engineering, technical and corporate support	<u>64</u>	<u>121</u>
	<u>301</u>	<u>1,066</u>

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**5 SUMMARY OF DIRECTORS' EMOLUMENTS**

	2006 £000	2005 £000
Total emoluments, including pension contributions		
For management services		
salaries and other benefits	2,262	1,336
performance related bonuses	1,615	424
pension contributions	164	91
	<u>4,041</u>	<u>1,851</u>
compensation for loss of office	654	
	<u>4,695</u>	<u>1,851</u>

Emoluments for those Directors who are also Directors of British Energy Group plc are detailed in the Remuneration Committee Report in the British Energy Group plc Annual Report and Accounts. Emoluments of all the Directors are borne by British Energy Limited or British Energy Generation Limited but are included in the above amounts. None of the Directors received emoluments for their services as Directors to this Company in the year ended 31 March 2006 (2005: £nil) since the services supplied to this Company are considered to be incidental to those supplied to the Group.

Retirement benefits accrue to 7 (2005: 8) Directors under a defined benefits scheme.

Compensation for loss of office of £654,000 (2005: £nil) was paid to Mike Alexander, a former Director who resigned in the prior year.

The above amounts for remuneration include the following in respect of the highest paid Director:

	2006 £000	2005 £000
Emoluments	1,262	418
Pension contributions	27	15
	<u>1,289</u>	<u>433</u>

**6 FINANCING CHARGES/(CREDITS)**

	2006 £m	2005 £m
<b>Revalorisation of nuclear liabilities (note 16)</b>		
changes in price levels	9	27
discharge of one year's discount	8	28
	<u>17</u>	<u>55</u>
Revalorisation of decommissioning fund		(7)
Revalorisation of nuclear liabilities receivable	(8)	(6)
Revalorisation of NLF receivable	(9)	(6)
Revalorisation of NLF liabilities	1	1
Net revalorisation charges before exceptional item	<u>1</u>	<u>37</u>
Exceptional item		(6)
<b>Net revalorisation charges</b>	<u>1</u>	<u>31</u>
<b>Interest payable</b>		
Other interest payable		3
Interest payable on amounts owed to group undertakings	36	1
	<u>36</u>	<u>4</u>
<b>Interest receivable</b>		
Interest receivable on amounts owed by group undertakings	(11)	
<b>Net interest</b>	<u>25</u>	<u>4</u>

At 14 January 2005 the market value of the UK decommissioning fund had increased to £145m, thereby necessitating an exceptional credit of £6m to the profit and loss account in the period to 14 January 2005 to reverse previously written down amounts. As a result of the UK decommissioning fund receivable being restated at market value this exceptional credit of £6m was recorded in finance charges to reverse the prior write down of previous revalorisation. The market value at 14 January 2005 remained below the amount which would have been calculated by revalorising on an actuarial basis the total amounts which had been invested in the fund.

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**7 TAXATION**

	2006 £m	2005 £m
Current tax		
UK corporation tax charge on profits for the year		
Deferred tax		
(Credit)/charge for year on ordinary activities	(9)	12
Charge/(credit) for prior years on ordinary activities	1	(11)
Movement in unrecognised deferred tax asset	8	(6)
Charge on exceptional items		5
Deferred tax charge for year		
Tax charge on profit on ordinary activities		

A reconciliation of the effective tax rate for the current year tax charge is set out below

	2006 £m	2005 £m
Tax charge on profit at standard rate of 30%	144	1,882
Capital allowances for the year in shortfall/(excess) of depreciation	1	(21)
(Utilisation)/generation of tax losses	(1)	4
Current year movement in deferred tax		(17)
Credits not chargeable for tax purposes	(144)	(1,865)
Current tax charge for year		

**8 TANGIBLE FIXED ASSETS**

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
<b>Cost</b>				
As at 1 April 2005	2,543	3	25	2,571
Additions	2		1	3
Intercompany transfer	(2,545)	(3)	(26)	(2,574)
<b>As at 31 March 2006</b>				
<b>Depreciation</b>				
As at 1 April 2005	2,309		21	2,330
Charge for the year	4		1	5
Intercompany transfer	(2,313)		(22)	(2,335)
<b>As at 31 March 2006</b>				
<b>Net book value</b>				
<b>As at 31 March 2006</b>				
As at 31 March 2005	234	3	4	241

The net book value of tangible fixed assets includes the following amounts in respect of freehold land and buildings

