BRITISH ENERGY PLC

RESULTS FOR THE YEAR ENDED 31 MARCH 2004

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2004

	Notes	**2004 £m**	2003 £m
Turnover:			
Group and share of discontinued joint venture turnover		1,660	2,074
Exceptional income	3	-	41
Group and share of discontinued joint venture turnover including exceptional income		1,660	2,115
Less: share of turnover in discontinued joint venture	3	(144)	(212)
Continuing activities	3	1,516	1,528
Discontinued activities	3	-	375
Group turnover	3	1,516	1,903
Operating costs before exceptional items	4	(1,459)	(1,758)
Exceptional operating items	4	283	(3,947)
Operating costs after exceptional items	4	(1,176)	(5,705)
Group operating profit/(loss):			
Continuing activities		340	(3,899)
Discontinued activities		-	97
Group operating profit/(loss)		340	(3,802)
Share of operating profit of discontinued joint venture		21	43
Operating profit/(loss): Group and share of discontinued joint venture		361	(3,759)
Exceptional gain/(loss) on sale of joint venture and businesses	5	47	(35)
Financing (charges)/credits:			
Revalorisation charges	8	(185)	(205)
Net interest	8	(64)	(72)
Exceptional revalorisation credits/(charges)	8	68	(159)
Exceptional financing credits/(charges)	8	5	(62)
Profit/(loss) on ordinary activities before taxation	3	232	(4,292)
Taxation on profit/(loss) on ordinary activities	9	2	378
Share of taxation for discontinued joint venture	9	-	(10)
Profit/(loss) on ordinary activities after taxation		234	(3,924)
Minority interest		-	(17)
Profit/(loss) for the year attributable to shareholders	26	234	(3,941)
Earnings/(deficit) per share (p):			
Basic	11	38.9	(654.7)

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

BALANCE SHEETS AS AT 31 MARCH 2004

	Notes	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed Assets					
Tangible assets	12	**931**	686	**-**	-
Interest in joint venture:					
- share of gross assets		**-**	477	**-**	-
- share of gross liabilities		**-**	(406)	**-**	-
	13	**-**	71	**-**	-
Other investments	13	**6**	6	**10**	14
		937	763	**10**	14
Current assets					
Decommissioning fund	14	**440**	334	**-**	-
Stocks	15	**350**	360	**-**	-
Debtors	16	**374**	387	**11**	85
Investments – liquid funds	30	**311**	246	**249**	210
Cash at bank	30	**262**	87	**256**	83
		1,737	1,414	**516**	378
Creditors: amounts falling due within one year					
- borrowings	18	**(197)**	(152)	**(110)**	(110)
- other	17	**(1,250)**	(1,033)	**(4,496)**	(3,742)
		(1,447)	(1,185)	**(4,606)**	(3,852)
Net current assets/(liabilities)		**290**	229	**(4,090)**	(3,474)
Total assets less current liabilities		**1,227**	992	**(4,080)**	(3,460)
Creditors: amounts falling due after more than one year					
- borrowings	18	**(686)**	(731)	**(298)**	(298)
- other	17	**(1,893)**	(1,909)	**-**	-
Provisions for liabilities and charges	20	**(1,812)**	(1,735)	**(5)**	(9)
Net liabilities	3	**(3,164)**	(3,383)	**(4,383)**	(3,767)
Capital and reserves					
Called up equity share capital	25	**277**	277	**277**	277
Share premium		**76**	76	**76**	76
Capital redemption reserve		**350**	350	**350**	350
Profit and loss account	26	**(3,960)**	(4,179)	**(5,179)**	(4,563)
Equity shareholders' funds	27	**(3,257)**	(3,476)	**(4,476)**	(3,860)
Non-equity shareholders' interests	25	**93**	93	**93**	93
		(3,164)	(3,383)	**(4,383)**	(3,767)

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

The financial statements were approved by the Board of Directors on 17 June 2004 and signed on its behalf by:

Adrian Montague CBE
Chairman

Martin Gatto
Interim Finance Director

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	28	**156**	336
Interest paid		**(85)**	(91)
Interest received		**10**	9
Dividends paid on non-equity shares		**-**	(2)
Returns on investments and servicing of finance		**(75)**	(84)
Taxation (paid)/received	9	**(12)**	3
Capital expenditure and financial investment		**-**	(282)
Acquisitions and disposals			
Receipts from sales of investments	5	**171**	262
Equity dividends paid		**-**	(31)
Net cash inflow before use of liquid resources and financing		**240**	204
Increase in term deposits/bank balances		**(65)**	(37)
Management of liquid resources	30	**(65)**	(37)
Minority funding of Bruce Power		**-**	12
Repayment of amounts borrowed net of new loans		**-**	(92)
Financing		**-**	(80)
Increase in cash	30	**175**	87

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 £m	2003 £m
Profit/(loss) for the financial year		**234**	(3,941)
Translation differences on foreign currency net investments	27	**(15)**	(25)
Total recognised gains/(losses) since last annual report		**219**	(3,966)

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

1. BASIS OF PREPARATION

(i) Introduction

The Group accounts are a consolidation of the financial statements of the Company and all its subsidiary undertakings, and are drawn up on a non-restructured basis, i.e. on the basis of contracts and agreements in place at 31 March 2004. In the following discussion British Energy plc is referred to as ‘British Energy’ or ‘the Company’ and ‘the Group’ refers to the Company and its subsidiary undertakings.

On 14 February 2003, the Group disposed of its stake in Bruce Power Limited Patnership (‘Bruce Power’) and Huron Wind Limited Partnership (‘Huron Wind’), therefore, their results up to the point of disposal have been classified as discontinued activities within prior reporting periods. On 22 December 2003, the Group disposed of its 50% interest in AmerGen Energy Company LLC (‘AmerGen’), therefore, its results up to the point of disposal have been classified as discontinued joint venture operations during the year. All other activities of the Group have been shown as continuing activities.

(ii) Background to Proposed Restructuring

Having reviewed the longer-term prospects of the business, on 5 September 2002 the Directors of British Energy announced that they had no alternative but to seek financial support from the UK Government. On 9 September 2002 the UK Government granted the Company a credit facility of up to £410m (the ‘Government Facility’) to provide working capital for the Group’s immediate requirements and to allow British Energy to stabilise its trading position in the UK and North America. On 26 September 2002 British Energy announced that the UK Government had agreed to extend a revised Government Facility for up to £650m until 29 November 2002 to give the Company sufficient opportunity to develop a restructuring plan. On 28 November 2002 British Energy announced that the Government Facility had been further extended until 9 March 2003. The Government Facility is cross-guaranteed by the principal Group subsidiaries (excluding Eggborough Power (Holdings) Limited and Eggborough Power Limited (‘EPL’)) and is secured by, among other things, fixed and floating charges and/or share pledges granted by those subsidiaries. The Government Facility also contains a requirement to provide further security as required by the Secretary of State for Trade and Industry (the ‘Secretary of State’) provided that the creation of such security would not cause a material default under any contract to which any member of the Group is a party or a breach of law.

On 14 February 2003 British Energy and certain of its subsidiaries announced that they had entered into binding standstill agreements, namely:

(a) the Standstill Agreement between British Energy and its subsidiaries and the bank syndicate that provided financing for the Eggborough coal-fired power station (the ‘Eggborough Banks’), The Royal Bank of Scotland plc (‘RBS’) as provider of a letter of credit to the Eggborough Banks, our significant trade creditors, Teesside Power Limited (‘TPL’), TotalFinaElf Gas and Power Limited (now Total Gas & Power Limited) (‘Total’) and Enron Capital & Trade Europe Finance LLC (‘Enron’) (TPL, Total (which has subsequently transferred its interest to Deutsche Bank) and Enron (which has also subsequently transferred its interest to Deutsche Bank) being collectively referred to as the ‘Significant Creditors’) and British Nuclear Fuels plc (‘BNFL’); and

(b) the Bondholder Restructuring Agreement between British Energy, British Energy Generation Limited (‘BEG’), British Energy Generation (UK) Limited (‘BEGUK’) and certain holders of British Energy bonds due in 2003, 2006 and 2016 (the holders of those bonds being referred to collectively as the ‘Bondholders’).

On 7 March 2003 British Energy announced that the UK Government had agreed to extend the Government Facility in the reduced amount of £200m, such that it would mature on the earliest of (1) 30 September 2004, (2) the date on which the proposed restructuring, outlined in (iii) below, (the ‘Proposed Restructuring’) becomes effective, and (3) any date notified by the Secretary of State to British Energy on which repayment of amounts outstanding under the Government Facility are required as a result of a European Commission (‘Commission’) decision or an obligation under EU law (the ‘Final Maturity Date’). In the meantime the Secretary of State may require repayment of the Government Facility if she concludes that the Proposed Restructuring cannot be completed in the manner or time scales envisaged.

On 1 October 2003, the Company announced that it had agreed the terms of the Proposed Restructuring of the Group with certain of the Group's creditors and the Secretary of State and by 31 October 2003 had obtained the further approvals and agreements required.

The Company also agreed the proposed disposal of its 50% interest in AmerGen to Exelon Generation Company LLC ('Exelon') in October 2003 for US$277m, subject to various adjustments and conditions including a break fee of US$8.295m payable to FPL Group Inc. The disposal was completed on 22 December 2003.

The Government Facility was temporarily increased to £275m on 27 November 2003. The additional £75m ceased to be available on the Group's receipt of the proceeds from the sale of AmerGen on 23 December 2003.

On 19 December 2003 Bondholders approved amendments to the trust deed constituting the bonds to facilitate the implementation of the Proposed Restructuring and to amend the standstill arrangements under the trust deed on terms consistent with the Creditor Restructuring Agreement (as defined in (iii) below). Following formal amendment of the trust deed, a new standstill agreement has been entered into with creditors in place of the Standstill Agreement dated 14 February 2003 in accordance with the terms of the Creditor Restructuring Agreement.

We have retained a trading relationship with a high proportion of our existing contracted counterparties during the period since our announcement of 5 September 2002, although in most cases we have been required to provide alternative credit support to a parent company guarantee. Given the financial circumstances of the Group, certain contracts may be capable of being terminated. Such termination may result in termination payments being payable as well as having an adverse effect on our cash flows.

The Company faced short-term pressures on liquidity during the year resulting from the combined effect of seasonality, the unplanned outage at Heysham 1 and the increased levels of collateral and costs of unplanned outages brought about by the increased level of volatility in electricity prices. The Board is exploring initiatives to achieve sufficient liquid resources to implement the Proposed Restructuring, including investigating the availability of third party financing.

The alternative credit support currently in place has been provided by the Group under banking arrangements involving the UK Government established in connection with the Government Facility. The Group is seeking to replace these with arrangements which do not involve the UK Government before the Final Maturity Date of the Government Facility and over the longer term to reduce the demand for trading collateral.

(iii) Terms of the Proposed Restructuring

The terms of the Proposed Restructuring are set out in:

(a) the Creditor Restructuring Agreement dated as of 30 September 2003 and entered into by the Company, certain other Group companies, the Significant Creditors, RBS, the members of the ad hoc committee of British Energy's Bondholders and BNFL (as amended by a side letter entered into on 31 October 2003) (the 'Creditor Restructuring Agreement'); and

(b) the Government Restructuring Agreement dated 1 October 2003 and entered into between the Company, BEGUK, BEG, British Energy Power and Energy Trading Limited ('BEPET'), British Energy Investment Limited, District Energy Limited, British Energy International Holdings Limited, British Energy US Holdings Inc., British Energy L.P., Peel Park Funding Limited, the Secretary of State, the Nuclear Generation Decommissioning Fund Limited (to be renamed the Nuclear Liabilities Fund Limited ('NLF')) and the trustees of the Nuclear Trust (the 'Government Restructuring Agreement').

