

Registered Number: SC 117121

BRITISH ENERGY GENERATION (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005



Registered Office:

Systems House
Alba Campus
Livingston
EH54 7EG

British Energy Generation (UK) Limited

Directors and Advisers

DIRECTORS

Roy Anderson	(appointed 2 August 2004)
Stephen Billingham	(appointed 24 September 2004)
Bill Coley	(appointed 20 March 2005)
Andrew Spurr	
Sir Robert Walmsley	
Peter Webster	(appointed 14 June 2004)
Jeremy Western	
Philip Blackburn	(resigned 12 September 2005)
Michael Alexander	(resigned 20 March 2005)
Martin Gatto	(resigned 16 September 2004)
David Gilchrist	(resigned 5 August 2004)

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 2005.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company's principal activity during the year was the generation and sale of electricity.

It is the intention of the Directors that the Company will continue to develop its current principal activity.

On 14 January 2005, British Energy Group plc acquired British Energy Limited (formerly British Energy plc) and consequently became the new ultimate holding Company of the British Energy Group of companies (the Group) of which the Company is a member.

On 1 July 2005, the Company transferred its trade and assets to its immediate subsidiary undertaking, British Energy Generation Limited, as a commitment made as part of the Restructuring of the Group.

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 7. The profit for the financial year of £6,275m (2004: loss £244m) was transferred to reserves.

The Directors do not recommend the payment of a dividend (2004: £nil).

RESEARCH AND DEVELOPMENT

During the year the Company spent £3m on research and development (2004: £3m) and these costs have been classified within Materials and Services. This is primarily scientific and engineering research activity that is directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities.

DIRECTORS AND THEIR INTERESTS

The Directors of the Company throughout the year and at 31 March 2005 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 2005 in the ordinary shares of the ultimate holding Company, British Energy Group plc (BEG plc) are detailed in the financial statements of that Company, except for those which are detailed below:

Ordinary Shares in British Energy Group plc

	31 March 2005 No. of shares
Philip Blackburn	-
Andrew Spurr	-
Peter Webster	7
Jeremy Western	163

The interests of the Directors at 1 April 2004, or date of appointment, in the ordinary shares of the then ultimate holding Company, British Energy plc (now called British Energy Limited) were detailed in the financial statements of that Company, except for those which are detailed below.

Ordinary Shares in British Energy Limited (formerly British Energy plc)

	1 April 2004 or date of appointment No. of shares
Roy Anderson	-
Philip Blackburn	-
Andrew Spurr	-
Peter Webster	-
Jeremy Western	8,233
Stephen Billingham	-

British Energy Generation (UK) Limited Directors' Report

Details of Share Options Schemes are set out in the Remuneration Committee Report of British Energy Group plc. Share options were granted in previous years by British Energy Limited (formerly British Energy plc). 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 (formerly British Energy plc) have not been permitted to roll them over into options over shares in British Energy Group plc. The options granted by British Energy Limited (formerly British Energy plc) 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 (formerly British Energy plc) are as follows:

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

	At 1 April 2004	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2005	Option exercise price £	Date from when exercisable	Expiry date
Philip Blackburn	10,000	-	-	-	10,000	2.60	15/07/2000	14/07/2007
	1,012	-	-	-	1,012	3.95	13/11/2000	12/11/2007
	10,120	-	-	(10,120)	-	3.95	13/11/2000	12/11/2004
	10,224	-	-	-	10,224	5.08	29/06/2001	28/06/2005
	18,227	-	-	-	18,227	5.30	25/06/2002	24/06/2006
	37,543	-	-	-	37,543	2.41	14/07/2003	13/07/2007
	<u>87,126</u>	<u>-</u>	<u>-</u>	<u>(10,120)</u>	<u>77,006</u>			
Andrew Spurr	11,538	-	-	-	11,538	2.60	15/07/2000	14/07/2007
	16,538	-	-	(16,538)	-	2.60	15/07/2000	14/07/2004
	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>92,700</u>	<u>-</u>	<u>-</u>	<u>(16,538)</u>	<u>76,162</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>-</u>	<u>-</u>	<u>-</u>	<u>61,182</u>			
Jeremy Western	11,538	-	-	-	11,538	2.60	15/07/2000	14/07/2007
	14,760	-	-	(14,760)	-	2.60	15/07/2000	14/07/2004
	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>94,144</u>	<u>-</u>	<u>-</u>	<u>(14,760)</u>	<u>79,384</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 2004	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2005	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>-</u>	<u>-</u>	<u>-</u>	<u>10,777</u>			

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 trade creditors amounting to £7m at 31 March 2005 (2004: £16m). Suppliers to the Group were paid within an average of 68 days for the financial year (2004: 40 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.