	2006 £m	2005 £m
Cost		534
Net book value		25



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**9 FIXED ASSET INVESTMENTS**

	Shares in British Energy Generation Limited £m	Shares in British Energy Investment Limited £m	Loans to United Kingdom Nirex Limited £m	Total £m
<b>Cost</b>				
As at 1 April 2005	2,218	5	12	2,235
Disposal			(12)	(12)
<b>As at 31 March 2006</b>	<b>2,218</b>	<b>5</b>		<b>2,223</b>
<b>Provision for diminution in value</b>				
As at 1 April 2005	1,622		12	1,634
Disposal			(12)	(12)
Investment write-up	(483)			(483)
<b>As at 31 March 2006</b>	<b>1,139</b>			<b>1,139</b>
<b>Net book value</b>				
<b>As at 31 March 2006</b>	<b>1,079</b>	<b>5</b>		<b>1,084</b>
As at 31 March 2005	596	5		601

On 1 April 2005 the Group disposed of its interests in United Kingdom Nirex Limited for consideration of £1

British Energy Generation (UK) Limited owns 100% of the ordinary share capital of British Energy Generation Limited. This company's principal activity is the generation and sale of electricity.

The Directors have reassessed the carrying value of the Company's investment in British Energy Generation Limited to bring it into line with net assets therefore necessitating a reversal of the provision amounting to £483m (2005 £478m).

British Energy Generation (UK) Limited owns 100% of the ordinary share capital of British Energy Investment Limited. This company's principal activity is to act as a holding company for certain investments held by the Group.

The Company owns 100% of the ordinary share capital of British Energy International Holdings Limited of £2. This company's principal activity is to act as an intermediate holding company within the Group.

**10 STOCKS**

	2006 £m	2005 £m
Unburnt nuclear fuel in reactors		296
Provision for unburnt fuel at station closure		(237)
Net unburnt nuclear fuel in reactors		59
Other nuclear fuel		19
Stores		6
		<b>84</b>

**11 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2006 £m	2005 £m
Nuclear liabilities receivable		39
Trade debtors		18
Prepayments		4
Other debtors		1
VAT		3
Amounts due from group undertakings	11	4,553
	<b>11</b>	<b>4,618</b>

Amounts due from group undertakings which originated post Restructuring bear interest at LIBOR plus 2% and are repayable on demand. Amounts due from group undertakings which originated prior to Restructuring bear no interest and are repayable on demand.

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**12 DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2006 £m	2005 £m
Nuclear liabilities receivable		433
NLF receivable		533
		<u>966</u>

**13 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2006 £m	2005 £m
Bank overdraft	-	1
Nuclear liabilities (note 16)	-	39
NLF liabilities	-	5
Trade creditors	-	7
Other taxes and social security	-	2
Pensions	-	1
Accruals	-	29
Amount due to group undertakings	562	5,379
	<u>562</u>	<u>5,463</u>

Amounts due to group undertakings bear interest and are repayable as follows

- Amounts originating prior to Restructuring bear no interest and are repayable on demand,
- Amounts originating post Restructuring bear interest at LIBOR plus 2% and are repayable on demand,
- Amount due to British Energy Holdings plc of £nil (2005 £70m), originating on Restructuring, bears interest at 7% (2005 7%) and is repayable on demand, and
- Amount due to British Energy Generation Limited of £133m, originating on transfer of the Company's trade and assets on 1 July 2005, bears interest at 7.25% and is repayable on demand

**14 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2006 £m	2005 £m
Nuclear liabilities (note 16)		433
NLF liabilities		43
		<u>476</u>

**15 PROVISIONS FOR LIABILITIES AND CHARGES**

	2006 £m	2005 £m
Nuclear liabilities (note 16)		533

**16 NUCLEAR LIABILITIES**

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decomm issioning £m	Total £m
As at 1 April 2005	472	251	282	1,005
Charged to profit and loss account revaluation (note 6)	8	5	4	17
Payments in the year	(10)			(10)
Intercompany transfer	(470)	(256)	(286)	(1,012)
As at 31 March 2006	<u></u>	<u></u>	<u></u>	<u></u>

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Nuclear liabilities are included in the balance sheet as follows

	2006 £m	2005 £m
Creditors		
amounts falling due within one year		39
amounts falling due after more than one year		433
Provisions for liabilities and charges		533
		<u>1,005</u>

**Back End Fuel Costs**

Accruals for AGR spent fuel services relating to fuel loaded into reactors up to the Restructuring Effective Date (RED) are based on the terms of the Historic Liabilities Funding Agreement (HLFA) with BNFL, or the Company's estimates where no contracts exist. The pattern of payments within the HLFA were fixed (subject to indexation by RPI) at RED and are funded by Government under the Government Indemnity. Provisions for services relating to the disposal of nuclear waste 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 Company's decommissioning strategy.