The Creditor Restructuring Agreement required certain further creditor approvals and sign ups. By 31 October 2003 all these requirements had been satisfied as follows:

(a) bondholders representing in aggregate with RBS 88.8% of the combined amount owing to the Bondholders and RBS had signed up to the Creditor Restructuring Agreement;

(b) the terms of the Proposed Restructuring had been approved by the credit committee of RBS; and

(c) all of the lenders and swap providers comprising the Eggborough Banks had signed up to the Creditor Restructuring Agreement with full credit committee approvals.

The principal features of the Proposed Restructuring include:

- compromising the existing claims of Bondholders, RBS, Significant Creditors and the Eggborough Banks in exchange for new bonds and new ordinary shares and settling new arrangements for Eggborough (the claims of the Bondholders and RBS will be exchanged pursuant to a scheme of arrangement to be proposed to these creditors by the Company (the Creditors' Scheme). In the case of the Significant Creditors and the Eggborough Banks, claims will be exchanged pursuant to the terms of the Creditor Restructuring Agreement itself);

- the amendment and extension of the BNFL contracts for front end and back end related fuel services for the Group's AGR stations announced on 16 May 2003 and the implementation of a new trading strategy;

- establishing the NLF which will assume financial responsibility for certain uncontracted nuclear liabilities and decommissioning costs in return for initial and ongoing contributions from British Energy; and

- the Government funding liabilities relating to certain historic spent fuel and any shortfall in the NLF.

Creditor Restructuring Agreement

Conditions

Completion of the Proposed Restructuring is subject to a large number of conditions in the Creditor Restructuring Agreement including, amongst other things:

- the receipt by the Secretary of State of notification of a satisfactory decision by the Commission that insofar as the proposals involve the grant of State Aid by the UK Government, such as aid is compatible with the common market. The Secretary of State expects to receive this notification this autumn;

- there being no material adverse change (see below);

- the Government Restructuring Agreement becoming unconditional;

- agreement of presently unsettled documents with creditors;

- the approval of the Scottish Court; and

- the listing of the new shares and bonds.

For the purposes of the Creditor Restructuring Agreement, a material adverse change is defined as a material adverse change in the current or future business or operations, the financial or trading position, profits or prospects of the Group as a whole or of EPL or a change in the current or future business or operations, the financial or trading position, profits or prospects of the Group as a whole which is likely to have a material adverse effect on the value of the new bonds, the new ordinary shares (to be issued as part of the Proposed Restructuring), the CTA global bond to be held by EPL to fund the £150m of new bond-equivalent payments under the new Eggborough arrangements (the 'CTA Global Bond') or the new Eggborough arrangements.

Creditor allocations

Under the terms of the Creditor Restructuring Agreement the creditors have agreed (subject to certain conditions) to extinguish their existing unsecured claims against the Group in exchange for £275m of new bonds and at least 97.5% of the issued ordinary shares of the new parent company of the Group ('Newco 1').

In addition, the Eggborough Banks, as creditors with security over the assets of and shares in EPL, have agreed (subject to certain conditions) to replace their existing secured claims with a right to payments under an Amended and Restated Credit Agreement (the 'Amended Credit Agreement') having a payment profile equivalent to £150m of new bonds secured over the assets of and shares in EPL. The Eggborough Banks will also have an option to acquire the Eggborough station either through a share or asset purchase in 2010 upon payment of an approximate £104m break fee and the extinguishment of the principal then outstanding under the Amended Credit Agreement. This option may be accelerated in the event of a default under the Amended Credit Agreement. The security over the assets of and shares in EPL under the Amended Credit Agreement will secure both the £150m bond-equivalent payments and, through an indemnity for non-performance, the option acceleration.

Standstill arrangements

The Creditor Restructuring Agreement and ancillary agreements restrict the Significant Creditors, the Eggborough Banks, RBS, each Bondholder who signs up to the Creditor Restructuring Agreement (the 'Consenting Bondholders') and BNFL (together the 'Consenting Creditors') from taking any steps to initiate insolvency proceedings or demand or accelerate any amounts due and payable by British Energy during the period of the standstill (the 'Standstill Period') until the earliest of:

(a) 12 noon on the earlier of 31 January 2005 and the date falling 120 days after the satisfaction of the initial conditions to the Proposed Restructuring (the 'Restructuring Longstop Date');

(b) termination of the Creditor Restructuring Agreement or the standstill arrangements in accordance with their terms; or

(c) the completion of the Proposed Restructuring.

Any of the Consenting Creditors may terminate the standstill arrangements following the occurrence of a termination event. The termination events include, inter alia, certain insolvency events affecting the Company, BEG, BEGUK, BEPET or EPL; acceleration of the Government Facility; and any of the Company, BEG, BEGUK, BEPET or EPL failing to discharge certain continuing obligations. If the standstill arrangements terminate, the Creditor Restructuring Agreement will also terminate and vice versa.

Under the standstill arrangements, RBS, the Eggborough Banks, Significant Creditors and Bondholders are to be paid interest but not principal in respect of any claims against the Group. Interest will continue to be paid to Bondholders and the Eggborough Banks in accordance with existing arrangements. The terms of the bonds were amended in March 2003 for interest to be paid on a six monthly rather than an annual basis. In respect of the Significant Creditors and RBS, interest was paid first on 25 March 2003 and is subsequently payable on the last business day of every six month period thereafter based on the agreed claim amounts (except in the case of RBS where interest payments will be based on the present value of its claim amount as at 14 February 2003). Commission will also continue to be paid to RBS under the facility agreement for the letter of credit to the Eggborough Banks.

The Creditor Restructuring Agreement also contains certain covenants by British Energy for the benefit of the Consenting Creditors that have signed it, including certain limitations on acquisitions and disposals, a prohibition on the payment of dividends and on the issuing of equity as well as a negative pledge.

Mechanics for implementation and shareholder allocation

The Proposed Restructuring will involve establishing Newco 1 as the new parent company of the Group and a directly wholly owned subsidiary of Newco 1 as an intermediate holding company ('Newco 2').

The Company proposes to cancel its existing ordinary shares of $44^{28/}{}_{43}$ pence each and A shares of 60 pence each under a scheme of arrangement with its shareholders (the 'Members' Scheme'), and issue to shareholders: (i) new ordinary shares in Newco 1 equal to 2.5% of the issued share capital of Newco 1 immediately following implementation of the Proposed Restructuring, and (ii) warrants to subscribe for a maximum of 5% of the thereby diluted ordinary issued share capital of Newco 1 (excluding, amongst others, the impact of conversion of the NLF Cash Sweep Payment (see section entitled 'Government Restructuring Agreement' below)) immediately following implementation of the Proposed Restructuring. The subscription price under the warrants is £28.95m in aggregate, equivalent to an equity market capitalisation of the Group of £550m following implementation of the Proposed Restructuring. This will result in a very significant dilution of the holdings of the existing shareholders.

If the Members' Scheme is not approved by the requisite majority of shareholders or for any other reason the Members' Scheme is not implemented, the Company will dispose of all its business and assets to Newco 2. If the disposal is approved by the shareholders in general meeting, shareholders will receive only the warrants. If neither proposal is approved by shareholders, they will receive no shares or warrants.

Government Restructuring Agreement

The Government Restructuring Agreement provides for the circumstances in which the Secretary of State will support the Proposed Restructuring, including entering into the agreements with the Group and, in certain cases, the NLF, which affect the proposals regarding the manner in which the decommissioning and other uncontracted liabilities of the Group are to be funded and the agreements relating to the funding of certain of the contracted nuclear liabilities of the Group (the 'Nuclear Liabilities Agreements'). It also affects some further amendments to the Government Facility. As noted above the Government Facility will terminate (unless previously extended) on the Final Maturity Date.

Conditions

Under the Government Restructuring Agreement, the obligations of the Secretary of State to support the Proposed Restructuring (including as the holder of a number of special shares) and of the parties to the Nuclear Liabilities Agreements to enter into them are conditional on, among other things:

- the Creditor Restructuring Agreement becoming unconditional in all respects by the Restructuring Longstop Date;

- the Secretary of State not having determined and notified British Energy in writing that, in her opinion, the Group (including Newco 1 and Newco 2) will not be viable in all reasonably foreseeable conditions without access to additional financing (other than financing which the Secretary of State is satisfied has been committed and will continue to be available when required);

- there being no continuing event of default under the Government Facility;

- receipt by the Secretary of State of copies of letters giving the confirmations relating to working capital referred to in the terms of Rule 2.18 of the UKLA Listing Rules without qualification (whether or not Newco 1 is to be listed on the Official List of the UKLA);

- the representations and warranties given by the members of the Group being true, accurate and not misleading when given and if repeated at the effective date of the Proposed Restructuring; and

- there being no breach of any undertaking given by any member of the Group pursuant to the Government Restructuring Agreement which, in the opinion of the Secretary of State, is or is likely to be material in the context of the Proposed Restructuring.

If any of the conditions are not fulfilled or waived by the Secretary of State by the time specified in the requisite conditions or if no such date is specified, by the Restructuring Longstop Date, the Government Restructuring Agreement will terminate. In addition if a material adverse change (as defined in the Creditor Restructuring Agreement) occurs at any time before the order sanctioning the Creditors' Scheme is filed with the Registrar of Companies in Scotland, the Secretary of State may give written notice to British Energy to terminate the Government Restructuring Agreement.

Nuclear Liabilities Agreements

Under the Nuclear Liabilities Agreements to be entered into pursuant to the Government Restructuring Agreement, the NLF will assume financial responsibility for discharging certain of the Group's uncontracted nuclear liabilities and the costs of decommissioning the Group's nuclear power stations, and the Secretary of State will assume financial responsibility for certain of the Group's contracted nuclear liabilities and any shortfall in the NLF. In consideration for this assumption of financial responsibility, Newco 2 will issue £275m in new bonds to the NLF. In addition, members of the Group will make the following payments to the NLF; (i) fixed decommissioning contributions of £20m per annum (indexed to RPI and tapering as stations are currently scheduled to close); (ii) £150,000 (indexed to RPI) for every tonne of fuel loaded into the Sizewell B reactor after completion of the Proposed Restructuring; and (iii) an annual contribution equal to a percentage of the Group's adjusted cash flow (initially 65% (subject to adjustment) but not to exceed 65%) (the 'NLF Cash Sweep Payment').

The entitlement of the NLF to the NLF Cash Sweep Payment is convertible into an equity shareholding in Newco 1 equal to the same percentage of the thereby enlarged issued share capital. Although the NLF will receive convertible ordinary shares equal to the then prevailing NLF Cash Sweep Payment percentage (again subject to a maximum of 65%) the terms of the convertible ordinary shares into which such entitlement will convert will limit the general voting rights attaching to such shares to a maximum of 29.9% of the voting rights in the Company. The convertible ordinary shares may be converted into ordinary shares with no such restrictions on voting rights at the election of the NLF and will be converted automatically on their transfer by the NLF to a third party.

In addition, under the Nuclear Liabilities Agreements, British Energy is required to establish and maintain cash reserves to provide collateral for trading and operations, cover lost revenue and costs resulting from plant outages and to meet other working capital requirements (the 'Cash Reserve'). The initial target amount for the Cash Reserve is £490m plus the amount by which cash employed as collateral exceeds £200m.

(iv) Principles Underlying Going Concern Assumption

The financial statements have been prepared on a going concern basis in accordance with FRS18, because British Energy has not been liquidated nor is it ceasing to trade. The validity of this assumption depends on the fulfilment of the conditions of the Proposed Restructuring and achievement of the Group's cash generation initiatives, in each case within the time scales envisaged or required and the continuation of the restructuring and standstill arrangements with certain creditors and financial assistance from the Secretary of State pursuant to the Government Facility and there being no material deterioration in the Group's cash flow position, performance or outlook. This assumption is, therefore, subject to a large number of significant uncertainties and important conditions.

If for any reason British Energy is unable to meet its financial obligations as they fall due the Company may have to take appropriate insolvency proceedings and cease to be a going concern, in which case adjustments may have to be made to reduce the monetary values of assets to the recoverable amounts, to provide for further liabilities that might arise and to reclassify the fixed assets and long-term liabilities as current assets and liabilities.

2. ACCOUNTING POLICIES

(i) Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards, except for the departures noted below.

