

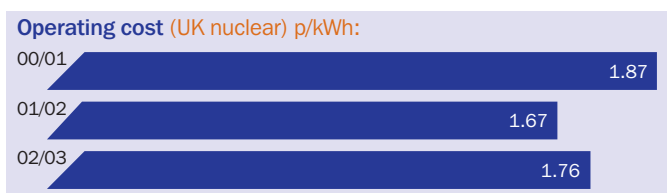
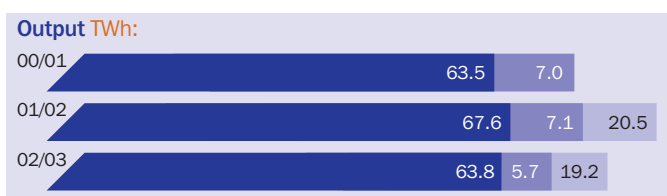


Annual Report & Accounts  
2002–03



## Key Points

- Loss before tax of £(4,292)m, after exceptionals of £(4,162)m.
- Exceptionals include write-downs of £(3,738)m in generation plant.
- In view of the Company’s financial condition, no final dividend is proposed. The Company does not expect to pay any dividend prior to the completion of the restructuring.
- Significant progress is being made towards the completion of the restructuring, but it remains subject to a large number of significant uncertainties.
- Nuclear safety remains our number-one priority. We must maintain high standards of safety while ensuring that we deliver reliable output and reduce our exposure to fluctuations in UK power prices.



(02/03 operating cost, after exceptionals, of 7.53p/kWh)

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# Chairman's Statement

## Adrian Montague



The past year has been traumatic for British Energy and its stakeholders. The combination of high fixed costs for our nuclear stations and a steep decline in power prices without the counterbalance of owning a retail supply business, together with a high level of unscheduled outages and a bleak outlook for future power prices, has resulted in terrible damage to our Company. As a result I have to report a loss before tax of £(4,292)m. This includes a £(3,738)m write-down in the value of our UK power stations.

In view of the Company's financial situation, no final dividend is proposed. The Board does not expect to declare or propose any dividend on the ordinary or "A" shares prior to the completion of the restructuring.

Since 5 September 2002, when the Board sought financial assistance from the Government, the Company has been working with the Government, its significant creditors and BNFL to agree a restructuring plan to achieve the long-term financial viability of British Energy.

We announced the principles of a restructuring plan on 28 November 2002, the same day as I became Chairman of British Energy. Since then significant progress has been made in pursuit of the plan although much work remains to secure a successful restructuring.

### **The Restructuring: What has Happened to Date?**

At last year's AGM, my predecessor, Robin Jeffrey, outlined the tough commercial conditions prevailing in the UK electricity market and referred to the significant fall in wholesale power prices that had occurred in the preceding two years. Following the gas circulator problems at Torness on 12 August 2002, British Energy revised its UK nuclear output forecast for the year to 31 March 2003 down to 63 TWh compared with the originally planned generation of 67.5 TWh. This revision was due mainly to the major unplanned outage at Torness together with unplanned outages at Heysham 2 and Dungeness B.

For some time, British Energy had been seeking to renegotiate its fuel contracts with BNFL and thereby secure a significant reduction in its fixed cost base. On 3 September 2002, BNFL delivered its final proposal to British Energy but the terms proposed fell short of those which the Company required. In any event, having reviewed the longer-term prospects of the Group, including future market prices

and trading conditions, the Board concluded that it should not draw down on existing undrawn loan facilities and decided that there was no alternative but to seek support from the Government.

On 5 September 2002, the Company announced that it had entered into discussions with the Government to seek immediate financial support and to enable a longer-term restructuring to take place. As a result of these discussions, on 9 September 2002, the Government provided British Energy with a credit facility for up to £410m for three weeks. This was to provide working capital for immediate requirements, and to allow the Company to stabilise its trading position in the UK and North America.

On 26 September 2002, the Government agreed a revised credit facility of up to £650m running until 29 November 2002 to permit the development of proposals for a solvent restructuring.

On 28 November 2002, the Company reached agreement with the Government and BNFL on the principles of a restructuring plan intended to achieve long-term financial viability, and the credit facility was extended until March 2003. The principles for restructuring included:

- Amending and extending the BNFL contracts for front-end and back-end related fuel services for our AGR stations;
- Establishing a new Nuclear Liabilities Fund (NLF) for all uncontracted nuclear liabilities and decommissioning costs to which British Energy would make ongoing contributions;
- British Energy making contributions to the NLF including 65% of the Group's consolidated net cash flow after tax, financing costs and the funding of cash reserves of up to £490m;
- The Government funding liabilities relating to historic spent fuel and any shortfall in the NLF;
- Compromising the existing claims of significant creditors, in exchange for new bonds and new ordinary shares;
- British Energy disposing of its interests in Bruce Power and AmerGen;
- Implementing a new trading strategy to hedge the majority of British Energy's output.

As a result of these proposals, ordinary trade creditors and employees are expected to be paid in full as the relevant amounts fall due. However, the return, if any, for shareholders of British Energy will represent a very significant dilution of their existing interests.

In particular, the plan addressed some of the main underlying causes of British Energy's difficulties through:

- The reduction of its exposure to wholesale electricity prices through the renegotiation of its contracts with BNFL and the implementation of the new trading strategy;
- The reduction of fixed and variable costs as a result of new pricing arrangements for the front-end and back-end treatment of fuel for the AGRs under the revised contracts with BNFL;
- The reduction and de-risking of its exposure to UK nuclear liabilities through the new arrangements with the Government and the proposed NLF;
- The restructuring of its indebtedness and of certain onerous contracts.

We have made encouraging progress in implementing the restructuring plan. The Company has completed the disposal of its interest in Bruce Power. We have also agreed revised front-end and back-end fuel contracts with BNFL and the sale, also to BNFL, of £50m of our uranium stocks. In addition, we have concluded binding standstill agreements and reached non-binding agreement to the restructuring proposals with the relevant creditors including revised arrangements for Eggborough. In February 2003, we announced a major electricity supply contract for 38 TWh of output over four years and, since the year-end, have agreed further long-term electricity contracts, giving us greater certainty of income.

On 7 March 2003, the Government submitted the restructuring plan to the European Commission for its approval under State aid rules, and also extended its credit facility to British Energy at a reduced amount of up to £200m up to September 2004, or the time at which restructuring is completed, whichever is the sooner. The Secretary of State is entitled to cancel the credit facility at any time if, in her opinion, the restructuring cannot be implemented in the manner or the timescales envisaged.

### Remaining Steps

Notwithstanding this encouraging progress, we still have a long way to go before the success of the restructuring is assured.

We have yet to complete the sale of our 50% interest in AmerGen, the value of which is a key component of the restructuring. In September 2002, British Energy and Exelon announced their intention to sell AmerGen but, as we subsequently announced on 7 March, these plans did not attract suitable offers. Independently from Exelon, we are now focusing our efforts on realising the value of our investment as soon as is practicable. Discussions with potential purchasers are ongoing.

Until an acceptable transaction is agreed, British Energy will continue to play a full part in the AmerGen joint venture.

We also require the formal agreement of the significant creditors and the Government to the restructuring proposals. The standstill arrangements are terminable if, amongst other things, this agreement has not been obtained by the end of September 2003.

The Government must obtain the approval of the European Commission for the assistance it will provide as part of the restructuring plan. We do not expect a decision on our restructuring plan to be reached by the European Commission until summer 2004. Finally, the terms of the restructuring remain to be finalised and will need to be discussed and agreed with the regulators and the Inland Revenue and approved by shareholders (where required).

### The Board's View

If the restructuring is implemented, the return, if any, to existing shareholders will represent a very significant dilution of their existing interests. However, the Board continues to believe that the proposed restructuring is in the best interests of the Company and is working hard to ensure that all the necessary conditions are met. It must be recognised that the restructuring remains subject to a large number of significant uncertainties and that if, for any reason, the restructuring cannot proceed, the Board may still have to seek the protection of administration. In this case the distribution to unsecured creditors may represent only a small fraction of their unsecured liabilities and it is highly unlikely that there will be any return to shareholders.

### Energy Review

In March 2003, the Government issued its long-awaited White Paper on future UK energy policy. The White Paper places environmental concerns at the centre of its proposals and accepts the Royal Commission's recommendation of a 60% reduction in greenhouse gases by around 2050. As the single largest contributor to the UK's efforts to mitigate the effect of climate change for many years to come, British Energy will continue to support the Government's efforts in this area.