**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 £bn	Back end fuel costs uncontracted £bn	Decomm issioning £bn	2006 Total £bn	2005 Total £bn
Undiscounted					2.9
Discounted					1.0
Accrued to date					1.0

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 profit and loss account 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 1(xiii), 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	Decomm issioning £m	2006 Total £m	2005 Total £m
Within five years					215
6 - 10 years					338
11 - 25 years					444
26 - 50 years					416
51 years and over					1,525
					<u>2,938</u>

**17 DEFERRED TAXATION**

	2006 £m	2005 £m
Accelerated capital allowances		(44)
Corporation tax losses	8	44
Asset for deferred tax	8	
Asset not recognised	(8)	
Asset for deferred tax recognised		

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**18 POST RETIREMENT BENEFIT OBLIGATIONS**

British Energy Generation (UK) Limited contributes to the pension arrangement operated by British Energy Generation Group (BEGG) within the Electricity Supply Pension Scheme (ESPS). 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. This defined benefits plan is a multi employer plan which is run on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities. In accordance with FRS 17 the Company accounts for its contributions to the plan as if it were a defined contribution plan.

The Company contributed 22.4% (2005: 17.1%) to the BEGG pension scheme as employer's normal contributions for the year ended 31 March 2006. Members who do not participate in the salary conversion arrangement and who are required to pay employee contributions contribute 5% to the scheme. Members who participate in the salary conversion arrangement have their salaries reduced by 5%, these monies being paid to the BEGG scheme as additional employer contributions. The Company's pension costs for the year ended 31 March 2006 were £3m (2005: £5m). There were no outstanding or prepaid pension contributions at 31 March 2006 (2005: £nil).

The Group paid additional employer contributions towards the BEGG scheme's funding deficiency of £69m for the year ended 31 March 2006 (2005: £nil). The £69m included £19m of agreed additional contributions and £50m of accelerated contributions. Based on the assumptions used at the last triennial valuation, the accelerated contribution now brings the expected deficit repair plan within a 10 year timeframe, recognising the indicative guidelines provided by The Pension Regulator. At the time of the last triennial valuation it was agreed that amounts totalling £19.5m for the year ending 31 March 2007 and £20m for the year ending 31 March 2008 will be paid towards the funding deficiency of the BEGG scheme and that these additional contributions will rise to £50.3m for the year ending 31 March 2009 and remain at that level until the year ending 31 March 2017. The requirement for additional contributions will be reviewed as part of the next triennial valuation as at 31 March 2007.

The most recent triennial valuation of the BEGG scheme was carried out at 31 March 2004 by the independent ESPS actuary. The valuation for accounting purposes has been carried out by a separate independent actuary using the projected unit method and at 31 March 2006 a deficit of £199m (2005: £337m) was identified.

The major assumptions used by the actuaries for the defined benefit plan were:

	2006 % pa	2005 % pa	2004 % pa
Price inflation	2.75	2.75	2.75
Rate of general increase in salaries	4.25	4.25	4.25
Rate of increase of pensions in payment	2.75	2.75	2.75
Discount rate	5.00	5.50	5.50

The assets and liabilities of the scheme and the expected rates of return are:

	Rate of return %	Value at 31 March 2006 £m	Rate of return %	Value at 31 March 2005 £m	Rate of return %	Value at 31 March 2004 £m
Equities	7.90	1,410	8.20	1,097	8.25	1,076
Bonds	4.40	561	4.70	499	4.75	466
Property	6.15	253	6.45	212	6.40	223
Hedge funds	6.40	93	6.70	85		
Others	4.00	98	4.00	41	3.75	26
Total market value of plan assets		2,415		1,934		1,791
Present value of plan liabilities		(2,614)		(2,271)		(2,105)
Pension liability before deferred tax		(199)		(337)		(314)
Related deferred tax asset		60		101		
Net pension liability		(139)		(236)		(314)

No deferred tax asset is recognisable on the pension deficit in 2004, based on application of the Group's deferred tax accounting policy.