Commodity trading contracts, where there is no associated physical delivery, are marked to market using externally derived market prices. This is a departure from the general provisions of Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note 2 (xix).

The income recognised by the Group in respect of the long-term rate of return of the decommissioning fund is unrealised and its recognition is a departure from one of the accounting principles set out in Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note 2 (xvii).

The preparation of accounts 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 accounts and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

In accordance with FRS18 the Directors have reviewed the Group's accounting policies and confirm that they continue to be the most appropriate. A number of the policies require the Group 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 as discussed further in note 2 (xvi) below.

The effect of the Proposed Restructuring of the Company, as noted above, will be significant and will result in, among other matters, the reassessment of estimates and assumptions which have been used to prepare these financial statements. In particular, the calculation of the carrying value of the nuclear stations will be reassessed on the basis of the new contracts with BNFL, the contribution of 65% of cash flow to the Nuclear Liabilities Fund and the likely review of the risk discount rate applied to the future cash flows.

(ii) Basis of Consolidation

The Group financial statements consolidate the financial statements of British Energy and all its subsidiary undertakings. Inter-company profits, transactions and balances are eliminated on consolidation.

(iii) Turnover

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

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 estimate of electricity supplied.

Included within turnover is the mark to market of net unrealised gains and losses made from trades recorded within the proprietary trading book. Refer to note (xix) for details of accounting treatment of proprietary trading.

(iv) 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. The fixed element is charged to the profit and loss account as incurred and the variable element, other than for unburnt fuel at shutdown, is charged to the profit and loss account in proportion to the amount of fuel burnt.

Pressurised Water Reactor (PWR)

All front end fuel costs are variable and, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

Bruce Power

Front end fuel costs are recognised when fuel is loaded into the reactor. The reactors are continually reloaded and as such this method closely reflects fuel burnt. British Energy disposed of its interest in Bruce Power on 14 February 2003.

(v) 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 the estimated cost of this process at current prices discounted back to current value in respect of both the amount of irradiated fuel burnt during the year and an appropriate proportion of unburnt fuel which will remain in the reactors at the end of their lives. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

PWR

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

Bruce Power

Under the terms of the Bruce Power lease the responsibility for spent fuel, waste and decommissioning remains with Ontario Power Generation Inc. British Energy disposed of its interest in Bruce Power on 14 February 2003.

(vi) 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 front end and back end costs of this fuel are charged to the profit and loss account over the estimated useful life of each nuclear station on a straight line basis.

(vii) Fuel Costs – Coal

Fuel costs for coal are determined on a weighted average cost basis.

(viii) Energy Supply Costs

Annual commitments payable under Renewable Obligation Certificates are reflected in the profit and loss account based on the volume of direct supply sales. Acquired certificates are recognised as assets on purchase and are offset against related obligation payments.

(ix) Research and Development

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

(x) Pensions and Other Post-retirement Benefits

The Group continues to provide for UK pension costs in accordance with SSAP24. Contributions to the Group's defined benefit pension schemes are assessed by qualified actuaries and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The capital cost of ex-gratia and supplementary pensions is charged to the profit and loss account, to the extent that the arrangements are not covered by the surplus in schemes, in the accounting period in which they are granted. Differences between the amounts funded and the amounts charged to the profit and loss account are included in the balance sheet.

In Canada, the charges for pensions and other post retirement benefits were determined annually by actuaries on the basis of management estimates. These costs consisted of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which were amortised on a straight line basis over the expected average remaining service lives of the employees covered by the plan. Costs were recorded in the year in which employees rendered services. British Energy disposed of its interests in Canada on 14 February 2003.

(xi) Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rate of exchange ruling at the date of the balance sheet or at the contracted rate if applicable. All differences are taken to the profit and loss account.

For consolidation purposes the assets and liabilities of overseas subsidiary undertakings and joint ventures are translated at closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year up until the date of disposal. Differences on foreign exchange arising from the retranslation of the opening net investment in, and results of, subsidiary and associated undertakings and joint ventures are taken to reserves. Where appropriate, these are matched with differences arising on the translation of related foreign currency borrowings and are reported in the statement of total recognised gains and losses.

(xii) Tangible Fixed Assets and Depreciation, Including Decommissioning Costs

Fixed assets comprise assets acquired or constructed by the Group. During the year ended 31 March 2004 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 2003. 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 2004 were:

AGR power stations	25-35 years
PWR power stations	40 years
Bruce power station assets	18 years
Coal power station	12 years
Other buildings	40 years
Other plant and equipment	5 years

The estimated costs for decommissioning the Group's nuclear power stations are capitalised as part of the cost of construction and are depreciated over the same lives as the stations. These estimated costs are discounted having regard to the time scale whereby work will take place over many years after station closure. The estimated costs include the demolition and site clearance of the stations' radioactive facilities and the management of waste.

(xiii) Fixed Asset Investments

Investments in subsidiaries are initially recorded at the nominal value of shares allotted. Fixed asset investments are stated at cost less amortisation or provisions for diminution in value. The Group's interest in its joint ventures is stated at cost plus the Group's share of retained earnings up until the date of disposal. The carrying value of all fixed asset investments is regularly assessed for permanent impairment and provision made, if appropriate.

Own shares purchased in respect of the Employee Share Option and ShareSave Option Schemes are held at cost less charges to write down the shares to the option exercise prices over the minimum lives of the options. The carrying value of all own share investments is regularly assessed for permanent impairment and provision made if appropriate. The Group has taken advantage of the exemption relating to Inland Revenue approved schemes under UITF17 in respect of Save As You Earn Share Schemes.

(xiv) 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 is reduced by the provision for unburnt fuel at shutdown (note 2 (vi)). Strategic spares are amortised over the life of the asset to which they relate.

(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 at the balance sheet date. The full amount of the provision is discounted using a discount rate similar to the current post tax rates of return on UK treasury gilts. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(xvi) Nuclear Liabilities

Nuclear liabilities represent provision for the Group’s liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning. The provisions represent the Directors’ best estimates of the costs expected to be incurred. They are calculated based on the latest technical evaluation of the processes and methods likely to be used, and reflect current engineering knowledge. The provisions are based on such commercial agreements as are currently in place, and reflect the Directors’ understanding of the current Government policy and regulatory framework. 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 2(v) and (vi). These accruals 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 Group’s nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The provision established at the commencement of a power station’s operating life is capitalised as part of the costs of the station and depreciated over the station life.

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.

(xvii) Decommissioning Funds

The Group makes contributions into an independently administered fund to cover all costs of decommissioning nuclear power stations, except de-fuelling costs. The Group’s annual contributions to the fund are 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 represents the contributions made by the Group, 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 is taken to the profit and loss account and disclosed as part of revalorisation.

The revalorisation of the decommissioning fund, which has been taken through the profit and loss account, is not a realised profit for the purposes of the Companies Act 1985 because the income is unrealised until the Group receives the related cash from the fund to reimburse decommissioning expenditure. The inclusion of this profit in the profit and loss account is 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 is necessary to include the estimated annual long-term rate of return of the fund in the Group’s profit and loss account in order for the financial statements to give a true and fair view. In the event that the net realisable value as indicated by the market value of the fund is lower than the value determined under the accounting policy set out above, the lower value is included in the Group accounts.

The effect of the departure for the UK fund is to increase the profit before tax by £74m (2003: increase the loss before tax by £82m) and to reduce the reported loss before exceptional items for the year by £28m (2003: £29m).

There is no impact on the net assets at 31 March 2004 and 31 March 2003 as the fund has been restated at market value. There are no tax consequences of this departure.

A similar decommissioning fund existed in the United States for AmerGen that was accounted for on a consistant basis as outlined above for the UK fund. Up until the date of sale the effect of the departure for the AmerGen Fund was to increase the profit before tax by £36m (2003: increase the loss before tax by £28m) and to reduce the reported loss before exceptional items for the year ended 31 March 2004 by £14m (2003: £20m). There was no impact on net assets as the AmerGen Fund had been restated at market value.

(xviii) 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.

(xix) Financial Instruments and Derivatives

Debt instruments

All borrowings are stated at cost with issue costs being charged to the profit and loss account on purchase. The interest payable on debt is charged to the profit and loss account over the life of the borrowing. Premiums and discounts arising on early repayment of borrowings are recognised in the profit and loss account as incurred and received.

Commodity contracts

Where there is physical delivery associated with power and coal commodity contracts they are accounted for on an accruals basis following delivery of the commodity. Amounts payable or receivable in respect of these contracts are recorded within trade creditors and debtors respectively and recognised as turnover.

Where there is no physical delivery associated with these contracts, they are recorded at fair value on the balance sheet. Where the instrument is for proprietary trading purposes, the change in fair value is reflected through the profit and loss account as part of turnover – wholesale generation. This is not in accordance with the general provisions of Schedule 4 of the Companies Act 1985, which requires that these contracts are stated at the lower of cost and net realisable value or that, if revalued, any revaluation difference be taken to a revaluation reserve. However, the Directors consider that this departure is necessary in order that the financial statements give a true and fair view of the results of the Group's trading activities, in accordance with Section 226(5) of the Companies Act 1985. The effect of the departure on the financial statements is to increase the profit for the year by £12m (2003: reduce the loss for the year by £9m) and reduce the net liabilities at 31 March 2004 by £21m (2003: £9m).

Futures and power options

Power futures and options are undertaken for hedging and proprietary trading purposes. Initial margins paid on entering power exchange contracts are recorded on the balance sheet within restricted cash in 'Investments – liquid funds' throughout the term of the contract. Where the instrument is a hedge, the daily margin calls are initially reflected on the balance sheet and subsequently reflected through the profit and loss account to match the recognition of the hedged item.

Interest rate swaps

Interest rate swaps are used to manage debt interest rate exposure. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to the net interest charge over the term of the contracts. Where derivatives used to manage interest rate risk or to hedge other anticipated cash flows are terminated before the underlying debt matures, the resulting gain or loss is deferred on the balance sheet and amortised to the profit and loss account to match the timing and accounting treatment of the underlying debt. If the debt is subsequently terminated any unamortised deferred gain or loss is recognised immediately in the profit and loss account. Where interest rate swaps are no longer considered effective hedging instruments, any cumulative losses relating to the fair value of the derivatives are taken to the profit and loss account in accordance with FRS 12.

Options

The Group used currency options to manage exposure on its disposal of overseas assets. Premiums received and paid on the contracts are included in the net sale proceeds in 'Exceptional gain/(loss) on sale of joint venture and businesses'.

Premiums received and paid on wholesale generation contracts are amortised over the period of the contracts and are included within turnover.

(xx) Goodwill

Goodwill arising on acquisitions represents the excess of the fair value of the consideration at acquisition compared to the fair value of the identifiable net assets acquired. Goodwill is capitalised as an intangible asset on the balance sheet and amortised on a straight line basis over its estimated useful life.

(xxi) Joint Venture

The Group's share of the results of the joint venture is included in the consolidated financial statements based on the latest audited accounts of the joint venture, except where the accounting reference date is not co-terminous with the parent company, in which case management accounts are used and adjusted to comply with British Energy accounting policies.

On 22 December 2003 the Group disposed of its interest in AmerGen.

(xxii) Operating Leases

The Group entered into an operating lease with Ontario Power Generation Inc (OPG) to lease the Bruce Power nuclear plant in Ontario, Canada until 2018. Under the terms of the agreement a significant initial payment was made. This consideration plus related transaction costs attributed to the operating lease prepayment, was amortised on a straight line basis over the expected period of the lease. Other costs of the Bruce Power lease were charged to the profit and loss account in accordance with the rental schedule which is included in the lease agreement. The Group disposed of its investments in Bruce Power and Huron Wind on 14 February 2003. The results of Bruce Power are classified as a discontinued activity for the purpose of this report.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

3. TURNOVER, PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX AND NET LIABILITIES

The Group's activities consist principally of the generation and sale of electricity.

The geographical analysis of output, turnover, profit/(loss) on ordinary activities before tax and net liabilities is noted below.