The White Paper also made it clear that the Government intends to "keep the door open" for nuclear power and will review the prospects for nuclear generation in four years' time. In the meantime we must improve performance and make a renewed commercial and technical success of our existing UK nuclear fleet.

### Strategic Focus and Board Changes

Safety, as always, remains our number-one priority and, together with the Government, we regard safety and security of supply as being the fundamental drivers behind the restructuring. As a result of these restructuring proposals, the strategic focus of British Energy has moved back to the UK where our emphasis will be on securing safe,

reliable nuclear generation. At the same time, the commercial risk profile of the Company must change fundamentally. We will achieve this through the maintenance of diverse channels to market, the revised BNFL contracts, the new funding arrangements for nuclear liabilities and our efforts to reduce exposure to UK power prices.

In this difficult year there have been changes to the composition of the Board.

I became Chairman on 28 November 2002. Having worked closely with the Government and Whitehall in recent years, I have a good deal of experience of complex restructurings, most recently at Network Rail where I remain Deputy Chairman. Mike Alexander joined us as Chief Executive on 1 March, from Centrica, where he had been Chief Operating Officer. Mike is a strong manager, with wide experience of the UK energy market. Together, we make a good team.

The move from the Company's previous Executive Chairmanship to a separate Chairman and Chief Executive will contribute to good governance. I believe that Mike's and my own skills are complementary, and that together with the rest of the management team we are well equipped to steer British Energy through the period of retrenchment leading up to the restructuring and beyond.

There have also been changes among the Independent Directors during the year. Apart from those indicated in last year's Annual Report, Sir Robin Biggam left the Board in June 2002, Julia Walsh stepped down in July 2002, Peter Stevenson in February 2003 and Robin Jeffrey, the former Executive Chairman, also stepped down following the announcement of the restructuring plan in November 2002. Duncan Hawthorne, previously Executive Director, North American operations, has remained with Bruce Power as Chief Executive Officer after its disposal, but I am pleased that he has agreed to stay with British Energy as a Non-Executive Director for the time being.

Since the year-end, we have made two new appointments to the Board: William Coley and Pascal Colombani joined the Board as Non-Executive Directors on 1 June. Bill Coley, former CEO of Duke Power, and Pascal Colombani, a nuclear physicist who was President of the Commissariat à l'Energie Atomique, will reinforce the Board's nuclear credentials as we focus on the performance and reliability of the UK nuclear fleet. I would also like to pay tribute to Sir Robert Hill who has devoted much effort since he joined the Board in 1999, to promoting the right safety culture and whose contributions will be much missed at our Board meetings when he stands down at the AGM.

Finally, I would like to thank all of our staff and congratulate them on their continued professionalism and hard work during difficult times. Whenever I visit one of our power stations, I am impressed by the dedication and commitment to safe, reliable nuclear power shown at all levels in the organisation. With our staff's support, I am sure we will meet our immediate challenge of enhancing the Company's performance.



**Adrian Montague CBE**  
Chairman

# Review of Operating Performance

Mike Alexander

Chief Executive



Any commentary on British Energy's performance in the year ended 31 March 2003 is overshadowed by the events in September and the restructuring, as described in the Chairman's Statement. I joined British Energy on 1 March 2003 and am very conscious of the huge impact the year's events have had on our staff, our creditors and, not least, our shareholders. However, the restructuring plan, if it is fully approved, offers us an opportunity to demonstrate that we can deliver first-class performance from our generating assets and that our nuclear power stations have a crucial role to play in the UK's electricity generation mix. Our challenge will be to focus on future performance, delivering improved and reliable output from our stations and restoring our profitability.

The key figures in the results were the business performance loss before tax of £(130)m and the exceptionals of £(4,162)m leading to an overall loss before tax of £(4,292)m. Details of the exceptional items are covered elsewhere but their scale reflects the extremely tough market conditions within the UK where power prices remained at low levels. The loss before tax was compounded by a reduction of 3.8 TWh in UK nuclear output and a 10% reduction in achieved prices. Operating income also reduced following the sale of our interest in Bruce Power in February 2003.

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## UK Nuclear Generation

The restructuring of British Energy has reinforced the need to focus on the fundamentals of safe, reliable generation to secure our future viability. We are looking to make substantial improvements in the business and to meet two significant challenges:

- Achieving world-class standards of safety and reliability;
- The need to improve our cost competitiveness in the demanding UK market.

Within the UK we have eight nuclear power stations and one coal-fired station. Seven of the nuclear power stations are AGRs (Advanced Gas-cooled Reactors) and the other is a PWR (Pressurised Water Reactor). Historically, British Energy and its predecessor companies have made significant improvements in increasing the availability of our nuclear plant through reducing planned and unplanned outages. This work continued in 2002/3 but a good performance on planned maintenance was overshadowed by extensive unplanned shutdowns at two of our sites. As a result, the total UK nuclear output fell to 63.8 TWh in 2002/3, compared with the output of 67.6 TWh in the previous year. The major setback was at Torness, which experienced extended

outages on each of its two reactors owing to gas circulator problems. This cost us some 4 TWh in lost output. The lost income and repair costs were offset, in part, by insurance recoveries of some £15m. Following the resolution of these problems, both reactors were returned to service by December 2002 and since then the plant has been operating well.

The other significant shutdown was at Dungeness B where technical problems with the main boiler feed pump resulted in one reactor being off-line for 28 days. However, Dungeness B is beginning to turn around its performance, and despite two statutory outages in the year, the station produced 5.18 TWh, almost the same output as in 2001/2 and, since the year-end, the station has completed its shortest double-reactor maintenance outage in May 2003.

There were better performances at other stations, such as Hartlepool, which achieved the highest output in the year, generating 9.3 TWh, and Hunterston B, which generated 8.9 TWh – its best output yet in a year with a planned statutory outage. Using outage management techniques

developed in the USA, Sizewell B also cut its outage record from 35 to 30 days and achieved the highest load factor – 88.4% – of our stations, closely followed by Hartlepool at 88.2%. These two stations performed well in terms of minimising unplanned losses with Sizewell B only losing 0.3 TWh and Hartlepool only 0.4 TWh during the year.

**Safety**

Last year, reportable minor incidents, which fell by 6% in 2001/2, fell by a further 14%. The International Nuclear Event Scale (INES) is the standard scale measuring the significance of nuclear safety events. In 2002/3 we had no events registered at level 2 or above on the seven-point INES scale, while all others were at or below level 1 (minor operating anomalies with no impact on staff or the general public).

Last year, five of our plants maintained level 8 or higher on the International Safety Rating System (ISRS), a widely adopted standard for monitoring industrial safety.

The collective radiation dose to workers at our UK stations was 0.12 manSv/reactor in 2002/3. This represents approximately one-fifth of the world-wide average of the World Association of Nuclear Operators (WANO).

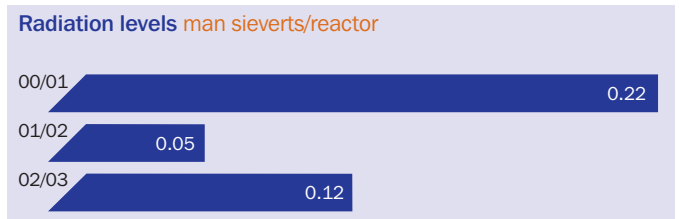
**Costs and Reliability**

Total UK nuclear operating costs were £1,126m in 2002/3. UK nuclear cost per unit, excluding revalorisation, rose 5% to £17.60/MWh as compared to £16.70/MWh in 2001/2. When the revised BNFL arrangements, which underpin our cost-improvement strategy, are fully implemented, nuclear fuel costs will be significantly reduced. In addition, these contracts provide a hedge against market prices for a significant proportion of our output and simplify our AGR fuel procurement activities.

It is clear that the greatest risk to not achieving our UK nuclear generation target is the level of unplanned generation losses. For this reason we have launched a number of programmes that will tackle the root causes of underperformance and reduce losses to competitive levels.

Following reviews by WANO, we are implementing programmes to improve the reliability of our operations and to standardise practices across our power stations and central support functions. Key areas for improvement include eliminating human performance errors and improving plant reliability – known to be the two major causes of generation losses. We are investing some £31m in improvements to plant condition – of which half will be invested at Hinkley Point B and Dungeness B to improve their long-term reliability. We are refocusing our training programme to emphasise human performance.