British Energy Generation (UK) Limited Directors' Report

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made charitable donations during the year of £39,550 (2004: £3,053) in support of the community. No political donations were made during the year (2004: £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 which recognises that all employees have the right to be treated with dignity and respect.

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.

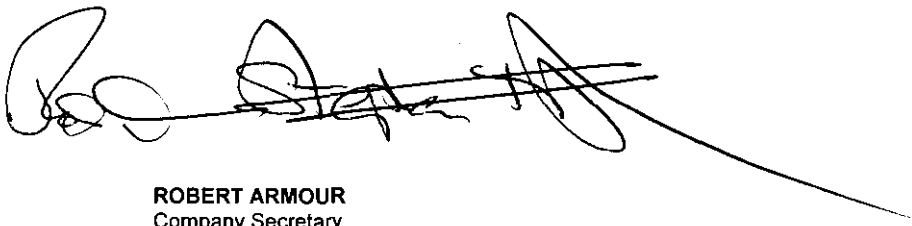
In preparing the financial statements, the Directors are required to:

- 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, subject to any material departures disclosed and explained in the financial statements; 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 maintaining 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.

This report was approved by the Board of Directors on 20 January 2006 and signed on its behalf by:

A large, stylized handwritten signature in black ink, appearing to read 'Robert Armour', is written over the printed name and title.

ROBERT ARMOUR
Company Secretary

British Energy Generation (UK) Limited
Independent Auditors' Report to the Members of British Energy Generation (UK) Limited
for the year ended 31 March 2005

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. 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 also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of the Company's affairs at 31 March 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh

20 January 2006

British Energy Generation (UK) Limited
Profit and Loss Account
for the year ended 31 March 2005

	Notes	Year ended 31 March 2005 £m	Year ended 31 March 2004 Restated £m
Turnover	2	<u>380</u>	<u>307</u>
Operating costs before exceptional items	3	(254)	(245)
Exceptional operating items	3	<u>6,184</u>	<u>(376)</u>
Operating costs after exceptional items	3	<u>5,930</u>	<u>(621)</u>
Operating profit/(loss)		<u>6,310</u>	<u>(314)</u>
Dividends received		-	97
Financing (charges)/credits:			
Revalorisation charge	6	(37)	(39)
Net interest payable	6	(4)	(2)
Exceptional revalorisation credits	6	<u>6</u>	<u>14</u>
		<u>(35)</u>	<u>(27)</u>
Profit/(loss) on ordinary activities before taxation		<u>6,275</u>	<u>(244)</u>
Taxation on profit/(loss) on ordinary activities	7	-	-
Profit/(loss) for the financial year	20	<u><u>6,275</u></u>	<u><u>(244)</u></u>

The results above relate entirely to continuing operations.

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2005

	Note	2005 £m	2004 Restated £m
Total recognised gains and losses relating to the year		<u>6,275</u>	<u>(244)</u>
Prior year adjustment	1	<u>(68)</u>	
Total recognised losses since last financial statements		<u><u>6,207</u></u>	

The accompanying notes are an integral part of these financial statements.

British Energy Generation (UK) Limited
Balance Sheet
as at 31 March 2005

	Notes	2005 £m	2004 Restated £m
Fixed assets			
Tangible assets	8	241	193
Investments	9	601	-
		<u>842</u>	<u>193</u>
Current assets			
Decommissioning fund	10	-	128
Stocks	11	84	50
Debtors: amounts falling due within one year	12	4,618	22
Debtors: amounts falling due after more than one year	13	966	-
Investments – liquid funds		15	15
		<u>5,683</u>	<u>215</u>
Creditors: amounts falling due within one year	14	<u>(5,463)</u>	<u>(5,975)</u>
Net current assets/(liabilities)		<u>220</u>	<u>(5,760)</u>
Total assets less current liabilities		1,062	(5,567)
Creditors: amounts falling due after more than one year	14	(476)	(288)
Provisions for liabilities and charges	15	(533)	(485)
Net assets/(liabilities)		<u>53</u>	<u>(6,340)</u>
Capital and reserves			
Called up share capital	19	-	-
Share premium	20	72	-
Capital reserve	20	46	-
Profit and loss account	20	(65)	(6,340)
Shareholders' funds/(deficit)	21	<u>53</u>	<u>(6,340)</u>

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 January 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 2005

1. ACCOUNTING POLICIES

(i) Basis of Preparation and Changes in Accounting Policies

The financial statements are prepared under the historical cost convention and in accordance with accounting standards applicable in the United Kingdom, except for the departure noted below. References to 'British Energy' are to British Energy Group plc.

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.