(i) Output and Turnover

	2004	2003
	TWh	TWh
Output		
- United Kingdom	**72.6**	69.5
- Canada	**-**	19.2
	72.6	88.7
	£m	£m
Group Turnover		
Continuing activities		
United Kingdom		
- Wholesale generation sales	**703**	852
- Direct supply sales	**782**	603
- Turnover from continuing activities excluding exceptional income and		

miscellaneous income	**1,485**	1,455
- Miscellaneous income	**31**	32
- Exceptional income	**-**	41
Turnover from continuing activities	**1,516**	1,528
Discontinued activities		
Canada	**-**	375
Total turnover	**1,516**	1,903
Share of turnover in discontinued joint venture	**144**	212

In the year ended 31 March 2003 the Group agreed revised terms for the Nuclear Energy Agreement (NEA) with Scottish Power and Scottish and Southern Energy which resulted in the release of £41m in respect of cash previously received, and was reported as an exceptional item in the results for the year ended 31 March 2003.

Turnover from discontinued activities in Canada in 2003 represented the sales by Bruce Power which was sold on 14 February 2003.

The turnover, operating profits and net assets of the Group's joint venture, AmerGen, relate entirely to activities in the United States of America. On 22 December 2003 the Group disposed of its interest in AmerGen.

(ii) Profit/(Loss) on Ordinary Activities Before Taxation

A geographical analysis of profit/(loss) on ordinary activities before taxation is as follows:

	2004 £m	2003 £m
United Kingdom	**187**	(4,388)
Canada – discontinued	**-**	97
	187	(4,291)
Share of discontinued joint venture – United States	**45**	(1)
	232	(4,292)

(iii) Net Liabilities

A geographical analysis of the Group's net liabilities as at 31 March is as follows:

	2004 £m	2003 £m
United Kingdom	**(3,164)**	(3,454)
United States	**-**	71
	(3,164)	(3,383)

4. OPERATING COSTS

	2004 £m	2003 £m
Continuing activities		
- Fuel	**413**	371
- Materials and services	**512**	425
- Staff costs (note 6)	**224**	227
- Depreciation charges	**50**	273
	1,199	1,296
Energy supply costs	**260**	184
	1,459	1,480
Discontinued activities		
- Fuel	**-**	17
- Materials and services	**-**	143

- Staff costs (note 6)	**-**	111
- Depreciation charges	**-**	7
	-	278
Total operating costs	**1,459**	1,758
Exceptional operating items		
- Materials and services	**25**	94
- Depreciation (credits)/charges	**(295)**	3,738
- Amounts (credited)/written-off non-operational assets	**(13)**	115
	(283)	3,947
Operating costs after exceptional items	**1,176**	5,705

	2004	2003
	£m	£m
Analysis of exceptional operating items		
Restructuring costs	**43**	35
Settlement of claim	**(18)**	-
Stock obsolescence	**-**	57
Onerous trading contracts	**-**	2
Fixed asset (write-up)/write-down (note 12)	**(295)**	3,738
Investments in own shares write-down (note 13)	**-**	102
UK decommissioning fund (write-up)/write-down (note 14)	**(13)**	13
	(283)	3,947

There were exceptional materials and services costs of £43m in respect of costs incurred on advisory fees and other costs associated with restructuring the Group's activities.

The Group settled long standing disputes with Siemens Power Generation Limited ('Siemens') relating to work done since 1996 by the former Parsons business. Under the terms of the settlement Siemens paid the Company approximately £18m. The settlement included a commitment by the Company and Siemens to develop a mutually beneficial relationship under a long-term supply agreement.

At 31 March 2004 the Directors reassessed the fixed asset carrying values, in line with the requirements of FRS11, to determine whether any revisions to fixed asset carrying values were appropriate. In carrying out such a review the Directors concluded that, pending completion of the Proposed Restructuring, it was appropriate to carry out a full review of valuations.

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. The valuation of Eggborough was based on an assessment of net realisable value. Following the review the carrying value of fixed assets was increased by £295m at 31 March 2004 to reflect reversal of previous impairment losses. The calculation of fixed asset carrying values at 31 March 2004 includes cash flow estimates regarding the level of increase in pension fund contributions that may be required to repair the actuarial pension fund deficit at 31 March 2004. The potential payments included in the fixed asset calculation amount to approximately £207m after being discounted at 15%, and are equivalent to a pension fund deficit calculated on an actuarial basis in the range of £330m to £440m. Formal triennial valuations of the BEGG and BECG pension schemes at 31 March 2004 are currently being undertaken, but the results of these valuations will not be finalised until later in 2004.

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 commercially available forecasts. 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. This recovery of market prices during the year has led to forecasts of future electricity prices being greater than those underpinning the value in use calculated at 31 March 2003. Greater cash inflows are therefore anticipated over the lifetime of the nuclear plants, and so an element of the prior year impairment loss has been reversed. As market prices are outside the Directors' control actual prices may differ from those forecast.

At 31 March 2004 the market value of the UK decommissioning fund had increased to £440m (31 March 2003: £334m), thereby necessitating an exceptional credit of £59m in the twelve months ended 31 March 2004. The £59m included a £13m exceptional credit to reverse the write-down on non-operational assets made in the year ended 31 March 2003. The remaining balance of the restatement to market value of £46m has been dealt with as an exceptional financing credit to reverse previously written-down revalorisation amounts. The remaining UK decommissioning fund movements relate to revalorisation of £28m and regular cash contributions of £19m.

Exceptional operating costs amounting to £3,947m were reported for the year ended 31 March 2003. These amounts are further explained as follows:

- charges incurred on advisory fees and other costs associated with the restructuring of the Group's activities of £35m in the year ended 31 March 2003;

- a charge of £57m in the year ended 31 March 2003 to provide for obsolete stores and spares;

- a charge of £2m for the year to 31 March 2003 to provide for the onerous pre-New Electricity Trading Arrangements (NETA) contracts with TPL, Total and Enron;

- exceptional depreciation charge of £3,738m in the year ended 31 March 2003 in respect of a write down of an impairment loss in the carrying value of fixed assets following a review of economic values and net realisable values of fixed assets;

- a write-down of £102m in the year ended 31 March 2003 to reflect permanent diminution in the value of own shares held in employee trusts; and

- the investments held within the UK decommissioning fund were written-down to reflect a reduction in market value, resulting in a charge for the year to 31 March 2003 of £13m.

	2004	2003
	£m	£m
Operating costs are stated after charging:		
- research and development	**14**	15
- operating lease costs – Bruce Power	**-**	70
– other	**1**	-

It is the Group's policy to engage PricewaterhouseCoopers LLP on assignments where their expertise and experience with the Group are important, or where they win work on a competitive basis. An analysis of auditors' remuneration on a worldwide basis is provided below:

	2004		2003	
Audit services	**£000's**	**%**	£000's	%
- Statutory	**510**	**9**	480	16
- Audit related regulatory reporting	**258**	**5**	215	7
Further assurance services				
- Creditors' long form report	**2,017**	**35**	-	-
- Reporting accountant – working capital report	**1,208**	**21**	532	17
- Review of accounting for restructuring	**1,114**	**20**	1,111	36
Taxation				
- Tax services	**510**	**9**	331	11
Other				
- Other non-audit services	**80**	**1**	409	13
Total	**5,697**	**100**	3,078	100

Statutory audit fees for British Energy plc were £65,000 (2003: £60,000).

5. SALE OF INVESTMENTS

On 22 December 2003 the Group completed the sale of its 50% interest in AmerGen to Exelon. The Group received initial consideration of US$277m upon financial close on 22 December 2003 prior to adjustments relating to working capital levels, stocks of unspent nuclear fuel inventory, capital expenditures and low-level waste disposal costs to be determined at the time of closing. The gain on sale calculated below is a provisional estimate pending receipt of financial statements drawn up as at the date of financial close.

On 23 December 2003 the Group sold its 50% equity interest in Offshore Wind Power Limited ('Offshore Wind') to GB Gas Holdings Limited, a wholly owned subsidiary of Centrica plc, for an up front cash consideration of £2m and deferred consideration of up to £750,000 which has not been recognised in these accounts (net book value £nil).

The total cash receipts in relation to the discontinued activities of Bruce Power amounted to £17m. The cash receipt of £9m received on 28 April 2003 in relation to Bruce Power was accounted for in the year ended 31 March 2003 as an adjusting post balance sheet event. The additional receipt of £8m received on 22 March 2004 was in relation to the re-start of the Bruce A reactor. These receipts relate to the discontinued activities of Bruce Power.

The exceptional profit arising from the disposal of joint venture and businesses and cash consideration which have been recognised in these accounts are analysed as follows:

	Bruce Power £m	**AmerGen £m**	**Offshore Wind £m**	**Total £m**
Net assets sold	**-**	**112**	**-**	**112**
Accounted for by:				
Cash consideration net of transaction costs and break fee	8	149	2	159
Exceptional gain on sale of joint venture and businesses	**8**	**37**	**2**	**47**
Cash flows:				
Cash consideration net of transaction costs received in the year ended 31 March 2004	**17**	**152**	**2**	**171**

6. EMPLOYEE INFORMATION

(i) Staff costs

	2004 £m	2003 £m
Salaries	**208**	201
Social security costs	**19**	17
Pension costs (note 24)	**-**	6
Severance charges	**2**	12
Amounts capitalised	**(5)**	(9)
Continuing activities	**224**	227
Discontinued activities	**-**	111
Total staff costs	**224**	338

Amounts capitalised within staff costs for the year ended 31 March 2004 are subsequently expensed as operating costs within materials and services costs following the fixed assets impairment review carried out.

(ii) Employee numbers

	2004 Number	2003 Number
Average number of employees during the year:		

	2004	2003
Continuing operations	**5,165**	5,103
Discontinued operations	**-**	2,799
Total	**5,165**	7,902

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

	2004 Number	2003 Number
United Kingdom		
Power stations:		
- nuclear	**3,612**	3,579
- coal-fired	**258**	247
Engineering, technical and corporate support	**1,257**	1,228
North America – continuing operations	**12**	28
Total continuing operations	**5,139**	5,082
Canada – discontinued operations	**-**	2,798
	5,139	7,880

7. SUMMARY OF DIRECTORS' EMOLUMENTS

	2004 £'000	2003 £'000
Total emoluments, including pension contributions as Directors	**517**	585
For management services:		
- salaries and other benefits	**940**	996
- performance related bonuses	**405**	-
- pension contributions	**46**	52
	1,908	1,633
- compensation for loss of office	**146**	98
	2,054	1,731

Full details of the remuneration and share interests of the Directors are set out in the Remuneration Committee Report.

8. FINANCING CHARGES/(CREDITS)

Revalorisation:	2004 £m	2003 £m
Revalorisation of nuclear liabilities (note 21)		
- changes in price levels	**97**	117
- discharge of one year's discount	**118**	111
	215	228
Revalorisation of other provisions	**-**	10
Revalorisation of decommissioning fund (note 14)	**(28)**	(29)
Share of revalorisation of joint venture	**(2)**	(4)
Revalorisation charge before exceptional items	**185**	205
Exceptional revalorisation (credit)/charge (see below)	**(68)**	159
Revalorisation charge	**117**	364

Interest:	2004 £m	2003 £m
Interest on loans repayable within five years:		
- bank	**11**	11
- other	**33**	24
Interest on loans repayable in five years or more:		
- bank	**24**	38
- other	**7**	8
Interest receivable	**(11)**	(9)
Net interest before exceptional items	**64**	72
Exceptional (credit)/charge – interest rate swaps	**(5)**	56
Exceptional charge – borrowing costs	**-**	6
Exceptional financing (credit)/charges	**(5)**	62
Interest payable and similar charges	**59**	134

At 31 March 2004 the market value of the UK decommissioning fund had increased to £440m (31 March 2003: £334m), thereby necessitating an exceptional credit of £59m in the twelve months ended 31 March 2004 to reverse previously written-down amounts. As a result of the UK decommissioning fund receivable being restated at market value, a £13m exceptional credit has been recorded in operating costs to reverse a prior write-down of non-operational assets, and exceptional credits of £46m have been recorded in finance charges for the twelve months ended 31 March 2004 to reverse the prior write-down of previous revalorisation. The market value remains below the amount that would have been calculated by revalorising on an actuarial basis the total amounts that have been invested in the fund.