We are also well advanced in the deployment of a new works management system to improve the planning and allocation of maintenance work at our stations. This is an important tool to increase productivity and reliability. By the end of the year we had successfully implemented the system at the majority of our sites and look forward to the expected operational benefits such as improved scheduled maintenance and reductions in unplanned downtime and operational safety issues.



## Power and Energy Trading

Trading conditions for generators in the UK electricity markets continued to be difficult. The price for baseload power for generators in the England and Wales spot market averaged £15.48/MWh, down 10% on 2001/2. Prices have remained at low levels, below cost for a range of producers, as the generation sector continues to experience intense competitive pressure.

Overall our achieved price fell 10%, from £20.40/MWh to £18.30/MWh, reflecting the ongoing market price weakness. We managed our risk exposure by continuing to seek diverse channels to market and making best use of the flexibility of our coal-fired plant. This compared with total UK generation costs of £21.70/MWh (including nuclear, Eggborough and corporate overheads plus revalorisation) as compared to £20.30/MWh in 2001/2.

The trading strategy through the first half of 2002/3 continued to focus on four channels:

- Sales into the wholesale market to electricity suppliers, traders and other generators including long-term and structured contracts;
- Sale of all Scottish generation to Scottish Power and Scottish and Southern Energy under the Nuclear Energy Agreement (NEA);
- Direct sales to industrial and commercial customers;
- Sales of balancing and ancillary services to National Grid.

Eggborough, our 2000 MW coal-fired station, generated 5.7 TWh in the year. Its ability to vary its output quickly on request meant that it was frequently called upon to provide balancing services by National Grid as the system operator, both under the balancing mechanism and bilateral contracts. Although our nuclear units operate as baseload and cannot offer flexible generation, they continue to provide important ancillary services to National Grid that are essential for system stability and security. These services provide valuable additional revenue in addition to the market price for energy. Work is proceeding to fit flue gas desulphurisation equipment to two of the four units at Eggborough. This will allow continued operation using a variety of coals while still complying with stricter limits on sulphur emissions.

Our direct sales business (DSB), specialising in sales to industrial and commercial customers has maintained its number-one ranking in the independent Energy Information Centre quarterly survey for the 16th consecutive time.

The DSB has continued to expand in terms of volumes sold and in the range of customers served. In the last year we supplied 22.5 TWh of power directly to customers throughout Great Britain, an increase of 20%. Particular emphasis has been placed on securing renewals and extensions of existing business to reduce exposure to wholesale market prices. Our customers include industrial groups such as ICI plc and Castle Cement, and we continue to supply leading retail groups including The John Lewis Partnership and Marks & Spencer.

Regulatory changes are a feature of the developing electricity market. Ofgem have proposed a major reform to the New Electricity Trading Arrangements (NETA) to expand its coverage to include the whole of Great Britain and change the basis for charging for access to, and losses on, the transmission and distribution networks. Draft legislation to implement BETTA was published in January 2002 and the target date for implementation of the change is currently October 2004. British Energy continues to work closely with Ofgem and the Government to ensure that the changes are the minimum necessary to create a single British market and that they do not create disproportionate costs or penalties for existing generators.

Agreement was reached in July 2002 with Scottish Power and Scottish and Southern Energy on a revised pricing formula under the NEA, following the introduction of NETA in 2001. The revised contract, which received regulatory approval in November 2002, will run until 1 April 2006, or the introduction of BETTA, whichever is the earlier. Purchases under the revised contract will be much more closely linked to England and Wales wholesale market prices and terms. Under the revised agreement, British Energy received a one-off settlement from Scottish Power and Scottish and Southern Energy and has subsequently released £41m as exceptional income in respect of the adjustments to the long-term contract.

In parallel with the restructuring, British Energy has developed a new trading strategy, aimed at reducing the market price risk facing the business by securing more fixed-price sales of output for the medium term. In implementing this, we announced a major new contract in February, covering 38 TWh of output over four years from April 2003. Over 50% of this is at fixed prices, with the remainder linked to future electricity market prices. The possibilities for further medium-term contracts which reduce market price exposure continue to be explored in both the wholesale market and direct sales business. The suite of new contracts with BNFL, which, with the exception of the agreement to sell some £50m of our uranium stocks, are subject to completion of restructuring, will provide a partial hedge against market prices on some 40% of our total output.

## North America

British Energy's recent financial difficulties have resulted in dramatic changes for the Group's interests in North America. As a key element of the proposed restructuring we sold our interest in Bruce Power, and announced plans to dispose of AmerGen, our 50/50 joint venture with Exelon Corporation.

### Bruce Power

Bruce Power had performed well since its acquisition in May 2001. In the period from 1 April 2002 to 14 February 2003, Bruce B generated 19.2 TWh, a load factor of 79%. The profit contribution from Bruce Power for the period to 14 February 2003 was £97m before minorities.

The terms of the disposal of Bruce Power were negotiated in very difficult circumstances. At an EGM on 10 February 2003, our shareholders approved the disposal, which was completed on 14 February 2003. The purchaser of our interest was a consortium consisting of Cameco Corporation (an existing partner in Bruce Power), BPC Generation Infrastructure Trust, and TransCanada PipeLines Limited. The Power Workers' Union and The Society of Energy Professionals also acquired a further combined 2.6% interest to add to their existing 2.6% interest.

At completion of the disposal, we received initial consideration of C\$627m (£250m) after minor closing adjustments, and a payment of C\$51m (£20m) in recognition of earlier capital contributions paid by the Company to Bruce Power.

Since the year-end, we have received a further C\$20m that had been held in an escrow account following closing in respect of a potential pension fund adjustment. The cash received represents a loss of £35m on disposal. However, in addition, British Energy expects to receive up to:

- C\$100m, contingent on the restart of two of the reactors at Bruce A. If the restart of the two reactors is delayed beyond 15 June and 1 August respectively, the consideration of C\$50m per reactor is reduced on a sliding scale falling to zero after nine-months' delay and amounts not paid to British Energy are paid instead to the Province of Ontario. The current restart programme is on track to bring both reactors back ahead of these dates although there is little margin for slippage;
- C\$20m, which will be held in an escrow account to cover claims made up to February 2005 in respect of representations and warranties.

In addition, C\$80m is held in an escrow account to cover the estimated outstanding tax liabilities of the Bruce Power Group. In the event that the sums held back to satisfy the tax liability are insufficient,

British Energy would be required to repay the amount of such excess to the purchasing consortium. Conversely, British Energy will be refunded any balance remaining after settlement of the tax liability.

The proceeds of the disposal were used to pay down loans under the Government credit facility and to support our working capital and trading collateral requirements.

### AmerGen

AmerGen owns three nuclear stations in America: Clinton (Illinois), Three Mile Island – unit 1 (Pennsylvania) and Oyster Creek (New Jersey). All three stations are operated in conjunction with the Exelon nuclear fleet, helping to maximise efficiencies and achieve economies of scale.

During the year ended 31 March 2003, profit before tax and exceptionals for our 50% share of AmerGen increased by £6m to £47m. Total output for the year was 20.2 TWh, an average load factor of 95%. The total capacity of the AmerGen fleet was increased following the upgrading in Clinton's capacity in spring 2002 to 1017 MWe.

By summer 2002, despite the successful performance of the AmerGen business, British Energy and its partner Exelon decided that there was limited scope to grow AmerGen due to the changes in the overall market for nuclear plant. In September 2002, British Energy and Exelon announced their intention to sell AmerGen but, as we subsequently announced on 7 March 2003, these plans did not attract suitable offers. Independently from Exelon, we are now focusing our efforts on realising the value of our investment, as soon as is practicable. Discussions with potential purchasers are ongoing.

### Current Trading and Outlook

Market conditions within the UK remain extremely challenging and have adversely impacted both British Energy and other players in the generation market as has been well publicised over the past twelve months. To ensure robustness against changing market prices, we have sold forward the bulk of our projected output for 2003/4 but, as a result of the current UK market conditions, we are anticipating a further decline in our UK achieved price of around 7%. British Energy has continued to utilise diverse channels to market, including direct sales to industrial and commercial customers and structured wholesale trades, to mitigate price risk.

In addition to the savings from the revised BNFL fuel contracts, British Energy is looking to achieve further savings through a review of all areas of its business. Our target is to reduce our cost base by some £25m in 2003/4 with a further £25m being sought in 2004/5.