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The movement in the deficit during the year is analysed as follows

	2006 £m	2005 £m
Deficit in plan at beginning of the year	(337)	(314)
<b>Movement in year</b>		
Current service cost	(50)	(39)
Past service cost	(4)	(2)
Other finance income	10	10
Profit before tax impact	(44)	(31)
Contributions	121	29
Actuarial return less expected return on post employment plan assets	305	61
Experience (losses)/gains arising on plan liabilities	(11)	3
Changes in assumptions (financial and demographic)	(233)	(85)
Variance between actuarial assumptions and actual experience	61	(21)
<b>Deficit in the plan at the end of the year</b>	<b>(199)</b>	<b>(337)</b>

**19 CALLED UP SHARE CAPITAL**

	2006 £	2005 £
<b>Authorised</b>		
1,000 (2005 1,000) ordinary shares of £1 each	1,000	1,000
One (2005 one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>1,001</u>
<b>Allotted, called up and fully paid</b>		
1,000 (2005 1,000) ordinary shares of £1 each	1,000	1,000
One (2005 one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>1,001</u>

**Special Rights Redeemable Preference Share of £1**

The special rights redeemable preference 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 the Company, or a disposal by the Company of any or all of its shares held in British Energy Generation Limited. 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.

**20 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	Share premium account £m	Capital reserve £m	Profit and loss account £m	Total £m
1 April 2004			(6,340)	(6,340)
Arising on Restructuring	72	46		118
Profit for the financial year			6,275	6,275
1 April 2005	72	46	(65)	53
Profit for the financial year			480	480
<b>As at 31 March 2006</b>	<b>72</b>	<b>46</b>	<b>415</b>	<b>533</b>

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**21 CONTINGENT ASSETS**

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

**22 CONTINGENT LIABILITIES**

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

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

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

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

On 7 December 2006, the Consortium issued a notice of arbitration alleging that an error had been made in the valuation of the Bruce Power pension plan. As a result, a contractual adjustment to the purchase price payable by the Consortium was incorrectly calculated. The Consortium claims that British Energy benefited by C\$23m in consequence which they require to be repaid. British Energy expects to defend the claim.

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

The Company has given a guarantee in relation to the obligations of British Energy Holdings plc under a Trust Deed creating guaranteed bonds.

**23 RELATED PARTIES**

The Company has taken advantage of the exemption under FRS 8 – Related Party Disclosures, not to disclose related party transactions with fellow members of the Group. These transactions eliminate on consolidation in the Group financial statements.

The Company is a limited Company owned by British Energy Limited 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. The Directors consider British Energy Group plc as the Company's controlling party under the terms of FRS 8.

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The Group and Company 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 period with HMG and sponsored bodies under its control:

HMG meets the Company's historic contracted nuclear liabilities to BNFL, a Government controlled body. The nuclear liabilities receivable is recognised on the balance sheet in relation to these liabilities and decreased from £472m at 31 March 2005 to £nil at 31 March 2006.

The Company made fixed decommissioning funding contributions to the NLF of £1m (2005: £5m) during the year.

The Company made payments to BNFL of £26m (2005: £101m) 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 £10m (2005: £76m) was passed to BNFL in the year. The Company incurred interest costs of £nil (2005: £nil) in respect of deferred payments and stock financing. The balance outstanding due to BNFL at the end of the year was £nil (2005: £nil). Amounts due to the Company by BNFL at 31 March 2006 under the Historic Liability Funding Agreement amounted to £nil (2005: £472m).

The Company has also had a number of material transactions in its normal course of business with other sponsored bodies and departments of HMG including HM Revenue and Customs and the UK Atomic Energy Authority.

**24 ULTIMATE PARENT UNDERTAKING**

The immediate parent undertaking is British Energy Limited.

The Directors consider that the ultimate parent undertaking and controlling party is British Energy Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. British Energy Holdings plc is the parent undertaking of the smallest group to consolidate these financial statements. Copies of the consolidated financial statements of British Energy Group plc and British Energy Holdings plc can be obtained from the Company Secretary at British Energy Group plc or British Energy Holdings plc, Systems House, Alba Campus, Livingston, EH54 7EG.

**25 POST BALANCE SHEET EVENTS**

An interim dividend of £641m was proposed and approved by the Board of Directors on 21 December 2006 (2005: £nil).