

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

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

## The Board Membership

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

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

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

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

The Company re-entered the FTSE 100 during the year. Sir Adrian Montague remained as Chairman and also served as Chairman of Friends Provident plc, which was an existing member of the FTSE 100 at the time of British Energy's re-entry to the index.

The Board is satisfied in these circumstances not only that his chairmanship of both companies did not constitute a breach of Rule A.4.3 of the Code, but that he remained able to devote sufficient time and attention to the Company's business. The Board does not believe that the position has had any adverse impact on the Board's operations and is satisfied that in the circumstances it was and is appropriate for him to continue as Chairman.

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

## Conduct of Business

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

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

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

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

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

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

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

#### Performance Evaluation

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

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

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

As a result of these reviews the remit of certain Board committees and their membership has been revised. The membership of the six Board committees is now exclusively non-executive and the members have been rotated to bring fresh perspectives. The Technical Advisory Committee has evolved into the Technical Performance Oversight Committee which has oversight of the technical and operational risks facing the Company. The membership of the Safety, Health and

Environment Committee has also been refreshed with the appointment of a new independent member with experience in both the nuclear and oil and gas industries. The roles of the committee and the relationships with, and expectations of, line management were clarified. Performance metrics have been refined and clearer, more focused reporting has allowed the Board to devote more time to strategic issues and appropriate oversight.

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

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

#### Risk Management

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

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

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

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

Throughout the year the Company's reporting arrangements operated across the Group's operating subsidiaries and corporate functions, monitoring business performance against key performance indicators and the business plan. Risk logs

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

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

### Electricity Trading Risk Management

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

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

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

### Committee Structure

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

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

### Board Committees

The current committee structure is described below:

#### Audit Committee

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

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

nine times during the year. In the course of these meetings, the committee considered the following matters:

#### Financial Reporting

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

#### External Audit

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

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

#### Whistleblowing

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

#### Internal Controls and Risk Management

The Board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management. The committee has ongoing arrangements designed to assist the Board in the performance of this responsibility and periodically reports to the Board on controls and risk management. Accordingly, during

the year it considered reports from internal audit on internal control issues and a year-end report from the internal control and financial processes team summarising the outcome from their testing activity. The committee also sought the views of the external auditors in making its assessment of the internal control environment.

#### Internal Audit

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

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

#### Commercial Risk Committee

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

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

#### Governance and Nominations Committee

The Governance and Nominations Committee is comprised entirely of Non-Executive Directors and is chaired by Sir Robert Walmsley. The committee is responsible for encouraging and monitoring the adoption of good corporate governance practice. It reviews the Company's code of conduct and ethics and

compliance with this code and the Company's legal obligations generally. The committee also reviews the corporate social responsibility performance of the Group and advises the Board in relation to senior appointments throughout the Group. Board appointments recommended by the committee are made after an appropriate search and selection process has been undertaken including, where appropriate, the use of external advisers to identify suitable candidates.

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

#### **Remuneration Committee**

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

#### **Safety, Health and Environment Committee**

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

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

#### **Technical Performance Oversight Committee**

The Technical Advisory Committee was renamed the Technical Performance Oversight Committee during the year and its terms of reference and membership were reviewed. The committee is chaired by Pascal Colombani. The committee also includes senior managers with technical expertise. The remaining members of the committee are identified on page 39. The committee considers and advises the Board on issues of a

technical nature referred to it relating to the performance of, and improvements to, British Energy's nuclear fleet. The committee considers and advises on technical and operational issues and significant management of change issues facing the nuclear generation business. Members of the Generation Board continue to have responsibility for, and direct, the operational and safety policy of British Energy's nuclear operations.

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

#### **Other Committees**

##### **Finance and Policy Committee**

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

##### **Management Committees and Subsidiary Boards**

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

##### **Management Risk Committees**

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

### Pensions Committee

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

### Disclosure Committee

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

### Board Attendance

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

#### Board attendance April 2007 to December 2007

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

#### Board attendance January 2008 to March 2008

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

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

# In addition, delegated special committees of the Board meet from time to time for the purposes of considering specific items of business.

1 Clare Spottiswoode retired at the AGM in July 2007, the attendances shown therefore do not represent a full year.

2 Robert Walvis was appointed in August 2007, the attendances shown therefore do not represent a full year.

## Organisational Structure

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

## External Non-Executive Directorships

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

## Investment Approval

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

## Business Planning

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

## Internal Compliance and Control

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

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

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

the Audit Committee. The scope of work, authority and resources of the internal audit function are reviewed by the Audit Committee at least annually. The role of the internal audit function is discussed further below.

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

## Internal Audit

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

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

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

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

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

#### Corporate Social Responsibility

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

#### Confidential Reporting of Serious Concerns

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

#### Communication with Shareholders

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

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

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

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

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their Report of which the auditors are unaware; and

- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

#### Statement of Directors' Responsibility

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

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

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

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

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

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

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

#### Going Concern

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



**Robert Armour**  
Company Secretary