On output, our UK nuclear plants have achieved a total output of 11.5 TWh up to the end of May, in the financial year 2003/4. This is slightly ahead of 2002/3, and just ahead of our run rate to hit the 2003/4 target of 67 TWh. Within the rest of the Group, Eggborough added important flexibility to the nuclear portfolio, generating 0.7 TWh. In the United States, AmerGen's three stations performed well, generating an estimated output of 3.3 TWh.

Looking to the future, nuclear safety remains our number-one priority. We have a major responsibility in this area. We must maintain high standards of safety while ensuring that we deliver reliable output, consistently meeting our targets from cost-efficient operations and achieving world-class operational standards. This will be demanding

but I expect that British Energy can re-emerge as an effective participant in the UK electricity market, able to generate electricity at a price customers are willing to pay.

Our staff have worked hard over the past year to meet challenging goals and to recover from the adverse market and technical issues to which the Chairman referred. It is their efforts, skills and attention to detail which are so important for our recovery. Despite the disappointments of the past year, and the continuing need for change, I am confident that everyone at British Energy wishes to demonstrate their capability and restore the reputation of the Company.

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## Safety, Environment & Social Responsibility

### Safety

The safety of our staff and the public is British Energy's overriding priority. We remain committed to achieving world standards of nuclear and industrial safety.

Over the past 12 months we have made good progress towards stretching targets for reducing nuclear reportable events and the frequency of industrial accidents. The number of reportable minor incidents was down 14% and our accident frequency rate reduced to 0.48 lost-time accidents per 200,000 hours operation. Through the implementation of our performance improvement action plans, we expect to make further improvements to these and other key indicators over the coming year.

More specifically, a company-wide programme of training, development and focused communication has been developed to strengthen the Company's commitment to all aspects of safety, with particular emphasis on nuclear safety.

### Environment

The long-awaited Government Energy Review culminated in the publication of an Energy White Paper in March 2003. The Review

concluded that the nuclear option should be kept open and reviewed again in four years' time. This allows us time to demonstrate our capability to provide reliable, carbon-free production.

The White Paper placed emphasis on the environment and singled out climate change as the priority, accepting the Royal Commission's recommendation of a 60% reduction in emissions by 2050 with significant progress by 2020. The importance of European initiatives and international agreements in shaping the future of UK energy policy was recognised in the White Paper. These include the EU emissions trading scheme and the drive for increased transparency through electricity labelling, both of which could fundamentally change the market. British Energy is fully involved in the development of these initiatives.

Although the Government signalled that there was no need to make decisions on the future of nuclear power at this stage, it recognised the important contribution that our nuclear stations make to both reliability of indigenous supply and in meeting the UK's environmental targets. Our nuclear generation capacity provides large quantities of carbon-free electricity, making a very significant contribution to climate-change mitigation. The carbon dioxide emissions avoided by

displacing fossil fuel from the generation mix amounted to some 40m tonnes last year, equivalent to the emissions of over half the cars in the UK. British Energy will continue to support the Government's efforts in this area, as we expect to remain the largest contributor to the UK's climate-change mitigation efforts.

In addition to being carbon-free, our nuclear generation produces no oxides of sulphur or nitrogen, the precursors to acid rain and photochemical air pollution. At Eggborough, our coal-fired station, we are working to improve our environmental performance and are in the process of installing flue gas desulphurisation equipment onto two of its four 500 MW units. This will enable the station to maintain its contribution to our portfolio and to operate within increasingly tight environmental standards.

In all aspects of our business, we remain committed to improving our environmental performance. All our power stations and our two operational support offices continue to retain their certification to the Environmental Management Standard, ISO 14001.

### Social Responsibility

Our staff and Trade Unions have a vital role to play in securing the future of the Company, and we are confident that they will face the future with the same positive spirit and commitment that they have shown in the past. Our success depends on their continuing endeavour.

We employ over 5,000 people in the UK and the USA, and are committed to ensuring equal opportunities in recruitment, promotion, career development, training and reward for all employees.

We recognise the importance of sharing best practice and success, and are active members of a number of organisations including Race for Opportunity, Opportunity Now, Employers' Forum on Disability and Age Positive as well as a number of local networking organisations. These organisations look at ways to promote gender, race, disability and age equality within the work place. In addition, we have a voluntary Equal Opportunities Focus Group which plays a significant part in improving diversity. In April 2002, the senior management of the Company made a clear commitment to all staff on the business case for equality and diversity and, via our Positive Action Plan, we continue to deliver.

Training, skills enhancement and staff development play an important part in maintaining and growing our skill base. Our commitment to these areas covers a full range of training and accreditation programmes, in both the technical and general management areas. The Company has a continuing programme of leadership initiatives at different levels within the business.

We continue to believe that recruiting good, young talent is vital to our future and remain committed to recruiting young people onto our apprentice and graduate training programmes.

We are committed to being a good neighbour in all of the communities in which we operate. Our power stations are all located in areas of high environmental value and we strive to manage the Company's landholdings in a sustainable manner. Through our Biodiversity Action Plan we protect and enhance habitats for a number of vulnerable species. Integrated Land Management Plans aim to protect and enhance biodiversity, conserving the local landscape, character and historical heritage.

Residents and staff are encouraged to enjoy the landscape and wildlife around our stations through nature trails, guided walks, wildlife events and newsletters. British Energy works closely with local authorities, NGOs, tenants and volunteer groups. We have working partnerships of over ten-years' standing with the Suffolk Wildlife Trust at Sizewell, and the Trust for Lancashire, Manchester and North Merseyside at Heysham.

The Company depends on many enthusiastic volunteers to undertake much of the biodiversity monitoring at our sites as well as practical management tasks. The involvement of local residents in the management of our Heysham Nature Reserve was recognised with a Special Community Award in the BTO-Hansen Bird Challenge for Business 2002. Sizewell was also awarded a Special Conservation Award.

Each of our sites operates its own policy towards supporting communities through staff involvement and sponsorship of community events. A good example of this is at Eggborough, where tax rebates from the Gale Common ash-disposal facility have been pledged to funding environmental projects near our power stations.



**Mike Alexander**  
Chief Executive

# Restructuring

On 5 September 2002, British Energy announced that it had initiated discussions with the UK Government with a view to seeking immediate financial support and to enable a longer-term restructuring to take place. This followed the Board's review of the Company's longer-term prospects and its decision that it should not draw down on the existing undrawn loan facilities.

Previously British Energy had indicated at the AGM in July that market conditions were difficult and in August it had revised its UK nuclear output forecast for the year to 31 March 2003 to 63 TWh (plus or minus 1 TWh) compared with the original target of 67.5 TWh. This revision was due to unplanned outages occurring principally at Torness and Dungeness B nuclear power stations.

For some time the Company had been seeking to renegotiate its fuel contracts with BNFL to try and significantly reduce its fixed cost base. On 3 September 2002 BNFL delivered its final proposal to British Energy but the terms proposed fell short of those which the Company required.

On 9 September 2002 the Government granted the Company a credit facility of up to £410m to provide working capital and trading collateral for the Company's immediate requirements and to stabilise its trading position in the UK and North America. Subsequently, on 26 September 2002, the Government agreed to provide a revised facility for an amount up to £650m.

An EGM was held on 4 November 2002, at which the shareholders approved a resolution to increase the Group's borrowing limit under the Company's Articles of Association to £1.6 billion in order to afford the Company greater flexibility pending a restructuring.

Having worked closely with its advisers since September, on 28 November 2002, the Company announced proposals for a restructuring intended to achieve the long-term financial viability of the British Energy Group. The proposals require holders of the 2003, 2006 and 2016 sterling bonds, the Eggborough bank syndicate, Teesside Power Limited, TotalFinaElf and Enron to compromise their claims in return for up to £425m of new bonds together with new ordinary shares in the restructured group. The Company was required to agree formal standstill arrangements and reach agreement in principle on the proposed restructuring, with these significant creditors by 14 February 2003, which consequently was expected to result in very significant dilution of the interests of existing shareholders.

The Government confirmed its intention to support the restructuring, and agreed to extend the credit facility until 9 March 2003 in order to provide financial stability and security while British Energy sought the support of the significant creditors.