The market value of the AmerGen decommissioning fund had also increased over the period to 22 December 2003, and the British Energy share of the exceptional credit was £22m in the year to the date of sale.

The total of the UK decommissioning fund and AmerGen decommissioning fund exceptional revalorisation credits included within financing charges amounted to £68m.

At 31 March 2004 the value of the interest rate swaps were marked to market and the resultant valuation was lower than the book value. The exceptional credit is £5m for the year ended 31 March 2004.

At 31 March 2003 the market value of the UK decommissioning fund was lower than the value that would have been derived from revalorising the cost of the investment. The difference was £124m of which £111m was recognised as an exceptional financing charge with the remainder classified as write-offs of non-operational assets. At 31 March 2003 the British Energy share of the adjustment required to reduce the AmerGen decommissioning fund to market value was a charge of £48m.

An exceptional charge of £56m was recognised for the year ended 31 March 2003 for interest rate swaps, which were no longer considered to be effective. In addition an exceptional charge of £6m was recorded for the write-off of borrowing costs which had been previously capitalised and were being amortised over the expected duration of the loan financing the acquisition of the Eggborough power station.

9. TAXATION

Tax on profit on ordinary activities:	2004 £m	2003 £m
Deferred taxation on ordinary activities before tax	**-**	(40)
Unwinding of discount	**-**	14
Credit for the year on ordinary activities (note 23)	**-**	(26)
Exceptional deferred tax credit	**-**	(370)
Deferred tax credit for the year	**-**	(396)
Foreign tax	**(2)**	18
Tax on profit on ordinary activities	**(2)**	(378)

Share of taxation for discontinued joint venture:	2004 £m	2003 £m

Ordinary activities	-	10

There is no UK current tax charge for the year ended 31 March 2004 (2003: £nil). The tax credit of £2m for the year ended 31 March 2004 represents the release of an over provision of foreign tax in earlier years.

The exceptional tax credit for the year ended 31 March 2003 of £370m related to a deferred taxation credit on exceptional items of £520m offset by the de-recognition of the deferred taxation assets of £150m.

As set out in the Groups Cash Flow Statement, the tax paid of £12m in the year relates to the Group's liability for its share of AmerGen's taxable profits. In the year ended 31 March 2003 the net tax refund of £3m comprised tax paid of £10m in respect of AmerGen and Bruce Power offset by a UK tax refund of £13m.

A reconciliation of the effective tax rate for the current year tax credit, which solely comprises foreign tax is set out below:

	2004	2003
	£m	£m
Tax charge/(credit) on Group profit/(loss) at standard rate of 30%	**70**	(1,288)
Deferred tax:		
Current year movement	**-**	396
Impact of discounting	**(140)**	619
Increase in deferred tax asset not recognised	**113**	150
Total deferred tax movement pre discounting	**(27)**	1,165
(Credits)/expenses not (chargeable)/deductible for tax purposes	**(16)**	140
(Gain)/loss on sale of investments not taxable	**(13)**	11
Lower tax rates on overseas earnings	**-**	(6)
Minority interests	**-**	(4)
Impact of joint venture	**(14)**	-
Over provision for foreign tax in earlier years	**(2)**	-
Current tax (credit)/charge for year	**(2)**	18

The share of taxation for the joint venture represents the Group's liability for its share of AmerGen's taxable profits.

10. LOSS OF THE COMPANY

The Group's results include a loss of £616m (2003: loss of £6,058m) attributable to the Company, inclusive of a provision of £590m (2003: provision of £6,144m) made in the year for bad and doubtful inter-company debtors which is eliminated on consolidation. The Company did not have any distributable reserves at 31 March 2004 or 31 March 2003. As permitted under Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account.

11. EARNINGS/(DEFICIT) PER SHARE

The basic earnings/(deficit) per share for the year has been calculated by dividing the profit/(loss) on ordinary activities after taxation, minority interests and non-equity dividends by the weighted average of ordinary shares in issue during the year, based on the following information:

	2004	2003
Profit/(loss) for the year (£million)	**234**	(3,941)
Basic weighted average share capital (number of shares, million)	**602**	602

A calculation of diluted earnings per share has not been provided because the outstanding share options do not have any dilutive potential at 31 March 2004.

12. TANGIBLE FIXED ASSETS

Group	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 2003 and 31 March 2004	**10,747**	**47**	**434**	**11,228**
Depreciation				
As at 1 April 2003	10,108	24	410	10,542
Exceptional asset write-up	(275)	(1)	(19)	(295)
Charge for the year	38	1	11	50
As at 31 March 2004	**9,871**	**24**	**402**	**10,297**
Net book value				
As at 31 March 2004	**876**	**23**	**32**	**931**
As at 31 March 2003	639	23	24	686

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

	2004 £m	2003 £m
Cost	**2,245**	2,245
Net Book Value	**157**	107

The Directors have reviewed the economic values and net realisable values of the Group's fixed assets and compared them to their book value. A discount rate of 15% (2003: 15%) was applied to the economic value review. As a result of this review, the value of its fixed assets has been increased by £295m (2003: reduced by £3,738m). The background to the review is discussed more fully in note 4.

The value of fixed assets held by the Company is £nil (2003: £nil).

13. FIXED ASSET INVESTMENTS

Group	AmerGen joint venture £m	Loans to Nirex £m	Own shares £m	Other investments £m	Total £m
Cost/carrying value					
As at 1 April 2003	119	37	140	4	300
Foreign exchange	(11)	-	-	-	(11)
Share of retained profits to date of disposal	48	-	-	-	48
Disposal of joint venture	(156)	-	-	-	(156)
As at 31 March 2004	**-**	**37**	**140**	**4**	**181**
Provision for diminution in value					
As at 1 April 2003	48	37	138	-	223
Foreign exchange	(4)	-	-	-	(4)
Disposal of joint venture	(44)	-	-	-	(44)
As at 31 March 2004	**-**	**37**	**138**	**-**	**175**
Net book value					
As at 31 March 2004	**-**	**-**	**2**	**4**	**6**
As at 31 March 2003	71	-	2	4	77

Other investments relate wholly to the investment held by Lochside Insurance Limited.

On 22 December 2003 the Group disposed of its interest in AmerGen. An analysis of British Energy's share of the aggregate net assets of the AmerGen joint venture as at 31 March 2003 is set out below:

	2003
	£m
Negative goodwill	(7)
Tangible assets	144
Stocks	10
Cash	6
Decommissioning fund	306
Debtors	18
Creditors	(51)
Decommissioning liabilities	(321)
Loan notes	(34)
Net assets	71

Negative goodwill related to AmerGen's acquisition of Oyster Creek nuclear power station in August 2000.

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 Group's financial statements.

At 31 March 2004 British Energy Employee Share Trust held 21,734,839 ordinary shares at an average cost of £4.68 for a total consideration of £101m. At 31 March 2004 the Qualifying Employee Shareholders' Trust held 5,292,103 ordinary shares at a cost of £5.32 per share (£28m) and 19,165,471 'A' shares at a cost of 60p per share (£11m).

The market value of the shares held by the employee trusts at 31 March 2004 was £3m, compared to a book value of £2m. The long-term prospects of the Company have deteriorated considerably and the Directors considered it inappropriate to recognise the increase in value of the shares held in employee trusts.

The Company held investments in Lochside Insurance Limited and British Energy Finance Limited at 31 March 2004. During the year, the investment in Lochside Insurance Limited was written down by £4m (2003: £nil), to a net book value of £4m at 31 March 2004 (2003: £8m).

Company	**Subsidiary undertakings**
	£m
Cost	
As at 1 April 2003 and 31 March 2004	**14**
Provision for diminution in value	
Charge for the year	**4**
Net book value	
At 31 March 2004	**10**
At 31 March 2003	14

Details of British Energy's principal subsidiary undertakings and other holdings of more than 10% are as follows:

	Country of registration and operation	**Class of share**	**Group share-holding %**	**Company share-holding %**	**Principal activity**
Subsidiary undertakings					
British Energy Generation (UK)					Generation and

Limited	Scotland	Ordinary	100	100	sale of electricity
British Energy Generation Limited	England and Wales	Ordinary	100	-	Generation and sale of electricity
British Energy Power & Energy Trading Limited	Scotland	Ordinary	100	100	Energy trading
Eggborough Power Limited	England and Wales	Ordinary	100	-	Generation and sale of electricity
Other holdings of more than 10 per cent					
United Kingdom Nirex Limited	England and Wales	Ordinary	10.8	-	Disposal of nuclear waste

Included in the Group and Company accounts are the assets of the British Energy Employee Share Trust and the assets of the British Energy Qualifying Employee Share Trust, which are trusts set up to hold shares purchased on behalf of the Group's employees under the Employee Share Scheme and the British Energy ShareSave Scheme respectively.

14. DECOMMISSIONING FUND

	Group £m
As at 1 April 2003	334
Regular contributions	19
Revalorisation (note 8)	28
	381
Exceptional items to mark the fund to market value (note 8)	59
As at 31 March 2004	**440**

The decommissioning fund asset in the balance sheet normally represents the contributions made by the Group, 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 is taken to the profit and loss account as a revalorisation credit. The decommissioning fund asset is receivable after more than one year and is restricted in its use.

At 31 March 2004 the market value of the UK decommissioning fund had increased to £440m (31 March 2003: £334m), thereby necessitating an exceptional credit of £59m to the profit and loss account in the twelve months ended 31 March 2004 to reverse previously written-down amounts. The market value remains below the amount which would have been calculated by revalorising on an actuarial basis the total amounts which have been invested in the fund. As a result of the UK decommissioning fund receivable being restated at market value, a £13m exceptional credit has been recorded in operating costs to reverse a prior write-down of non-operational assets, and exceptional credits of £46m have been recorded in finance charges for the twelve months ended 31 March 2004 to reverse the prior write-down of previous revalorisation.

The Company has no decommissioning fund at 31 March 2004 (2003: £nil).

15. STOCKS

	Group	
	2004 £m	2003 £m
Unburnt nuclear fuel in reactors	**472**	469
Provision for unburnt fuel at station closure	**(280)**	(272)
Net unburnt nuclear fuel in reactors	**192**	197
Other nuclear fuel	**61**	74

Coal stocks	**15**	14
Stores/strategic spares	**82**	75
	350	360

The Company has no stock at 31 March 2004 (2003: £nil).

16. DEBTORS

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Trade debtors	**252**	226	**4**	3
Other debtors	**16**	89	**-**	-
Prepayments	**106**	72	**7**	1
Amounts due from subsidiary undertakings	**-**	-	**-**	81
	374	387	**11**	85

Included within the Company's amount due from subsidiary undertakings is £6,734m relating to amounts due from UK subsidiaries all of which have been provided for (2003: £6,144m relating to amounts due from UK subsidiaries all of which have been provided for and £81m which was denominated in foreign currencies and translated at the year-end exchange rate).

Included within prepayments for the Group is £101m (2003: £72m) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. These amounts fall due after more than one year.

17. CREDITORS

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Nuclear liabilities (note 21)	**554**	355	**-**	-
Trade creditors	**180**	198	**-**	-
Retentions	**6**	5	**-**	-
Other taxes and social security	**49**	9	**-**	-
Other creditors	**317**	326	**3**	1
Accruals	**144**	140	**18**	20
Amounts due to subsidiary undertakings	**-**	-	**4,475**	3,721
	1,250	1,033	**4,496**	3,742
Other creditors: amounts falling due after more than one year				
Nuclear liabilities (note 21)	**1,893**	1,909	**-**	-

Other creditors includes £316m (2003: £316m) in respect of claims relating to onerous trading contracts. These contracts are pre-NETA electricity trading contracts with Enron, TPL and Total. The Enron and Total contracts were terminated during the prior year, which gave rise to claims for certain amounts which have become payable. Interest is payable on standstill balances at a rate of 6%, other than the bonds and the amounts due to the Eggborough banks which continue under their original terms. These accounts reflect the claim amounts, which have been agreed in principle with Enron, TPL and Total for the purposes of the Proposed Restructuring of the Group. Total and Enron subsequently transferred their interests to Deutsche Bank.