On 14 January 2005, the Company's parent Company British Energy Limited (formerly British Energy plc) was acquired by British Energy Group plc. In order to align the accounting policies with those adopted by British Energy Group plc, the Company has adopted FRS 17 - Post Retirement Benefits (FRS 17), reclassified its strategic spares from stock to the power station category within fixed assets, has changed its deferred tax policy to account for deferred tax on an undiscounted basis rather than a discounted basis as in prior years and adjusted the gross stock and the unburnt fuel provision for costs which were previously expensed. Comparative figures have been restated to reflect these changes in policy. The effect of the change in each of these policies is detailed below.

The change in accounting policy following the adoption of FRS 17 has resulted in shareholders' funds at 31 March 2003 being reduced by £23m. The profit for the year ended 31 March 2005 has not been revised and the loss for the year ended 31 March 2004 has increased by £8m. At 31 March 2005, the SSAP 24 pension prepayment of £31m (2004: £23m) has been de-recognised.

The strategic spares change in accounting policy has resulted in stocks of spares being reduced by £2m (2004: £2m) and fixed assets being increased by £2m (2004: £2m). There has been no change to the profit for the current period or loss for the prior period.

The deferred tax change in accounting policy and other accounting policy changes have not required any revisions to taxation in the primary financial statements in either the current or prior years as a result of the Company's unrecognised deferred tax position.

The change in accounting policy for stock to capitalise fixed fabrication and back end loading in gross stock and the impact on the related unburnt fuel provisions, has resulted in shareholder funds at 31 March 2003 being reduced by £35m. The profit for the year ended 31 March 2005 has increased by £34m and the loss for the year ended 31 March 2004 has increased by £2m. At 31 March 2005, the gross stock has increased by £141m (2004: £146m) and the unburnt fuel provision has increased by £144m (2004: £183m).

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

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

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

Turnover includes miscellaneous income that comprises mainly services to Magnox in respect of shared sites.

(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.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

(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
- (b) a rebate/surcharge against the cost mentioned in (a) above that is dependent on the outturn electricity price 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) is 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

Research and development expenditure is charged to the profit and loss account as incurred.

(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 the Company accounts for its contributions to the plan as if it is a defined contribution plan.

(viii) NLF Funding Arrangements

Under new arrangements with the Secretary of State, the former Nuclear Decommissioning Fund was enlarged into and renamed the Nuclear Liabilities Fund (NLF), which 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, 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 New Bonds to the NLF. The Group will also now make the following payments to the NLF (i) an annual contribution (Cash Sweep Payment) initially equal to 65% of the 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 attaching to such shares equal to a maximum of 29.9% whilst held by the NLF. At the time of relisting, the Secretary of State confirmed that she had no current intention to direct the NLF to exercise the NLF Conversion Right but reserves the right to do so.

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 other interim financial periods. It will be recorded as an operating cost of the applicable financial year. The annual Cash Sweep Payment becomes payable 20 business days after publication of the Group 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 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 profit and loss include the revalorisation of NLF liabilities required to discharge one year's discount from the liability.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

(ix) Tangible Fixed Assets and Depreciation

Fixed assets comprise assets acquired or constructed by the Company.

During the year ended 31 March 2005 all capital expenditure investment that would previously have been capitalised as fixed assets was expensed as operating costs following the fixed asset impairment review carried out in the year ended 31 March 2004. This arises because it is not possible to demonstrate that this expenditure enhanced the value of the Company's fixed assets after taking account of the impairment review.

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 brought into commission.

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 2005 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 categories 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.

(xi) Stocks of Fuel, Stores and Spares

Stocks of fuel, stores and spares 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 Receivable and Nuclear Liabilities Receivable (applicable after Restructuring)

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

A NLF receivable asset is recognised representing 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 receivables 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 revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

(xiii) Decommissioning Fund (applicable before Restructuring)

Prior to the Group Restructuring the Company made contributions into an independently administered fund to cover all costs of decommissioning its nuclear power stations, except de-fuelling costs. The Company's annual contributions to the fund were assessed by qualified actuaries, taking into account the amount and timing and expected decommissioning costs and the periods until station closures. The value of the asset in the balance sheet represented the contributions made by the Company, together with an estimated actuarially determined long-term rate of return on the fund. The change in value arising from applying the estimated long-term rate of return was taken to the profit and loss account and disclosed as part of revalorisation.

The revalorisation of the decommissioning fund, which was taken through the profit and loss account, was not a realised profit for the purposes of the Companies Act 1985 because the income was unrealised until the Company received the related cash from the fund to reimburse decommissioning expenditure. The inclusion of this profit in the profit and loss account was a departure from the requirements of the Companies Act 1985. Revalorisation of the accrued decommissioning provision is charged to the profit and loss account each year and accordingly, in the opinion of the Directors, it was necessary to include the estimated annual long-term rate of return of the fund in the Company's profit and loss account in order for the financial statements to give a true and fair value determined under the accounting policy set out above, the lower value was included in the Company accounts.