In addition, it was announced that, as part of the restructuring, the existing Nuclear Decommissioning Fund (NDF) will be enlarged into a new Nuclear Liability Fund (NLF) to address the Group's uncontracted

back-end liabilities and the costs of decommissioning. British Energy will contribute to the NLF:

- £275m of new bonds (making a total of no more than £700m of new bonds when taken together with up to £425m of new bonds allocated to significant creditors);
- Fixed decommissioning contributions of £20m per annum (indexed to RPI) but tapering as stations close;
- £150,000 (indexed to RPI) for every tonne of fuel loaded into the Sizewell B reactor after completion of the restructuring;
- 65% (subject to adjustment) of the Group's consolidated net annual cash flow after tax, financing costs and the funding of cash reserves of up to £490m.

Under the proposals, HMG will meet the costs of historic back-end fuel liabilities and will assume responsibility for uncontracted and decommissioning liabilities to the extent that the accrued value of the NDF and the contributions by British Energy to the NLF are insufficient to meet the liabilities as they fall due. As a result, the restructuring proposals need approval by the European Commission under State aid rules and a decision is not expected until summer 2004.

British Energy entered into binding heads of agreement on 23 December 2002 and a definitive master purchase agreement on 17 January 2003 to dispose of British Energy's entire 82.4% interest in Bruce Power and its 50% interest in Huron Wind to a consortium made up of Cameco Corporation, BPC Generation Infrastructure Trust and TransCanada PipeLines Limited. As part of the arrangements for the sale, 2.6% of the Group's interest in Bruce Power was transferred to the two unions involved in Bruce Power.

British Energy stated that it expected to receive a maximum aggregate consideration of C\$770m subject to various contingencies and potential adjustments, including C\$630m in cash at closing and deferred consideration as follows:

- C\$100m, contingent on the restart of two of the Bruce A units;
- C\$20m, which would be retained for two months following closing against a potential adjustment in respect of any pension fund deficit;
- C\$20m, which would be retained to cover any successful claims in respect of customary representations and warranties until any claims raised against British Energy or certain of its subsidiaries within two years from the date of closing were resolved.

In addition, C\$80m would be retained to cover the estimated outstanding tax liabilities of British Energy Canada Limited and its subsidiaries.

On 14 January 2003, British Energy held an EGM to consider the serious loss of capital following the Board's decision that the value of the Company's net assets was then less than half of its called up share capital. No resolution was tabled but the Chairman outlined the steps which the Company was taking to deal with this situation.

On 10 February 2003, British Energy announced that shareholders had approved the disposal of Bruce Power. The sale was completed on 14 February 2003. At completion, British Energy received initial consideration of C\$627m (£250m) after minor closing adjustments and a payment of C\$51m (£20m) in recognition of the capital contribution paid by British Energy to Bruce Power on 30 December 2002. In addition, British Energy expects to receive the sums noted above in conjunction with the restart of the two Bruce A units and customary representations and warranties.

On 14 February 2003, British Energy announced that it had entered into binding standstill agreements and had reached a non-binding agreement on the principles of the Company's restructuring with certain of the bondholders, the steering committee of the Eggborough bank syndicate, The Royal Bank of Scotland plc as provider of a letter of credit to the Eggborough bank syndicate, Teesside Power Limited, TotalFinaElf and Enron. These agreements were subject to various approvals required by 24 March 2003 and certain US bankruptcy court approvals in the case of Enron.

The significant creditors and BNFL agreed with British Energy that they would not take any steps to initiate any administration proceedings or demand or accelerate any amounts due and payable by British Energy during the period commencing on 14 February 2003 and ending on the earliest of 30 September 2004 or a termination event or the completion of the restructuring.

Under the standstill agreements, certain significant creditors are paid interest, but not principal, in respect of any claims against the British Energy Group. Interest continues to be paid to bondholders and the Eggborough bank syndicate in accordance with existing arrangements, except that following the payment of the normal annual coupon to bondholders on 25 March 2003, subsequent interest payments will be made on a six-monthly rather than on an annual basis.

The standstill agreements contain certain covenants for the benefit of the significant creditors and BNFL (including the bondholders who have signed the bondholders' standstill agreement). For example, during the standstill period, British Energy has undertaken that it will not, without the unanimous consent of the significant creditors and BNFL, make any acquisition or disposal greater than £5m (except for the sale of Bruce Power and AmerGen) and it will not issue equity or pay any dividends.

BNFL or any of the significant creditors may terminate the standstill agreement following the occurrence of a termination event. The termination events include certain insolvency events affecting the Company, British Energy Generation Limited, British Energy Generation (UK) Limited, British Energy Power & Energy Trading Limited or Eggborough Power Limited, acceleration of the credit facility, the required approvals under the standstill agreement not

being obtained within the timescales envisaged, any of the British Energy companies failing to discharge certain continuing obligations, and definitive documentation having not been executed by 30 September 2003.

The heads of terms included an allocation of the new bonds and new equity among the significant creditors, based on agreed claim amounts. In addition, the Eggborough bank syndicate had agreed in principle to enter into a new Capacity and Tolling Agreement (CTA) under which payments would be made as if they had been issued with £150m of new bonds and consequently the issue of new bonds would be reduced by £150m to a total of £550m.

However, in achieving these agreements, it was pointed out that they represented just one step along a road which might take another 18 months.

Although the proceeds of the disposal of Bruce Power, and standstill amounts, were to be used to repay sums due under the secured loan from the Government, on 7 March 2003, it was announced that the UK Government had agreed to extend the credit facility in order to provide financial stability and security while British Energy sought to achieve the restructuring. The extended facility will mature on the earlier of 30 September 2004 or the date on which the restructuring plan becomes effective, and has been reduced from up to £650m to up to £200m to provide working capital for the business and collateral to support UK trading operations. The Government was entitled to require immediate repayment of the credit facility if British Energy did not obtain formal approvals to the standstill agreement from the significant creditors by 25 March 2003, and may still do so if, in the opinion of the Secretary of State, the restructuring cannot be implemented in the manner or timescale envisaged.

The Government also announced that it was submitting its application to the European Commission for State aid consent.

At that time British Energy also announced that it had decided, jointly with Exelon, to terminate the AmerGen sale process – as both parties together concluded that none of the proposals received adequately reflected the intrinsic value of AmerGen – and that it was continuing to take steps to realise its 50% interest in AmerGen.

British Energy also disclosed that, following discussions with the New York Stock Exchange, it would change the ratio of the British Energy shares traded on the New York Stock Exchange from one ADR to four ordinary shares, to a new ratio of one ADR to 75 ordinary shares, and that this change would be effective by 30 April 2003.

In accordance with the standstill agreements, British Energy amended the existing power purchase agreement with Teesside Power Limited (TPL) so that during the standstill period, British Energy continues to purchase power from TPL at fixed prices set at levels based on the current forward curve for electricity. On completion of the restructuring, this power purchase agreement with TPL will terminate.

On 24 March 2003, British Energy announced that it had obtained the necessary approvals and that the standstill agreements were now effective between the Company and British Nuclear Fuels plc, the Eggborough bank syndicate, The Royal Bank of Scotland, Teesside Power Limited and TotalFinaElf.

On the same day, meetings of the holders of British Energy bonds took place at which resolutions approving the standstill were passed, authorising amendments (which have now been made) to the trust deed constituting the bonds, rendering the standstill binding on all bondholders.

On 28 April 2003, British Energy announced that it had received C\$20m (circa £8.7m) which had been retained on completion of the sale of Bruce Power for the possible price adjustment relating to pensions following confirmation that no such adjustment was required.

The Enron US bankruptcy court approvals were obtained and the standstill agreement became binding on Enron during May.

More recently, on 16 May 2003, British Energy announced that it had exchanged 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 restructuring but, under the terms of the standstill agreement, pending formal implementation of the new back-end contracts, payments from British Energy to BNFL will be made as if the new back-end contracts had become effective on 1 April 2003.

At the same time, British Energy announced that new contracts have also been entered into for the sale of all of its enriched and natural uranium stocks to BNFL and their ongoing supply and procurement by BNFL. BNFL has purchased from British Energy the majority of its existing uranium stocks for circa £50m and will provide British Energy with a full uranium supply service in the future. The remaining stocks will be purchased by BNFL later this year for an expected price of circa £15m. Under the new lifetime arrangements which are terminable after an initial period of seven years, BNFL will supply the uranium required for British Energy's AGR stations in England, and will also supply enriched uranium for PWR fuel fabrication. BNFL will continue to supply uranium for British Energy's AGR stations in Scotland under

existing arrangements until 2006, when similar arrangements to those applicable in England will take effect.

In addition, British Energy has entered into an agreement whereby it will provide computer implementation support services to the BNFL Group for a fee of £10m per annum plus certain incremental costs. The project is expected to be completed by 31 March 2005.