18. BORROWINGS

The Group's and Company's borrowings at 31 March were as follows:

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Long-term project finance loan – Sterling	**475**	475	**-**	-

	2004	2003	2004	2003
Bonds – Sterling	**408**	408	**408**	408
	883	883	**408**	408

The borrowings mature as follows:

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Amounts falling due within one year	**197**	152	**110**	110
Amounts falling due after more than one year	**686**	731	**298**	298
	883	883	**408**	408

The maturities assume no debt has been accelerated and reflect the standstill arrangements as part of the Proposed Restructuring.

The long-term project finance loan is secured on the assets of EPL. Amounts owed by EPL to the lenders are not guaranteed by British Energy plc but British Energy guarantees the payment of amounts by BEPET to EPL. The contractual amounts payable by BEPET are calculated so as to cover EPL's borrowing requirements and operating costs. British Energy also provides a subordinated loan facility to EPL. The final instalment of loan principal is scheduled to be repaid in 2011. The loan currently bears interest at LIBOR plus 1.25%. It is proposed that these arrangements will be restructured as part of the proposed restructuring of the Group.

19. FINANCIAL INSTRUMENTS AND DERIVATIVES

Disclosures include short-term debtors and creditors and exclude commodity power contracts.

(i) Interest rate risk profile of financial liabilities

The interest rate profile of financial liabilities of the Group as at 31 March 2004 was:

Currency	**Total**	**Floating rate financial liabilities**	**Fixed rate financial liabilities**	**Mixed rate financial liabilities (see below)**	**Financial liabilities on which no interest is paid**
	£m	**£m**	**£m**	**£m**	**£m**
Sterling	3,883	475	408	33	2,967

	Fixed rate financial liabilities		**Financial liabilities on which no interest is paid**
Currency	**Weighted average interest rate**	**Weighted average period for which the rate is fixed**	**Weighted average period until maturity**
	%	**Years**	**Years**
Sterling	6.08	4.8	13.1

At 31 March 2004, nil borrowings (2003: £475m) were reclassified to fixed rate financial liabilities due to the effect of the Group's interest rate contracts. The 2003 balance has been reclassified to floating rate financial liabilities as the directors believe the swaps used to cover this liability are no longer effective.

The interest rate profile of mixed rate financial liabilities of the Group as at 31 March 2004 was:

Interest rate agreements	2005	2006	2007	2008	2009	Net fair value
Fixed:						
Notional amounts [A] (GBP million)	356	332	291	235	174	(28)
Average pay rate	6.6%	6.6%	6.6%	6.6%	6.6%	
Average receive rate	4.7%	4.7%	4.7%	4.7%	4.7%	
Variable to fixed:						
Notional amounts [B](GBP million)	30					(3)
Average pay rate	5.8%					
Average receive rate	6 month LIBOR					
Collars:						
Notional amounts [C](GBP million)	70					(2)
Collar spread	5.3% to 6.8%					
TOTAL						(33)

A. The derivative agreements were amended post 31 March 2003 as part of the Proposed Restructuring. The effect has been to fix interest payments under the swaps from October 2004 onwards.
B. The bank has the right to cancel the swap at zero cost on any cancellation date from April 2005 and every year thereafter.
C. The banks have the right to enter into semi-annual swaps receiving 5.25% and paying 6 month LIBOR for ten years at zero cost in April 2005.

The interest rate profile of financial liabilities of the Group as at 31 March 2003 was:

Currency	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Mixed rate financial liabilities (see below)	Financial liabilities on which no interest is paid
	£m	£m	£m	£m	£m
Sterling	3,729	475	408	56	2,790

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	**Weighted average interest rate**	**Weighted average period for which the rate is fixed**	**Weighted average period until maturity**
	%	**Years**	**Years**
Sterling	6.08	5.5	14.6

The interest rate profile of mixed rate financial liabilities of the Group as at 31 March 2003 was:

Interest rate agreements	2004	2005	2006	2007	2008	Net fair value
Variable to fixed:						
Notional amounts (GBP million)	377	356	332	291	235	(47)
Average pay rate	6.6%	6.6%	6.6%	6.6%	6.6%	
Average receive rate	6 month LIBOR	6 month LIBOR	6 month LIBOR	6 month LIBOR	6 month LIBOR	
Fixed to variable:						
Notional amounts (GBP million)	30	30				(3)
Average pay rate	5.8%	5.8%				
Average receive rate	6 month LIBOR	6 month LIBOR				
Collars:						
Notional amounts (GBP million)	70	70				(6)
Collar spread	5.3% to 6.8%	5.3% to 6 .8%				
TOTAL:						(56)

(ii) Interest rate risk profile of financial assets

The Group held the following financial assets as at 31 March 2004 and 31 March 2003:

	Group	
	2004	2003
	£m	£m
Assets held as part of the financing arrangements of the Group:		
Short-term financial assets		
Sterling	**840**	647
Non-sterling	**1**	1
	841	648
Long-term financial assets		
Sterling	**446**	340
	1,287	988

Short-term financial assets comprise cash, investments in liquid funds and debtors (excluding prepayments) all of which have maturity dates within one year. Cash not immediately required for business purposes is invested in fixed-rate term deposits and money market funds. At 31 March 2004 the term deposits and money market funds not used to provide collateral were due to mature or were available within one month and earned interest at an average rate of 3.9%. The balance £297m, which was deposited in support of collateral requirements, earned an average rate of 3.1%. Availability of the cash is restricted over the periods of the collateralised positions.

Long-term financial assets comprise the balance in the UK decommissioning fund and fixed asset investments.

(iii) Maturity profile of financial liabilities

	2004	2003
	£m	£m
Less than one year	**1,304**	1,089
Between one and two years	**413**	248
Between two and five years	**679**	834
Over five years	**1,487**	1,558
	3,883	3,729

The analysis of maturity of borrowings has been prepared based on the dates when the borrowings mature under the existing contractual arrangements. However, the standstill arrangements which have been put in place have the effect of deferring the payments of certain amounts due until the bonds and Eggborough project finance loan are replaced as part of the restructuring of the Group or earlier termination of the standstill. The maturity profile of borrowings is likely to change upon completion of the restructuring.

(iv) Borrowing facilities

At 31 March 2004 and 31 March 2003 the Group had the following undrawn committed borrowing facilities in place, in respect of which all conditions precedent had been met at that date:

	2004	2003
	£m	£m
Expiring in one year or less - Government Facility	**200**	200

(v) Fair values

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities as at 31 March 2004 and 31 March 2003.

	2004		2003	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term assets	**810**	**810**	639	639
Short-term borrowings and current portion of long-term borrowings	**(1,261)**	**(1,288)**	(1,033)	(969)
Long-term assets	**446**	**446**	340	340
Long-term borrowings and liabilities	**(2,579)**	**(2,328)**	(2,640)	(2,140)
	(2,584)	**(2,360)**	(2,694)	(2,130)
Financial instruments held or issued for proprietary trading purposes				
Speculative trading contracts	**21**	**21**	9	9
Derivative financial instruments used to manage foreign currency, interest rate and commodity price risk				
Interest rate swaps	**(33)**	**(33)**	(56)	(56)
	(2,596)	**(2,372)**	(2,741)	(2,177)

The fair value of the short-term assets approximates to book value due to their short-term maturities.

Short-term borrowings comprise trade creditors and retentions. The book value of these liabilities has been used to approximate fair value.

Long-term assets comprise the balance in the UK decommissioning fund and other fixed asset investments. The basis of valuation is referred to in notes 14 and 13 respectively.

Long-term borrowings and liabilities comprise the Group's nuclear liabilities, bonds and the long-term project finance loan related to the investment in the Eggborough Power Station. There is no open market information available for the long-term project finance loan, the value of which has been severely affected by the financial restructuring of the Group. Therefore, the fair value that has been attributed to the loan, £150m (2003: £150m), has been based on the Directors' best estimate of the net realisable value of the Eggborough Station upon which this debt is secured. The nuclear liabilities book value has been used to approximate fair value and the quoted closing clean market price at the balance sheet date has been used to determine the fair valuation of the long-term bonds.

The fair value of onerous trading contracts represents the value established within the terms of the Proposed Restructuring.

The market trading price at balance sheet date was used to determine the fair valuation of the interest rate swaps.

(vi) Gains and losses on financial instruments held or issued for trading purposes

The net gain from trading in energy derivatives included in the profit and loss account for the period to 31 March 2004 is £14m (2003: £13m).

Interest rate swaps are also held, which do not qualify for hedge accounting. However, the interest rate swaps are not held for trading purposes, and so disclosures in the interest rate swaps are given in note 22.

As mentioned in note 2 (xix), where the financial instruments are for proprietary trading purposes, the movement in the fair value is reflected through the profit and loss account.

(vii) Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

31 March 2004	**Unrecognised Gains £m**	**Unrecognised Losses £m**	**Total Unrecognised £m**	**Deferred £m**
Net losses on derivative instruments at 1 April 2003	-	-	-	(2)
Net losses arising in previous period included in current period profit and loss account	-	-	-	2
Net losses on derivative instruments at 31 March 2004	-	-	-	-

31 March 2003	**Unrecognised Gains £m**	**Unrecognised Losses £m**	**Total Unrecognised £m**	**Deferred £m**
Net losses on derivative instruments at 1 April 2002	-	(28)	(28)	(10)
Net losses arising in previous period included in current period profit and loss account	-	28	28	8
Net losses arising before 1 April 2002 not included in current period profit and loss account	-	-	-	(2)
Net losses arising in current period not included in current period profit and loss account	-	-	-	-
Net losses on derivative instruments at 31 March 2003	-	-	-	(2)
Of which:				
Net losses expected to be included in the profit and loss account for the year ended 31 March 2004	-	-	-	(2)
Net losses expected to be included in the profit and loss accounts beyond the year ended 31 March 2004	-	-	-	-

The above analysis excludes and gains and losses in respect of the net investment as gains and losses arising on these contracts are recorded in the statement of total recognised gains and losses.

(viii) Currency exposures

The Group used foreign currency borrowings to mitigate the currency exposures arising from its net investments overseas. Gains and losses arising on net investments overseas and currency borrowings used to hedge the currency exposure, have been recognised in the statement of total recognised gains and losses. The Group did not hold material net monetary assets or liabilities in currencies other than functional currency of the operating unit involved at 31 March 2004 and 31 March 2003.

As explained in the Review of Operating Performance and Financial Review on pages 21 and 22 there are potential future foreign currency receivables in respect of amounts outstanding from the sale of Bruce Power and AmerGen. When these cash flows become more certain in the future the Group will evaluate currency hedging opportunities, balancing the cost and availability of entering into such transactions against the underlying currency risk.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Nuclear liabilities (note 21)	**1,776**	1,673	**-**	-
Other provisions (note 22)	**36**	62	**5**	9
	1,812	1,735	**5**	9

21. NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	**Back end fuel costs uncontracted £m**	**Decomm-issioning £m**	**2004 Total £m**
As at 1 April 2003	2,263	678	996	**3,937**
Charged to profit and loss account:				
- operating costs	114	16	-	**130**
- revalorisation (note 8)	129	35	51	**215**
Payments in the year	(59)	-	-	**(59)**
As at 31 March 2004	2,447	729	1,047	**4,223**

The year end balances of nuclear liabilities are included in the balance sheet as follows:

	2004	2003
	£m	£m
Creditors:		
- amounts falling due within one year	**554**	355
- amounts falling due after more than one year	**1,893**	1,909
Provisions for liabilities and charges	**1,776**	1,673
	4,223	3,937

Fuel costs – back end
Accruals for AGR fuel services relating to spent AGR fuel are based on the terms of the historic contracts with BNFL (dated 30 March 1995 and 3 June 1997), most of which include fixed prices subject to indexation, or the Group's estimates where no contracts exist. Provisions for services relating to the disposal of nuclear waste and the storage and disposal of PWR spent fuel are based on cost estimates derived from the latest technical assessments.