The effect of the departure for the UK fund was to increase the profit before tax by £13m (2004: decrease the loss before tax by £25m) and to increase the reported profit before exceptional items for the period to 14 January 2005 by £7m (2004: increase profit £8m). There is no impact on the net assets at 14 January 2005 and 31 March 2005 as the fund was restated to market value. There were no tax consequences of this departure.

On Restructuring the market value of the decommissioning fund of £145m and £69m of New 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.

(xiv) 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. The Directors carry out an in-depth review of the adequacy of amounts provided on a five yearly basis, and also review the amounts provided for significant change during the intervening years. 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 matching the costs of generating electricity against the income from sales, accruals are made in respect of the following:

- a) **Fuel costs – back end**
The treatment of back end fuel costs in the profit and loss account has been dealt with in notes 1(iv) and (v). 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 revalorisation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

(xv) 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.

(xvi) 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 2005

2. OUTPUT AND TURNOVER

The analysis of output that is unaudited is as follows:

	2005 TWh	2004 TWh
Output	<u>16.6</u>	<u>16.9</u>

The analysis of turnover is as follows:

	2005 £m	2004 £m
Electricity generation	379	306
Miscellaneous income	<u>1</u>	<u>1</u>
	<u>380</u>	<u>307</u>

Electricity generation represents the sale of electricity to Scottish Power plc and Scottish and Southern Energy plc.

All income is attributable to continuing activities in the United Kingdom.

3. OPERATING COSTS

	2005 £m	2004 Restated £m
Operating costs before exceptional items		
Fuel	66	87
Materials and services	124	99
Staff costs (note 4)	49	50
Depreciation	<u>15</u>	<u>9</u>
	<u>254</u>	<u>245</u>
Exceptional operating items		
Materials and services	(4,921)	443
Depreciation	(70)	(69)
Amounts (credited to)/written off non-operational assets	(483)	2
Restructuring exceptionals	<u>(710)</u>	<u>-</u>
	<u>(6,184)</u>	<u>376</u>
Operating costs after exceptional items	<u>(5,930)</u>	<u>621</u>

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

Analysis of exceptional operating items

	2005	2004
	£m	£m
Fixed asset write up	(73)	(69)
Write (up)/down of investments	(483)	5
Decommissioning write up	-	(3)
(Write back)/provision for doubtful debts (note 12)	(3,695)	443
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>(6,184)</u>	<u>376</u>

The exceptional operating credits amounting to £6,184m 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 (increased by £69m at 31 March 2004) to reflect reversal of previous impairment losses. The electricity price assumptions are a very significant component of the asset value calculation. The Directors have considered market views on future prices of wholesale electricity and also the forecasts specifically commissioned for the Company. They have considered the impact on future prices of the increases in market electricity prices which occurred in the past year, the outlook for coal and gas fuel prices, potential for changes in generation capacity in the UK, and the potential effect on the market of changes in Government policy particularly in the area of environmental legislation. In determining the price assumptions the Directors have taken a cautious view of there being a significant long-term recovery in market prices. As market prices are outside the Directors' control actual prices may differ from those forecast.
- The Directors have 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 has been 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 New 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 represents 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 has been 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).

Exceptional operating costs amounting to £376m were reported for the year ended 31 March 2004. These amounts are further explained as follows:

- An exceptional depreciation credit of £69m was recorded in the year to 31 March 2004 to reflect reversal of previous impairment losses following the review of carrying value of fixed assets.
- The investment in British Energy Investments Limited were written-off following a review of its carrying value, resulting in a charge of £5m for the year to 31 March 2004.
- The investments held in the UK decommissioning fund were written-up to reflect an increase in market value, resulting in an exceptional credit of £3m to reverse the write down of non-operational assets made in the year ended 31 March 2003.
- A provision of £443m was made against group receivables for the year to 31 March 2004 to reflect uncertainty of recoverability prior to the Restructuring.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

	2005 £m	2004 £m
Operating costs are stated after charging:		
Research and development	<u>3</u>	<u>3</u>

The auditors' remuneration for audit services of £177,000 (2004: £57,000) was borne by British Energy Limited.