The Company is continuing to work hard with its advisers to achieve the proposed restructuring, but the restructuring remains subject to a large number of significant uncertainties, including:

- Formal agreements relating to restructuring need to be reached with the significant creditors in relation to the restructuring of their diverse financial interests;
- No agreement has yet been reached in relation to the price or terms of any sale of AmerGen;
- The European Commission might not approve the restructuring, or might impose conditions to such approval, that would affect the financial terms or even the viability of the restructuring;
- The Secretary of State is entitled to cancel and require immediate repayment of the Government's credit facility if, among other things, in the opinion of the Secretary of State, the restructuring could not be implemented in the timescale or manner envisaged;
- The standstill arrangement might be terminated following the occurrence of certain termination events;
- Implementation of the proposed restructuring requires the development of a structure and steps which permit the commercial and economic effects outlined on 14 February 2003 to be achieved without material adverse taxation or accounting consequences and the detailed terms of the restructuring will need to be discussed and agreed with the Inland Revenue.

If for any reason British Energy is unable to implement the restructuring, it may be unable to meet its financial obligations as they fall due, in which case, it may have to take appropriate insolvency proceedings. If British Energy were to commence insolvency proceedings, distributions, if any, to unsecured creditors may represent only a small fraction of their unsecured liabilities, and it is highly unlikely that there would be any return to shareholders. Even if the restructuring is completed, the return, if any, for shareholders will represent a very significant dilution of their existing interests.

Copies of the Company's announcements regarding restructuring, in particular the announcements of 28 November 2002 and 14 February 2003, are available on the Company website, [www.british-energy.com](http://www.british-energy.com). The Company expects to make further announcements concerning restructuring as developments occur.

The following unaudited pro forma net asset statement has been prepared to illustrate the effects of restructuring, had the restructuring taken effect on 31 March 2003.

### Unaudited Pro Forma Group Net Asset Statement as at 31 March 2003

#### (i) Basis of Preparation

The Group balance sheet drawn up at 31 March 2003 does not reflect the terms of the proposed restructuring as the restructuring has not been finalised.

The unaudited pro forma consolidated net asset statement for the British Energy Group as at 31 March 2003, set out overleaf, has been prepared on the assumption that the terms of the current restructuring proposals were effected on 31 March 2003. Because of the nature of pro forma financial information, it does not give a true or complete picture of the financial position of the British Energy Group and has been prepared for illustrative purposes only.

The unaudited pro forma net asset statement as at 31 March 2003 has been based on the audited consolidated balance sheet as at that date, after making the adjustments required in respect of steps 1 to 4.

The pro forma information has been prepared in accordance with the listing rules of the UK Listing Authority. It does not take any account of trading results or movements in working capital and cash flows of the British Energy Group and its subsidiaries between 31 March 2003 and the ultimate date of the implementation of restructuring and excludes the effect of any disposal of the Group's investment in AmerGen.

#### (ii) The Effects of Restructuring

##### General

The accounting for restructuring is expected to follow the principles of acquisition accounting owing to the significance of the change in ownership of the Group. This will result in significant changes to the share capital and reserves structure of the Group as well as the need to fair value the assets and liabilities.

As stated in note 25 to the financial statements, the most recent formal triennial actuarial valuations of the Group's pension schemes were carried out as at 31 March 2001. The next formal actuarial valuation is due to be carried out as at 31 March 2004. Accordingly, in the absence of a formal actuarial valuation as at 31 March 2003 the pro forma net asset statement does not include any adjustment to reflect the fair value of the pension scheme assets and liabilities as at that date. The balance sheet on restructuring is expected to include the fair value of the pension scheme assets and liabilities following the next formal actuarial valuation.

The carrying value of AmerGen of £71m included in the pro forma net asset statement is based on that included in the audited group financial statements as at 31 March 2003. As disclosed elsewhere in the Annual Report, the Directors are currently in discussions with various parties to dispose of their investment in AmerGen. Accordingly, the investment has not been fair valued in the pro forma net asset statement pending conclusion of these negotiations.

The Directors have assumed that the market value of new shares is equal to the fair value of the net assets and, therefore, no goodwill arises. If that market value is different to fair value, however, then positive or negative goodwill will arise when restructuring is effected. In any event the market value of the new shares and the fair value of net assets on completion of the restructuring may be different from the pro forma net assets as at 31 March 2003.

#### Step 1 – Revaluation of Fixed Assets

Fixed assets employed across the fleet of UK nuclear power stations have been fair valued based on continued operation assuming a discount rate of 10% applied to projected cash flows, taking account of the new BNFL contract and the NLF funding arrangements including the cash sweep mechanism described below. The carrying value of fixed assets has been reduced by £138m following these steps as the cash sweep mechanism is expected to have a negative impact on cash flows.

There is no deferred tax liability as at 31 March 2003 following the asset write down. No deferred tax asset is recognised as its recoverability in the foreseeable future is considered by management to be uncertain.

#### Step 2 – New BNFL Contracts

The provision for nuclear liabilities will be based on the revised contractual arrangements. Creditors have been adjusted to reflect amounts compromised under the standstill and restructuring agreements, together with a rescheduling of the payment terms under the historic BNFL contracts.

A consequence of the new arrangement is that British Energy now recognises liabilities under historic contracts for spent fuel services costs related to all fuel loaded before the effective restructuring date. Accordingly nuclear liabilities have been increased as British Energy previously provided for these liabilities as the fuel was consumed. Adjustment has, therefore, been made in respect of contracted and uncontracted liabilities for the cost of spent fuel services for unburnt fuel in the reactor as at 31 March 2003.

Under the proposed new BNFL contracts, ownership of the AGR fuel loaded after the restructuring date reverts to BNFL and so British Energy no longer bears storage, reprocessing and disposal costs. Going forward, British Energy's AGR back-end fuel costs for these services will be £150,000 (adjusted for RPI) per tonne of AGR fuel loaded. In addition, British Energy will make further annual payments which include a rebate and surcharge mechanism based on the out-turn of output and electricity market prices in that year.

#### Step 3 – NLF and HMG Indemnity Arrangements

HMG has provided an indemnity to fund services for spent AGR fuel loaded pre-restructuring and any future shortfall on NLF funding of uncontracted liabilities (including PWR spent fuel services) and decommissioning costs. This shortfall will represent the difference between the discounted provision for nuclear liabilities less the market value of the NLF at the balance sheet date.

## Restructuring

Continued

The adjustment to the decommissioning fund/HMG indemnity of £3,865m represents the shortfall as at 31 March 2003.

The NLF will initially be comprised of the assets in the current decommissioning fund together with £275m of new bonds issued to the fund on restructuring. Post restructuring the Group will contribute £20m per annum (adjusted for RPI) tapering off as stations close, £150,000 per tonne (adjusted for RPI) of PWR fuel loaded as well as a 65% cash sweep.

The cash sweep is initially defined as 65% of the movement in cash and cash equivalents during the year after adjusting for, among other things, any payments made to the NLF or dividends paid in the year. In restricted circumstances British Energy is permitted to carry forward cash from one year to the next (thereby reducing the NLF cash sweep payment for the first year) where certain significant committed future cash outflows are expected.

Post restructuring the Group will be entitled to retain a minimum amount of cash in reserve, initially set at a target of £490m, which can be adjusted for any incremental collateral requirements, prior to the proposed NLF cash sweep taking effect, to support collateral and liquidity requirements post restructuring. A provision of £216m has been created for cash reserves due to the NLF, representing 65% of the Group's cash and liquid

funds balance at 31 March 2003. An additional provision of £17m has been created for net working capital balances as at 31 March 2003. The cash sweep mechanism will have an impact on future dividend policy.

New legislation, the Electricity (Miscellaneous Provisions) Act, was enacted on 8 May 2003. One of the objectives of the legislation was to avoid British Energy incurring a tax charge as a result of the new HMG indemnity arrangements otherwise the level of State aid would require to be correspondingly higher.

### Step 4 – New Bonds Issued

The £700m balance for bonds and loans upon restructuring represents £550m of new bonds together with £150m due through the planned revision to the Capacity and Tolling Agreement between BEPET and EPL to fund repayments under the Eggborough bank loans. The adjustments represent the difference between the carrying value of liabilities pre-restructuring and the amounts for which they are compromised by the significant creditors under the terms of the restructuring, which is assumed to have no tax consequences. The new bonds will be issued, together with some equity, in return for the significant creditors and BNFL agreeing to compromise the amounts owing to them.