Decommissioning
The costs of decommissioning the power stations have been estimated on the basis of 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 Group'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% 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**	Group **2004 Total £bn**	Group 2003 Total £bn
Undiscounted	5.2	4.7	5.1	**15.0**	14.7
Discounted	3.5	1.1	1.1	**5.7**	5.3
Accrued to date	2.4	0.7	1.1	**4.2**	3.9

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 2(xvii) the undiscounted payments in current prices are expected to become payable as follows:

	Back end fuel costs contracted £m	**Back end fuel costs uncontracted £m**	**Decomm-issioning £m**	Group **2004 Total £m**	Group 2003 Total £m
Within five years	1,340	43	126	**1,509**	1,303
6 – 10 years	1,181	123	206	**1,510**	1,391
11 – 25 years	1,575	422	320	**2,317**	2,375
26 – 50 years	649	1,079	54	**1,782**	1,845
51 years and over	485	3,060	-	**3,545**	3,489
	5,230	4,727	706	**10,663**	10,403

22. OTHER PROVISIONS

	Eggborough site restoration £m	**Interest rate swaps £m**	**Restructuring £m**	**2004 Group total £m**	**2004 Company interest rate swaps £m**
As at 1 April 2003	3	56	3	**62**	**9**
Revaluation to market value	-	(5)	-	**(5)**	**-**
Utilised in the year	-	(13)	(3)	**(16)**	**(3)**
Reclassified as other creditors	-	(5)	-	**(5)**	**(1)**
As at 31 March 2004	3	33	-	**36**	**5**

The interest rate swaps provision of £33m is in respect of swap contracts which were put in place to hedge interest rate risk. The Directors have reviewed the necessity for these swaps in the context of the Proposed Restructuring and have concluded that the swaps are no longer effective as hedges. A provision of £56m was created at 31 March 2003 and was reduced to £33m at 31 March 2004 through utilisations of £13m, amounts reclassified as other creditors of £5m and revaluation to market value of £5m. The Company share of the provision was £9m at 31 March 2003, which was reduced to £5m at 31 March 2004 through utilisations of £3m and an accruals movement of £1m.

23. DEFERRED TAXATION

	2004	2003
	£m	£m
Accelerated capital allowances	**30**	(56)
Other long-term timing differences	**(85)**	(64)
Short-term timing differences	**28**	20
Corporation tax losses	**(348)**	(262)
Undiscounted asset for deferred tax	**(375)**	(362)
Discount	**84**	212
De-recognition of asset	**291**	150
Discounted provision for deferred tax	**-**	-

The Company does not have a deferred tax liability at 31 March 2004 (2003: £nil).

24. POST RETIREMENT BENEFIT OBLIGATIONS

UK Pension Schemes

British Energy operates two separate pension arrangements in the UK within the Electricity Supply Pension Scheme ('ESPS'), the British Energy Generation Group ('BEGG') for the majority of employees and the British Energy Combined Group ('BECG') for the employees at Eggborough Power Station. The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups.

The most recent triennial valuations of the BEGG and BECG schemes were carried out at 31 March 2001 by the independent ESPS actuary. The valuations for accounting purposes have been carried out by a separate independent actuary using the projected unit method. The principal assumptions adopted for both these accounts valuations were that, over the long-term, the investment rate of return would be 6% per annum for benefits already accrued, and 6.5% for the return achieved on future contributions. The rate of salary increase would be 4% per annum and the rate of pension increase would be 2.5% per annum. Assets were taken at market value. At the date of the valuation, the combined market value of assets of both schemes was £1,944m. This represents 119% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Formal triennial valuations of BEGG and BECG pension schemes at 31 March 2004 are currently being undertaken, but the results of these valuations will not be finalised until later in 2004. However, initial indications are suggesting a range of deficit between £330m to £440m.

British Energy contributed 17.1% to the BEGG pension scheme and 15.3% to the BECG pension scheme for the period from 1 April 2003 to 31 March 2004. Contributing members contribute 5% and 6% to the respective plans. Any deficiency disclosed in the BEGG or BECG pension schemes following an actuarial valuation has to be made good by British Energy.

The Group's UK pension costs for the year to 31 March 2004 were nil net of surplus amortisation (2003: £6m). At that date there was a SSAP24 prepayment of £101m (2003: £72m) in the UK.

Bruce Power Pension Scheme

Following the disposal of British Energy's interest in Bruce Power in 2003 the Group no longer operates the Bruce Power Pension Plan. As a result FRS17 disclosures are only made with regard to this scheme in relation to prior year comparatives as applicable.

Bruce Power provided pensions, group life insurance and health care benefits for retirees in Canada. Pensions were provided through the Bruce Power Pension Plan, which was a defined benefit scheme and was externally funded and subject to triennial actuarial valuations. Members of the plan contributed on average 5% of their salaries to the scheme. Bruce Power contributed the balance of the cost of providing the pension.

Bruce Power also operated a supplemental retirement pension plan that provided additional pensions to some retirees. This plan was not funded. Retiree group life insurance and health care benefits were also not pre-funded.

The Group's Bruce Power related pension costs for the period of ownership from 1 April 2002 to 14 February 2003 were £12m.

FRS17 Disclosures

The Group has not implemented FRS17 'Retirement benefits' in the accounts for the year ended 31 March 2004. The disclosures required under the transitional arrangements for UK and Canadian plans within FRS 17 as advised by the Company's actuaries are, however, set out below:

(i) UK Pension Schemes

a) Major assumptions for FRS17 disclosures at 31 March:

	2004	2003	2002
	% pa	% pa	% pa
Price inflation	**2.75**	2.25	2.75
Rate of general increase in salaries	**4.25**	3.75	4.25
Rate of increase of pensions in payment	**2.75**	2.25	2.75
Discount rate	**5.50**	5.50	6.00

b) The assets and liabilities of the scheme on an FRS 17 basis and the expected rates of return at 31 March are:

	Rate of return	**Value at 31 March 2004**	Rate of Return	Value at 31 March 2003	Rate of Return	Value at 31 March 2002
	%	**£m**	%	£m	%	£m
Equities	**8.25**	**1,223**	8.5	878	8.0	1,248
Bonds	**4.75**	**345**	4.5	438	5.3	412
Property	**6.4**	**202**	6.5	183	6.7	175
Others	**3.75**	**25**	3.75	26	4.75	7
Total market value of plan assets		**1,795**		1,525		1,842
Present value of plan liabilities		**(2,147)**		(1,877)		(1,799)
Pension (liability)/asset before deferred tax		**(352)**		(352)		43
Related deferred tax liability		**-**		-		(13)
Net pension (liability)/asset		**(352)**		(352)		30

No deferred tax asset is recognisable on the pension deficit in 2004 and 2003, based on application of the deferred tax accounting policy set out in note 2 (xv).

c) Analysis of the amount that would be charged to operating profit on an FRS 17 basis:

	2004 (Gain)/loss £m	2003 (Gain)/loss £m
Operating profit		
Current service cost	**35**	32
Past service cost	**1**	13
Total charge to operating profits	**36**	45
Finance income		
Expected return on assets in the pension scheme	**(106)**	(132)
Interest on pension scheme liabilities	**102**	107
Net credit to finance income	**(4)**	(25)
Total profit and loss account charge before tax	**32**	20

d) Movement in plan (deficit)/surplus during the year on an FRS 17 basis:

	2004	2003
	£m	£m
(Deficit)/surplus in plan at beginning of the year	**(352)**	43
Contributions paid	**34**	31
Current service cost	**(35)**	(32)
Past service cost	**(1)**	(12)
Other finance income	**4**	25
Actuarial loss (note 24(e))	**(2)**	(407)
Deficit in the plan at the end of the year	**(352)**	(352)

e) History of experience gains and losses which would have been recognised on an FRS17 basis:

	2004		2003	
	(Gain) /loss £m	**As % of plan**	(Gain) /loss £m	As % of plan
Consolidated statement of total recognised gains and losses				
Actual return less expected return on post employment plan assets	**(201)**	**(11)**	410	27
Experience losses arising on plan liabilities	**34**	**2**	(3)	-
Changes in assumptions (financial and demographic)	**169**	**8**	-	-
Actuarial loss recognisable in consolidated statement of total recognised gains and losses before tax	**2**		407	
As % of plan liabilities at end of year	**-**		22	

(ii) Bruce Power Pension Scheme

Due to the Group's disposal of its interest in Bruce Power during 2003 the following disclosure has only been provided where applicable.

a) Major assumptions for FRS 17 disclosures at 31 March:

	2003	2002
	% pa	% pa
Price inflation	2.75	2.75
Rate of general increase in salaries	3.75	3.75
Rate of increase of pensions in payment	2.75	2.75
Discount rate	7.0	7.0

b) The assets and liabilities of the scheme on an FRS 17 basis and the expected rates of return at 31 March are:

	Rate of Return %	Value at 31 March 2002 £m
Equities	8.5	255
Bonds	6.0	151
Others	5.0	16
Total market value of plan assets		422
Present value of plan liabilities		(396)
Net pension asset		26

Other non-pension post retirement benefits	(64)
Related deferred tax asset	11
Net deficit for post retirement benefits net of tax	(27)

c) Analysis of the amount that would be charged to operating profit on an FRS 17 basis:

	2003 (Gain)/loss £m
Operating profit	
Total charge to operating profits – current service cost	15
Gain on settlements – disposal of Bruce Power	(103)
Finance income	
Expected return on assets in the pension scheme	(26)
Interest on pension scheme liabilities	26
Net credit to finance income	-
Total profit and loss account credit before tax	(88)

Due to the Group's disposal of its interest in Bruce Power during 2003 there was no balance sheet impact of the Bruce Power Pension Plan for the 31 March 2003 and 2004 year ends.

d) Movement in plan deficit during the year on an FRS17 basis:

	2003 £m
Deficit in plan at 1 April 2002	(38)
Current service cost	(15)
Gain on settlement	103
Foreign exchange	2
Actuarial loss	(52)
Deficit in the plan at 31 March 2003	-

e) History of experience gains and losses which would have been recognised on an FRS17 basis:

	2003 (Gain)/loss £m
Actual return less expected return on post employment plan assets	50
Experience gains and losses arising on plan liabilities	-
Changes in assumptions (financial and demographic)	2
Foreign exchange adjustments	(4)
Actuarial loss recognisable in consolidated statement of total recognised gains and losses before tax	48

(iii) Group reconciliation of net liabilities and reserves under FRS 17

	2004 £m Net liabilities	**2004 £m Profit and loss account reserve**	2003 £m Net liabilities	2003 £m Profit and loss account reserve
As reported	**(3,164)**	**(3,960)**	(3,383)	(4,179)
SSAP 24 prepayment	**(101)**	**(101)**	(72)	(72)

Net liabilities excluding defined benefit asset	**(3,265)**	**(4,061)**	(3,455)	(4,251)
FRS 17 pension asset	**1,795**	**1,795**	1,525	1,525
FRS 17 defined benefit liability	**(2,147)**	**(2,147)**	(1,877)	(1,877)
Including FRS 17 pension liability	**(3,617)**	**(4,413)**	(3,807)	(4,603)

No deferred tax asset is recognisable on the pension deficit or pension prepayment in 2004 and 2003, based on application of the deferred tax accounting policy set out in note 2 (xv).

25. CALLED UP SHARE CAPITAL

	2004	2003
	£m	£m
Authorised		
991,679,020 ordinary shares of $44^{28/43p}$ each	**443**	443
720,339,029 'A' shares of 60p each	**432**	432
One special right redeemable preference share of £1	**-**	-
	875	875
Allotted, called up and fully paid		
620,362,444 ordinary shares of $44^{28/43p}$ each	**277**	277
Non-equity shareholders' funds		
80,908,247 'A' shares of 60p each	**48**	48
74,752,351 deferred 'A' shares of 60p each	**45**	45
One special rights redeemable preference share of £1	**-**	-
	93	93
	370	370

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 a Minister of the Crown or other person acting on behalf of HM Government, 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. Certain matters, in particular, the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person having the right to have an interest in 15% or more of the voting share capital), require the prior written consent of the holder of the special share.