4. EMPLOYEE INFORMATION

(a) Staff costs

	2005 £m	2004 Restated £m
Salaries	40	40
Social security costs	4	4
Pension costs (note 18)	5	6
Total staff costs	<u>49</u>	<u>50</u>

(b) Employee numbers

	No.	No.
Average number of employees during the year	<u>1,068</u>	<u>1,143</u>

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

	No.	No.
Power stations	945	926
Engineering, technical and corporate support	121	216
	<u>1,066</u>	<u>1,142</u>

5. SUMMARY OF DIRECTORS' EMOLUMENTS

	2005 £000	2004 £000
Total emoluments, including pension contributions:		
For management services:		
- salaries and other benefits	1,336	1,191
- performance related bonuses	424	429
- pension contributions	91	99
	<u>1,851</u>	<u>1,719</u>
- compensation for loss of office	-	146
	<u>1,851</u>	<u>1,865</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 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 2005 (2004: £nil) since the services supplied to this Company are considered to be incidental to those supplied to the Group.

Retirement benefits accrue to 8 (2004: 6) Directors under a defined benefits scheme.

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

	2005 £000	2004 £000
Emoluments	418	623
Pension contributions	15	17
	<u>433</u>	<u>640</u>

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

6. FINANCING CHARGES/(CREDITS)

	2005 Total £m	2004 Total £m
Revalorisation of nuclear liabilities:		
- changes in price levels	27	21
- discharge of one year's discount	28	26
	55	47
Revalorisation of decommissioning fund	(7)	(8)
Revalorisation of nuclear liabilities receivable	(6)	-
Revalorisation of NLF receivable	(6)	-
Revalorisation of fixed decommissioning obligations	1	-
Revalorisation charge before exceptional item	37	39
Exceptional item	(6)	(14)
Net revalorisation charges	31	25
Net interest:		
Interest payable	3	2
Interest payable to parent undertaking	1	-
	4	2

At 14 January 2005 the market value of the UK decommissioning fund had increased to £145m (31 March 2004: £128m), thereby necessitating an exceptional credit of £6m to the profit and loss account in the period to 14 January 2005 (31 March 2004: £17m) 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 (2004: £14m) has been recorded in finance charges to reverse the prior write-down of previous revalorisation and in the year to 31 March 2004, a £3m exceptional credit was recorded in operating costs to reverse a prior write-down of non-operational assets (2005: £nil). The market value at 14 January 2005 and 31 March 2004 remained below the amount which would have been calculated by revalorising on an actuarial basis the total amounts which have been invested in the fund.

7. TAXATION

	2005 £m	2004 Restated £m
Current tax:		
UK corporation tax charge on profits for the year	-	-
Deferred tax:		
Charge for year on ordinary activities	12	-
Credit for prior years on ordinary activities	(11)	-
Movement in unrecognised deferred tax asset	(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.

	2005 £m	2004 Restated £m
Tax charge/(credit) on profit/(loss) at standard rate of 30%	1,882	(73)
Movement in unrecognised deferred tax	(6)	(28)
Prior year movement in deferred tax	(11)	-
Current year movement in deferred tax	(17)	(28)
(Credits)/expenses not (chargeable)/deductible for tax purposes	(1,865)	101
Current tax charge for year	-	-

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

8. TANGIBLE FIXED ASSETS

	Power stations Restated £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 2004	2,543	18	25	2,586
Disposals	-	(15)	-	(15)
As at 31 March 2005	<u>2,543</u>	<u>3</u>	<u>25</u>	<u>2,571</u>
Depreciation				
As at 1 April 2004	2,368	5	20	2,393
Exceptional asset write up	(73)	-	-	(73)
Charge for the year	14	3	1	18
On disposals	-	(8)	-	(8)
As at 31 March 2005	<u>2,309</u>	<u>-</u>	<u>21</u>	<u>2,330</u>
Net book value				
As at 31 March 2005	<u>234</u>	<u>3</u>	<u>4</u>	<u>241</u>
As at 31 March 2004	<u>175</u>	<u>13</u>	<u>5</u>	<u>193</u>

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

	2005 £m	2004 £m
Cost	<u>534</u>	<u>549</u>
Net book value	<u>25</u>	<u>35</u>

The Directors have reviewed the economic values of the Company's fixed assets and compared them to their book value. A discount rate of 9.5% (2004: 15%) was applied to the economic value review. As a result of this review, the value of the Company's fixed assets has been increased by £73m (2004: £69m). The background to the review is discussed more fully in note 3.

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
Cost				
As at 1 April 2004	2,100	5	12	2,117
Additions	118	-	-	118
As at 31 March 2005	<u>2,218</u>	<u>5</u>	<u>12</u>	<u>2,235</u>
Provision for diminution in value				
As at 1 April 2004	2,100	5	12	2,117
Investment write-up	(478)	(5)	-	(483)
As at 31 March 2005	<u>1,622</u>	<u>-</u>	<u>12</u>	<u>1,634</u>
Net book value				
As at 31 March 2005	<u>596</u>	<u>5</u>	<u>-</u>	<u>601</u>
As at 31 March 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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. On 14 January 2005, as a consequence of the Restructuring, under a Scheme of Arrangement under Section 425 of the Companies Act 1985, British Energy Generation Limited's liabilities to Enron were transferred to the Company in exchange for an investment in British Energy Generation Limited amounting to £118m.