### Unaudited Pro Forma Group Net Asset Statement as at 31 March 2003

	Group net assets pre-restructuring £m	Step 1 £m	Step 2 £m	Step 3 £m	Step 4 £m	Group net assets post- restructuring £m
Tangible fixed assets	686	(138)	–	–	–	548
Investments	77	–	–	–	–	77
Goodwill	–	–	–	–	–	–
<b>Fixed Assets</b>	<b>763</b>	<b>(138)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>625</b>
<b>Current Assets</b>						
Decommissioning Fund/HMG indemnity	334	–	–	3,865	–	4,199
Stocks	360	–	–	–	–	360
Debtors	387	–	–	–	–	387
Investments	246	–	–	–	–	246
Cash at bank/cash reserve	87	–	–	–	–	87
	<b>1,414</b>	<b>–</b>	<b>–</b>	<b>3,865</b>	<b>–</b>	<b>5,279</b>
Creditors <1 year	(1,033)	–	179	–	316	(538)
Bonds and bank loans	(152)	–	–	–	152	–
	<b>(1,185)</b>	<b>–</b>	<b>179</b>	<b>–</b>	<b>468</b>	<b>(538)</b>
<b>Net Current Assets</b>	<b>229</b>	<b>–</b>	<b>179</b>	<b>3,865</b>	<b>468</b>	<b>4,741</b>
Nuclear liabilities – creditors >1 year	(1,909)	–	(360)	–	–	(2,269)
Bonds and loans	(731)	–	–	(275)	306	(700)
Cash reserves due to NLF	–	–	–	(216)	–	(216)
Working capital due to NLF	–	–	–	(17)	–	(17)
Other long-term creditors	–	–	–	–	–	–
	<b>(2,640)</b>	<b>–</b>	<b>(360)</b>	<b>(508)</b>	<b>306</b>	<b>(3,202)</b>
Provisions	(1,735)	–	(81)	–	–	(1,816)
<b>Net (liabilities)/assets</b>	<b>(3,383)</b>	<b>(138)</b>	<b>(262)</b>	<b>3,357</b>	<b>774</b>	<b>348</b>

# Financial Review

## Introduction

The financial year to March 2003 has been the most difficult in the history of British Energy. The combination of dramatic reductions in electricity prices in the UK market, a high fixed cost base, and failure to renegotiate its fuel contracts with BNFL, precipitated a financial crisis in the Group. These factors lay behind the Board's decision to seek Government assistance on 5 September 2002, and have since culminated in a restructuring process which is described more fully on pages 10 to 14.

Thus far, significant progress has been made in pursuit of the proposed restructuring plan which was announced on 28 November 2002. We have disposed of our investments in Bruce Power and Huron Wind. Standstill agreements are now in place with our significant creditors and BNFL, and we are managing our cash and collateral requirements within the limits of the credit facility provided by the UK Government.

The Group made a loss before tax after exceptional items of £4,292m, compared with a loss of £493m in the previous year. Our results are discussed more fully below. The Group's financial statements have been drawn up on a non-restructured basis, as this represents the current legal position of the Group pending expected completion of the restructuring in 2004. We have included an unaudited pro forma net asset statement on page 13 of this report to illustrate the financial effects of the restructuring as if it were implemented at 31 March 2003.

## Exceptional Items

The 2003 results include exceptional items amounting to £4,162m before tax, analysed as follows:

	£m
Write-down of fixed asset carrying values	3,738
UK decommissioning fund	124
AmerGen decommissioning fund	48
Write-down of own shares held	102
Slow moving stocks	57
Provision for interest rate swaps	56
Restructuring costs	35
Loss on sale of investments in Bruce Power and Huron Wind	35
Write-off of capitalised borrowing costs	6
Onerous trading contracts	2
Nuclear Energy Agreement	(41)
	<hr/>
	4,162

The Directors have reviewed the economic values and net realisable values of the Group's fixed assets and compared them to their book value. As a result of this review, the value of fixed assets has been reduced by £3,738m. The evaluation of economic values is discussed more fully later in this Financial Review.

At 31 March 2003 the market value of the UK Decommissioning Fund (£344m) was lower than the value (£468m) that would have been derived from revalorising the cost of the investment. As a result, an exceptional charge of £124m has been recognised to restate the

Decommissioning Fund receivable to market value. Of this write-off, £111m represents previous revalorisation credits, and has been treated as an exceptional financing charge. The remaining balance of £13m has been classified as an exceptional operating cost.

The market value of the Decommissioning Fund held by AmerGen, the Group's joint venture with Exelon, was also lower than the value which would have been derived from revalorising the cost of the investment. As a result, an exceptional charge of £48m has been recognised for British Energy's share of the adjustment required to restate the AmerGen Decommissioning Fund receivable to market value.

Following the collapse of the British Energy share price, the market value of shares held by employee trusts at 31 March 2003 was £2m compared to a book value of £104m. As the long-term prospects of the Group have deteriorated significantly, the Directors consider it appropriate to recognise a permanent diminution in the value of the shares held in employee trusts. As a result, an exceptional charge of £102m has been recognised within operating costs.

The Group is implementing new fleet-wide work management practices, has carried out a detailed review of slow moving stocks and has made a provision of £57m for stock obsolescence.

The accounts include a charge of £56m in respect of onerous interest rate swap contracts which are no longer effective as hedges and are no longer required by the Group.

A charge of £35m has been made in respect of costs incurred on advisory and other costs associated with restructuring the Group's activities. Further restructuring costs will be incurred in 2003/4.

A loss on disposal of £35m has been realised on the disposal of our investment in Bruce Power and Huron Wind. This disposal is discussed more fully later in this review.

We have written off £6m of debt arrangement costs which relate to borrowings which are now part of the financial restructuring. These costs had been capitalised and were being amortised over the expected duration of the borrowings.

The Group has certain pre-NETA electricity-trading contracts with Enron Capital & Trade Europe Finance LLC (Enron), Teesside Power Limited (TPL) and TotalFinaElf Gas and Power Limited (TFE). As a result of the terms inherent in these contracts and the Directors' view of future market prices, the contracts are considered to be onerous. The Enron and TFE contracts were terminated during the year, thus giving rise to claims for certain amounts which became payable. The accounts reflect the claimed amounts which have been agreed in principle with Enron, TPL and TFE for the purposes of the restructuring. An exceptional charge of £2m has been made in the year to make further provision for these long-term trading contracts.

The Group has agreed revised terms for the electricity supply agreement with Scottish Power and Scottish and Southern Energy. Under the terms of the Nuclear Energy Agreement, which has now received regulatory approval, the Group is in a position to release as income a balance of £41m in respect of cash previously received.

#### Write-down of Fixed Assets

In the September 2002 interim accounts, the Directors drew attention to the lack of certainty regarding the appropriateness of the carrying values attributed to the generation fixed assets recorded in the accounts. We did not recognise any impairment to the carrying values of assets at that time as the uncertainties relating to restructuring were considered to be too significant to enable meaningful measurement. The key restructuring steps have now been defined and standstill agreements are now in place with significant creditors and BNFL. We are, therefore, now better placed to assess the carrying values of assets shown in the 2003 year-end Group accounts.

The Directors have reviewed the economic values and net realisable values of the Group's power stations and compared them to their book values as at 31 March 2003, in accordance with FRS11 ("Impairment of fixed assets and goodwill"). As a result of this review, the value of fixed assets has been reduced by £3,738m. Recognition of asset impairment is shown as a non-cash exceptional item in the year-end accounts under depreciation charges.

The fundamental objective of FRS11 is to ensure that fixed assets and goodwill are recorded in financial statements at no more than their recoverable amount. The recoverable amount is defined as being the higher of "net realisable value" (expected proceeds of sale less direct selling costs) or "value in use". Impairment is measured by comparing the carrying value of the fixed assets and relevant current assets with their recoverable amount.

The outlook for prices in the UK electricity market has worsened dramatically since the Directors carried out their review for the 2002 accounts which resulted in a £300m write-down of the carrying value of Eggborough power station. The worsening outlook for electricity prices is the single most significant factor in the asset write-down. The Directors have considered the market's views on future prices of wholesale electricity and also the forecasts specifically commissioned for the Company. They have considered the potential for rationalisation of generation capacity in the UK and the potential effect on the market of changes in Government policy on renewable generation. In determining the price assumptions the Directors have also taken account of the effect on the market as a result of the dramatic fall in prices over the last two years and have taken a cautious view on there being a significant recovery in prices. As market prices are outside the Directors' control actual prices may differ from those forecast.