'A' shares and deferred shares
The 'A' shares are traded on the London Stock Exchange and at 31 March 2004 had a market value of 6p (2003: 3p). The deferred shares have a £nil fair value at 31 March 2004 (2003: £nil).

The 'A' shares and deferred shares do not carry any rights to receive notice of, attend, speak or vote at any general meeting, unless in the case of 'A' shares the meeting is due to consider a resolution for the winding up of the Company, or the non-cumulative preferential dividend to which the 'A' shares are entitled remains unpaid six months or more after it fell due. On a winding up of the Company, the 'A' shares have preferential rights over the ordinary shares in respect of the distribution of capital. The deferred shares do not confer any rights to participate in the capital or profits of the Company, including on a winding up of the Company.

The impact on the Company's share capital as a result of the Proposed Restructuring is discussed more fully in note 1.

Share option schemes

Details of Share Options Schemes are set out on page 41 of the Remuneration Committee Report. Options outstanding at 31 March 2004, together with their exercise prices and earliest dates of exercise, are as follows:

	Exercise price Per share	Exercise	No. of Ordinary Shares	
	£	Date	**2004**	**2003**
British Energy ShareSave Scheme	4.44	2003	**4,353**	174,600
	4.39	2004	**99,444**	113,268
	1.36	2003	**32,449**	4,895,405
	1.36	2005	**3,069,904**	3,624,113
	2.61	2004	**435,619**	484,116
	2.61	2006	**410,851**	485,011
	2.29	2005	**-**	499,455
	2.29	2007	**-**	453,946
	1.36	2005	**1,832,153**	3,726,626
	1.36	2007	**2,633,723**	4,616,840
Employee Share Scheme	2.60	2000	**6,282,958**	6,423,428
	4.08	2000	**502,572**	516,572
	5.08	2001	**3,829,474**	3,915,603
	5.29	2002	**3,922,000**	4,022,000
Senior Management Share Scheme	2.60	2000	**1,023,941**	1,099,802
	3.95	2000	**22,264**	22,264
	5.08	2001	**402,252**	444,425
	6.67	2002	**19,865**	19,865
	5.29	2002	**537,985**	599,337
	3.57	2002	**33,952**	33,952
	2.41	2003	**1,454,203**	1,636,752
	3.18	2004	**125,786**	125,786

26. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
As at 1 April 2003 and at 1 April 2002	**(4,179)**	(213)	**(4,563)**	1,495
Profit/(loss) for the year	**234**	(3,941)	**(616)**	(6,058)
Foreign currency translation adjustments	**(15)**	(25)	**-**	-
As at 31 March 2004 and at 31 March 2003	**(3,960)**	(4,179)	**(5,179)**	(4,563)

The Company did not have distributable reserves at 31 March 2004 (2003: £nil).

27. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Group	
	2004	2003
	£m	£m
As at 1 April 2003 and at 1 April 2002	**(3,476)**	490
Profit/(loss) for the financial year	**234**	(3,941)
Translation differences on foreign currency net investment	**(15)**	(25)
As at 31 March 2004 and at 31 March 2003	**(3,257)**	(3,476)

28. RECONCILIATION OF OPERATING PROFIT TO OPERATING NET CASH FLOWS

	Group	Group		
	2004	2003		
	Total	Continuing activities	Discontinued activities	Total
	£m	£m	£m	£m
Operating profit /(loss)	**340**	(3,899)	97	(3,802)
Depreciation (credit)/charges (includes fixed asset write-(up)/down and lease amortisation)	**(245)**	4,012	13	4,025
Nuclear liabilities charged to operating costs	**130**	105	-	105
Nuclear liabilities discharged	**(59)**	(115)	-	(115)
Other provisions discharged	**(3)**	(45)	-	(45)
Regular contributions to decommissioning fund	**(19)**	(18)	-	(18)
Operating exceptional decommissioning fund movement	**(13)**	13	-	13
Decrease/(increase) in stocks	**10**	72	(12)	60
Decrease/(increase) in debtors	**4**	12	(30)	(18)
Increase in creditors	**11**	107	24	131
Net cash inflow from operating activities	**156**	244	92	336
Payments to acquire tangible fixed assets	**-**	(112)	(170)	(282)
Net cash inflow from operating activities net of capital expenditure	**156**	132	(78)	54

29. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004
	£m
Increase in cash in the year	**175**
Increase in liquid resources	**65**
Decrease in net debt in the year	**240**
Net debt at 1 April 2003	**(550)**
Net debt at 31 March 2004	**(310)**

30. ANALYSIS OF NET DEBT

	Cash at bank	**Term deposits/ bank balances**	**Debt due in less than one year**	**Debt due after more than one year**	**Net debt**
	£m	**£m**	**£m**	**£m**	**£m**
Net debt at 1 April 2003	87	246	(152)	(731)	(550)
Cash flows	175	65	(45)	45	240
Net debt at 31 March 2004	**262**	**311**	**(197)**	**(686)**	**(310)**

31. CONTINGENT ASSETS

On 16 May 2003 the Company announced that it had exchanged the last of the suite of contracts covering front end and back end fuel services required to give effect to the non-binding heads of terms entered into with BNFL on 28 November 2002. The front end contracts became effective on 1 April 2003 but may be terminated if the Proposed Restructuring is not completed. The back end contracts are conditional on completion of the Proposed Restructuring but payments are being made as if the revised back end contracts had become effective on 1 April 2003. The financial statements for the period to 31 March 2004 have been drawn up on the basis of the historic BNFL contracts in respect of back end fuel contracts, pending satisfaction of the restructuring conditions set out in the revised contracts, thereby creating a contingent asset of £306m (2003: £113m) which will be recognised upon completion of the Proposed Restructuring as one of a number of expected adjustments at that time. An analysis of amounts included in current liabilities due to BNFL but not expected to be paid by the Group provided the Proposed Restructuring is completed is shown as follows:

	£m	£m
Opening balance at 1 April 2003		113
Amounts payable to BNFL under the historic back end contracts for the period	249	
Less: amounts paid/payable for the period under the revised BNFL back end contracts, analysed as follows:		
Amounts settled	(59)	
Amounts included in accruals at year end	(11)	
Cash flow benefit arising within the year		179
Finance charges accrued on amounts stoodstill		14
Closing balance at 31 March 2004		306

	£m
Amounts payable under historic BNFL back end contracts	
Opening balance at 1 April 2003	113
Amounts falling due in year	249
Amounts settled	(59)
Standstill interest accrued	14
Closing asset balance at 31 March 2004	317
Less: amounts payable under revised BNFL back end contracts	
Opening balance at 1 April 2003	-
Amounts falling due in year	70
Amounts settled	(59)
Closing liability balance at 31 March 2004	11
Contingent asset at 31 March 2004	306

On 14 February 2003 the Company announced that it had completed the disposal of its 82.4% interest in Bruce Power in Canada to a consortium of three parties. 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 is 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 is seeking the payment of additional consideration under the Trust Agreement on the basis that Bruce A Unit 4 restarted in October 2003 and Unit 3 restarted in January 2004 but has not recognised any additional amounts on its balance sheet at 31 March 2004 because of uncertainties regarding their realisation. The Company is in discussion with the Ontario Provincial Government which has indicated that it considers that the units may have restarted, for the purposes of the Trust Agreement, or at later dates. The amounts recoverable in respect of the restarts will be substantially lower than the maximum C$100m but the amounts and timing of the payments have still to be confirmed.

32. CONTINGENT LIABILITIES

These accounts are drawn up on a going concern basis, the basis of which is explained more fully in note 1 to these accounts. This note describes the contingent liabilities that are applicable to the Group and the Company.

The Group has been provided with the Credit Facility by the Secretary of State. As at 31 March 2004, the Group had no drawings under the Government Facility. Also at 31 March 2004, the Group had cash and liquid investments of £573m of which £297m had been deposited as collateral to support trading and other operations.

The following security has been granted for obligations under the Government Facility made available by the Secretary of State:

- an all monies debenture creating fixed security (by way of assignment and/or fixed charge) over certain intra-group receivables and special accounts and a floating charge between the Secretary of State and certain Group companies;

- fixed charges in relation to the UK nuclear power stations; and
- pledge and mortgage of shares in certain Group subsidiaries in favour of the Secretary of State.

Amounts owing by EPL to the Eggborough Banks are not guaranteed by the Company. However, the Company guarantees the payment of amounts by BEPET to EPL, calculated to cover EPL's borrowing and operating costs. In addition the Company also provides a subordinated loan facility to EPL.

On 1 October 2003, the Company announced that it had entered into the Creditor Restructuring Agreement with certain significant creditors (including the Eggborough Banks) and BNFL relating to the standstill, recognition and compromise of their claims. However, while the Directors believe that the amounts of the agreed claims agreed for the purposes of the Proposed Restructuring currently reflect the amounts legally claimable, in the event of the Proposed Restructuring not being completed different amounts may be calculated as being claimable.

On 25 September 2002 the Nuclear Generation Decommissioning Fund Limited (the 'NDF') served a default notice relating to the solvency of the Company, BEG and BEGUK. Unless the default is cured to the satisfaction of the NDF, or waived, the NDF has the right to require accelerated payment of all of the contributions due to the NDF prior to the next quinquennial review in Autumn 2005. Annual payments are in the region of £18m. The NDF has agreed not to take enforcement action without further notice while the Group progresses satisfactorily towards achieving the Proposed Restructuring. If the conditions to the Proposed Restructuring are satisfied, the NDF and others will enter into a Deed of Termination whereby the NDF agrees that it shall take no action to enforce its rights pursuant to the default notice.

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

The claim relating to the condition of the plant is based upon alleged erosion of some of the steam generator 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.

The principal tax claim relates to the treatment of expenditure at the Bruce Power Station during the period of the Company's ownership which 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 which has not been recognised in the financial statements of the period. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. British Energy has rejected the claim and expects to defend it if it is pursued further. On the basis of advice received, the Company is confident that the amount of the claim should not, in any event, materially exceed the amount of the rebate, and that the claim should have no material cash flow impact on the Group.

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

The Group has given certain indemnities and guarantees in respect of the disposal of its investment in AmerGen. As a result of an accounting adjustment made by Exelon to the value of nuclear fuel contained in AmerGen's balance sheet dated 21 December 2003 British Energy may be required to make a payment to Exelon of up to US$14m. British Energy served a Dispute Notice on Exelon on 4 June 2004 to preserve its rights. The agreement with Exelon for the sale of AmerGen requires that, prior to instituting any litigation or other dispute resolution procedure, the companies will in good faith seek to resolve any dispute.

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

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 as going concerns.

33. FINANCIAL COMMITMENTS

(i) Capital commitments

	2004	2003
	£m	£m
Capital expenditure contracted but not provided	**17**	40

(ii) Analysis of annual commitments under operating leases

	2004	2003
	£m	£m
Other operating leases expiring in:		
Two to five years	**3**	-

(iii) Other contractual commitments

Under contractual arrangements, the Group has the following fuel commitments at 31 March 2004:

	2005	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Commitments to purchase in the year	200	183	93	67	63	859	1,465

At 31 March 2004 the estimated minimum commitment for the supply of coal was 2.4m tonnes, which, at contract prices on 31 March 2004, equates to approximately £82m (2003: £68m).

In addition to the liabilities and provisions recognised and described in the notes to the financial statements the Group has provided certain guarantees and commitments in respect of the extent of capital expenditure by Eggborough Power Limited. The Group also enters into commitments to purchase and sell electricity in the normal course of business.

34. POST BALANCE SHEET EVENTS

The Company was in receipt of a further C$10m on 25 May 2004 in partial consideration of the restart of the Bruce A units, see note 31.