The Directors have 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 of these companies, therefore necessitating a reversal of the provision amounting to £478m and £5m respectively.

Loans have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided for in the financial statements.

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.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

10. DECOMMISSIONING FUND

	£m
As at 1 April 2004	128
Regular contributions	4
Revalorisation (see note 6)	7
	<u>139</u>
Exceptional write up to mark the fund to market value	6
As at 14 January 2005	145
Transferred to NLF receivable on Restructuring	(145)
As at 31 March 2005	-

On Restructuring the market value of the decommissioning fund of £145m and £69m of New 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, see note 13.

Prior to Restructuring, the decommissioning fund asset in the balance sheet would normally represent the contributions made by the Company, together with an estimated actuarially determined long-term post-tax real rate of return on the fund of 3.5% per annum. The change in value arising from applying the estimated long-term rate of return was taken to the profit and loss account as a revalorisation credit. The decommissioning fund asset was receivable in more than one year and was restricted in its use.

At 14 January 2005 the market value of the UK decommissioning fund had increased to £145m (31 March 2004: £128m), thereby necessitating an exceptional credit of £6m to the profit and loss account in the period to 14 January 2005 (31 March 2004: £17m) 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 (2004: £14m) has been recorded in finance charges to reverse the prior write-down of previous revalorisation and in the year to 31 March 2004, a £3m exceptional credit was recorded in operating costs to reverse a prior write-down of non-operational assets (2005: £nil). The market value at 14 January 2005 and 31 March 2004 remained below the amount which would have been calculated by revalorising on an actuarial basis the total amounts which have been invested in the fund.

11. STOCKS

	2005 £m	2004 Restated £m
Unburnt nuclear fuel in reactors	296	293
Provision for unburnt fuel at station closure	(237)	(270)
Net unburnt nuclear fuel in reactors	<u>59</u>	<u>23</u>
Other nuclear fuel	19	21
Stores	6	6
	<u>84</u>	<u>50</u>

12. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £m	2004 Restated £m
Nuclear liabilities receivable	39	-
Trade debtors	18	21
Prepayments	4	1
Other debtors	1	-
VAT	3	-
Amounts due from group undertakings	4,553	-
	<u>4,618</u>	<u>22</u>

The nuclear liabilities receivable represents amounts due within one year under the historic BNFL contracts which are reimbursed by the Government. This matches the nuclear liabilities included in creditors falling due within one year.

As a result of the Restructuring, the provision relating to amounts due from group undertakings of £3,695m has been released during the year to 31 March 2005.

Amounts due from group undertakings bear no interest and are repayable on demand.

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

13. DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £m	2004 £m
Nuclear liabilities receivable	433	-
NLF receivable	533	-
	<u>966</u>	<u>-</u>

The nuclear liabilities receivable represents amounts due after more than one year under the historic BNFL contracts which will be reimbursed by Government. This matches the nuclear liabilities included in creditors falling due after more than one year.

The NLF receivable asset in the balance sheet 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 2005 is receivable after more than one year and is restricted in its use. This matches the nuclear liabilities provision.

14. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £m	2004 £m
Bank overdraft	1	-
Nuclear liabilities (note 16)	39	157
NLF liabilities	5	-
Trade creditors	7	16
Other taxes and social security	2	12
Pensions	1	1
Accruals	29	18
Amount due to group undertakings	5,379	5,771
	<u>5,463</u>	<u>5,975</u>

Amounts due to group undertakings bear no interest and are repayable on demand except a £70m payable to British Energy Holdings plc which bears interest at 7% per annum.

The NLF liabilities accruals represent the Company's share of the Group's commitment to contribute £20m per annum to the NLF (stated in March 2003 values and adjusted for RPI) tapering off as the nuclear power stations are currently scheduled to close discounted at 3% real to its net present value.

CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £m	2004 £m
Nuclear liabilities (note 16)	433	288
NLF liabilities	43	-
	<u>476</u>	<u>288</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £m	2004 £m
Nuclear liabilities (note 16)	533	485

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

16. NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decomm- issioning £m	2005 Total £m	2004 Total £m
As at 1 April 2004	445	218	267	930	871
Charged to profit and loss account					
- operating costs	24	10	-	34	30
- revalorisation (note 6)	28	12	15	55	47
Payments in the year	(76)	-	-	(76)	(18)
Restructuring impact	51	11	-	62	-
As at 31 March 2005	472	251	282	1,005	930

The £62m Restructuring impact represents 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.

Nuclear liabilities are included in the balance sheet as follows:

	2005 £m	2004 £m
Creditors:		
- amounts falling due within one year	39	157
- amounts falling due after more than one year	433	288
Provisions for liabilities and charges	533	485
	1,005	930

Fuel costs - back end

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 Group's estimates where no contracts exist. The pattern of payments within the HLFA were fixed (subject to indexation by RPI) at RED and will be 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 ongoing 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	2005 Total £bn	2004 Total £bn
Undiscounted	0.6	0.9	1.4	2.9	4.0
Discounted	0.4	0.3	0.3	1.0	1.5
Accrued to date	0.5	0.2	0.3	1.0	0.9

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:

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decomm- issioning £m	2005 Total £m	2004 Total £m
Within five years	199	16	-	215	280
6 - 10 years	196	40	102	338	280
11 - 25 years	201	63	180	444	664
26 - 50 years	-	389	27	416	643
51 years and over	-	386	1,139	1,525	953
	<u>596</u>	<u>894</u>	<u>1,448</u>	<u>2,938</u>	<u>2,820</u>

17. DEFERRED TAXATION

	2005 £m	2004 Restated £m
Accelerated capital allowances	44	28
Corporation tax losses	(44)	(53)
Asset for deferred tax	-	(25)
Asset not recognised	-	25
Asset for deferred tax recognised	-	-

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 FRS17 the Company accounts for its contributions to the plan as if it were a defined contribution plan.

The Company contributed 17.1% to the BEGG pension scheme during the year. Contributing members contributed 5% to the BEGG pension scheme. The Company's pension costs for the year to 31 March 2005 were £5m (2004: £6m). There were no outstanding or prepaid pension contributions at 31 March 2005 (2004: £nil).

From 1 April 2005 the rate of employer's regular contributions for future service benefits under the Generation Group increased from 17.1% to 22.4%. Additional employer contributions will be paid towards the Generation Group funding deficiency totalling £19m for the year ending 31 March 2006, £19.5m for the year ending 31 March 2007 and £20m for the year ending 31 March 2008. 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 on 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 2005 a deficit of £337m (2004: £314m) was identified.

At 31 March 2004, the asset values used in the financial statements were based on actuarial reports. These have subsequently been found to be inaccurate and therefore the figures below have been restated as indicated to reflect the correct values. The market value of the plan was previously reported as £1,765m resulting in a net pension liability of £340m which are now £1,791m and £314m respectively.

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

	2005 % pa	2004 % pa	2003 % pa
Price inflation	2.75	2.75	2.25
Rate of general increase in salaries	4.25	4.25	3.75
Rate of increase of pensions in payment	2.75	2.75	2.25
Discount rate	5.50	5.50	5.50

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

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

	Rate of return %	Value at 31 March 2005 £m	Rate of return %	Value at 31 March 2004 Restated £m	Rate of return %	Value at 31 March 2003 £m
Equities	8.20	1,097	8.25	1,076	8.50	858
Bonds	4.70	499	4.75	466	4.50	438
Property	6.45	212	6.40	223	6.50	-
Hedge funds	6.70	85	-	-	-	183
Others	4.00	41	3.75	26	3.75	23
Total market value of plan assets		1,934		1,791		1,502
Present value of plan liabilities		(2,271)		(2,105)		(1,846)
Pension liability before deferred tax		(337)		(314)		(344)
Related deferred tax asset		101		-		-
Net pension liability		(236)		(314)		(344)

No deferred tax asset is recognisable on the pension deficit in 2004 and 2003, based on application of the Group's deferred tax accounting policy.

The movement in the deficit during the period is analysed as follows:

	2005 £m	2004 Restated £m
Deficit in plan at beginning of the year	(314)	(344)
Movement in year:		
Current service cost	(39)	(34)
Past service cost	(2)	(1)
Other finance income	10	4
Profit before tax impact	(31)	(31)
Contributions	29	33
Actuarial return less expected return on post employment plan assets	61	223
Experience gains/(losses) arising on plan liabilities	3	(30)
Changes in assumptions (financial and demographic)	(85)	(165)
Variance between actuarial assumptions and actual experience	(21)	28
Deficit in the plan at the end of the year	(337)	(314)

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

19. CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
1,000 (2004: 102) ordinary shares of £1 each	1,000	102
One (2004: one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>103</u>
Allotted, called up and fully paid		
1,000 (2004: 102) ordinary shares of £1 each	1,000	102
One (2004: one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>103</u>

On 14 January 2005, a resolution was adopted to increase the authorised share capital of the Company to £1,001 by the creation of 898 additional ordinary shares of £1.

On 14 January 2005, as a consequence of the Restructuring, under a Scheme of Arrangement under section 425 of the Companies Act 1985, British Energy Generation Limited's liabilities to Enron were transferred to the Company in exchange for an investment in British Energy Generation Limited amounting to £118m. The Company exchanged this debt for 898 of ordinary shares of £1 issued to British Energy Limited (formerly British Energy plc).

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.

20. RESERVES

	Share premium account £m	Other capital reserve £m	Profit and loss reserve £m
1 April 2004 as previously reported	-	-	(6,272)
Prior year adjustment	-	-	(68)
1 April 2004 as restated	-	-	(6,340)
Arising on restructuring	72	46	-
Profit for the financial year	-	-	6,275
As at 31 March 2005	<u>72</u>	<u>46</u>	<u>(65)</u>

The other capital reserve was created on the issue of shares by the Company and represents the excess of the fair value of the claims over the legal liability foregone by Enron.

21. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2005 £m	2004 Restated £m
Opening shareholders' funds as previously reported	(6,272)	(6,038)
Prior year adjustment	(68)	(58)
Opening shareholders' funds as restated	<u>(6,340)</u>	<u>(6,096)</u>
Net proceeds on issue of ordinary share capital (note 19)	118	-
Profit/(loss) for the financial year	6,275	(244)
As at 31 March 2005 and at 31 March 2004	<u>53</u>	<u>(6,340)</u>

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

22. 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 our balance sheet at 31 March 2005 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.

23. CONTINGENT LIABILITIES

On 12 February 2004 British Energy 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 British Energy could result in a rebate of a material amount of tax to the Group that has not been recognised in the financial statements. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. British Energy 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. British Energy has rejected the claim and expects to defend it if it is pursued further.

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 Company 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 Company has given a guarantee and indemnity to the Secretary of State for Trade and Industry and the Nuclear Liabilities Fund along with a number of other group companies in respect of the Nuclear Liabilities Funding Agreement.

The Company has provided a debenture comprising fixed and floating charges to the Secretary of State for Trade and Industry and the Nuclear Liabilities Fund along with a number of other group companies in respect of any decommissioning default payment.

24. FINANCIAL COMMITMENTS

(i) Capital Commitments

	2005 £m	2004 £m
Capital expenditure contracted but not provided	<u>1</u>	<u>2</u>

(ii) Other Contractual Commitments

Under contractual arrangements, the group has the following fuel commitments at 31 March 2005:

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Thereafter £m	Total £m
Commitments to purchase in the year	<u>37</u>	<u>17</u>	<u>18</u>	<u>18</u>	<u>19</u>	<u>251</u>	<u>360</u>

British Energy Generation (UK) Limited
Notes to the Financial Statements
for the year ended 31 March 2005

25. RELATED PARTIES

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

The Company is a limited Company owned by British Energy Limited (formerly British Energy plc) 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 - Related Party Disclosures.

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:

- As part of the Restructuring arrangements which took place on 14 January 2005, HMG undertook to meet the Company's historic contracted nuclear liabilities to British Nuclear Fuels Limited (BNFL), a government controlled body. This undertaking resulted in an asset of £505m being recognised in the Company's financial statements on 14 January 2005.
- The Company made regular decommissioning funding contributions to the NLF of £5m during the year.
- The Company made payments to BNFL of £101m during the year in respect of front and back end fuel costs. The Company also incurred interest costs of £nil in respect of deferred payments and stock financing. The balance outstanding due to BNFL at the end of the year was £nil. Amounts due to the Company by BNFL at 31 March 2005 under the Historic Liability Funding Agreement amounted to £471m.

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.

26. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is British Energy Limited (formerly British Energy plc).

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.

27. POST BALANCE SHEET EVENTS

To meet the commitments made as part of the Restructuring, the Company transferred its trade and assets to British Energy Generation Limited, a wholly owned subsidiary, with effect from 1 July 2005.

On 25 November 2005, the Group announced that due to a number of recent equipment issues that have resulted in unplanned outages at the Group's power stations, the Group has revised its estimate of nuclear output for the financial year 2005/06. Based on current information, the Group expects that nuclear output for the financial year 2005/06 is unlikely to exceed 61 TWh.

The quinquennial review of our nuclear liabilities is underway and the results of this review will be finalised in the New Year. The review may result in a significant change in value of the nuclear liabilities due to changes in strategy and cost estimates. However, as a result of the arrangements with the NLF and Government, any change in value of the nuclear liabilities will be offset in our balance sheet by an equal and opposite change in the value of the NLF receivable.