The carrying value of the nuclear stations has been calculated by discounting the expected future cash flows from continued use of the assets, having made appropriate assumptions regarding future operating performance. The discount rate used was 15% nominal pre-tax, which is our assessment of a rate of return which the market would expect for a similarly risky investment. The valuation of Eggborough is based on an assessment of net realisable value.

The carrying values analysis has been carried out for accounting purposes only. Decision-making on whether individual stations should be retained in production has been reviewed using more appropriate financial decision-making measures.

The March 2003 statutory accounts do not incorporate the key elements of the restructuring, which is still subject to European Commission State aid approval and a large number of other significant conditions and uncertainties. As a result, the asset values in the March 2003 accounts do not reflect, for example, the new BNFL contracts or the proposed Nuclear Liabilities Fund cash sweep arrangements which we anticipate will be included in future asset impairment tests for accounts' purposes when there is reasonable certainty of their becoming legally effective. That assessment is likely to lead to a further write-down in the accounts at that point, ending up with asset values consistent with those illustrated in the pro forma net asset statement set out on page 13.

#### Business Performance Loss

The business performance loss before tax and minorities was £130m compared to a profit of £42m in 2002. The main reasons for the change are set out in the table below.

	£m	£m
Business Performance Profit 2002		42
Increased loss from UK activities	(217)	
Increased contribution from AmerGen joint venture	6	
Increased contribution from Bruce Power (now discontinued)	45	
Increased interest charges	(6)	
Total reduction		(172)
Business Performance Loss 2003		(130)

The main influences on our results are discussed in greater detail below. Except where otherwise indicated, the commentary refers to the business performance results, which exclude the impact of exceptional items.

**UK Operations**

Turnover in the UK which comprises generation sales, direct supply sales and miscellaneous income was £1,487m. UK turnover decreased by £214m, as detailed below:

	£m
Decreased UK turnover:	
– owing to decreased output	118
– owing to lower electricity prices	111
Increase in miscellaneous income – mainly owing to Torness-related insurance receipts	(15)
	214

The achieved price for our UK output in 2002/3 was 2.09p/kWh compared with 2.25p/kWh on the same basis in the previous year. Excluding the flow-through of energy supply costs, the achieved price was 1.83p/kWh compared with 2.04p/kWh in 2001/2. The 10% reduction in the latter achieved prices reflects the difficult conditions in the electricity generation market in England and Wales.

Direct supply sales increased by £81m to £603m during the year and now account for 32% of the Group's UK output compared with 25% in the previous year.

UK operating costs, excluding energy costs relating to the direct supply business, were £1,296m, down by £55m. Fuel costs were down by £96m, of which some £37m was due to lower output, £19m was related to improved efficiency and prices and £18m was due to levelisation of the prices set out in the BNFL fuel supply contract. Materials and services costs were up by £30m, comprised of a £33m increase in outage costs, partly offset by savings in other areas. Staff costs were up by £18m, of which £11m related to severance costs. The remainder of the increase was due to a combination of annual salary award and an increase in the level of employer pension contributions.

Nuclear unit operating costs were 1.76p/kWh compared with 1.67p/kWh in the prior year, an increase of 5%. The increase in unit costs reflects the high proportion of fixed costs within our cost structure and the effects of lower output.

Energy supply costs, excluding electricity purchases, have increased by £13m primarily owing to the expansion of the direct supply business.

Revalorisation charges in the UK were £209m compared with £164m in the previous year. The charge was higher than the previous year primarily because of higher inflation. The weighted average of RPI and RPIX used to revalorise the Group's UK nuclear liabilities was 3.0% compared with 1.7% for the year ended 31 March 2002.

**Contribution from AmerGen**

We announced in early September that we and our joint venture partner Exelon were considering the possible sale of AmerGen. This decision was made prior to British Energy's approach to the Government for financial assistance. It was taken because of the difficulties in growing the AmerGen business further, increased competition and higher prices for nuclear assets, and the fact that both parties' strategies had evolved since the joint venture was formed in 1997. In March 2003, British Energy and Exelon announced their joint decision to terminate this sale process. British Energy is continuing to take steps to realise its 50% interest in AmerGen.

AmerGen contributed an operating profit of £43m before exceptionals, an increase of £6m over the previous year. Output from the three AmerGen stations totalled 20.2 TWh representing a load factor of 95% and an output increase of 8% over 2001/2.

**Bruce Power**

The disposal of our investment in Bruce Power was completed on 14 February 2003. The Group has received payments amounting to C\$698m reflecting the initial consideration of C\$627m (after minor closing adjustments), C\$51m repayment of capital contributions and C\$20m of pension-related retention.

The Group has recognised a loss of £35m on the disposal of its Bruce Power investment, based on the cash amounts received to date. Further amounts of consideration totalling C\$120m are held in escrow pending compliance with certain conditions related to the sale.

The pre-disposal results of Bruce Power, which have been classified as discontinued operations, provided a contribution of £80m after minorities for ten and a half months of trading.

**Net Interest Charge**

Net interest charge for the year was £72m, an increase of £6m compared to the previous year. The increase reflects £8m of interest charges on the standstill agreements.

**Taxation**

The tax charge for the year was a net credit of £368m, comprising tax charges of £28m on North American activities and a £396m credit for release of UK deferred tax provisions. The UK deferred tax provisions have been released as a number of the exceptional items recorded in these accounts transform the deferred tax provision into an asset of £150m. However, we have not recognised the deferred tax asset in these accounts because there is insufficient certainty that it will be recovered within the foreseeable future.

### Earnings and Dividends

There was a loss after tax but before exceptionals of £132m, compared with a loss of £39m in the previous year. The corresponding loss per share before exceptionals was 24.8p compared with a loss per share of 8.4p in 2001/2. After exceptionals the loss after tax and loss per share were £3,941m and 654.7p respectively. No dividend will be payable for 2002/3.

### Cash Flows and Funding

Net operating cash flow after capital expenditure and nuclear liability payments was £54m, a decrease of £101m on the previous year. The operating cash flows of the UK operations amounted to £132m in the current year.

At 31 March 2003 British Energy had net debt of £550m compared with £859m at the end of the previous year. At 31 March 2003 the Group had deposited £209m in collateral bank accounts for trading purposes and had not utilised any of the £200m credit facility which was provided by the UK Government on 7 March 2003.

### Nuclear Liabilities and Decommissioning Fund

Accrued nuclear liabilities at 31 March 2003 were £3,937m, an increase of £218m over the year. The liabilities increase each year owing to additional fuel burnt in the Group's power stations, inflation, and removal of one year's discount; and they are reduced by cash payments made during the year. The Group made payments of £115m to discharge nuclear liabilities prior to entering into a standstill agreement with BNFL to defer payment of a further £113m which would otherwise have been payable.

The Nuclear Decommissioning Fund will be used to fund post-defuelling decommissioning costs. As noted above, the fund has been restated to a market value of £334m at 31 March 2003 as this was lower than book value.

### Creditors and Provisions

The Group had balances owing to non-trade creditors amounting to £326m at 31 March 2003, inclusive of £316m for claims in respect of onerous trading contracts with Enron, TPL and TFE. These claim amounts have been agreed in principle with Enron, TPL and TFE as part of the non-binding agreement reached with them on 14 February 2003 in relation to the recognition, compromise and allocation of claims under the proposed restructuring.

Other provisions at 31 March 2003 amounted to £62m, of which £56m was in respect of the interest rate swap contracts as discussed in the section on exceptional items above. Provision utilisation during the year amounted to £45m, of which £40m was for onerous trading contract provisions and £5m related to severance costs. The provision for onerous trading contracts has been reclassified as a creditor during the year.

### Capital Expenditure

Capital expenditure in the UK business was £112m compared with £111m in the previous year. There was capital expenditure of £170m at Bruce Power prior to its disposal. Capital expenditure by AmerGen totalled £24m in the year.

### Pro Forma Net Asset Statement

The Group's financial statements have been drawn up on an un-restructured basis as this represents the contractual position of the Group pending completion of the restructuring which is anticipated in 2004.

We have included an unaudited pro forma net asset statement on page 13 of this report to illustrate the financial effects of the restructuring proposals as if they had been implemented at 31 March 2003. The pro forma net asset statement is based on the restructuring principles and standstill arrangements which we announced on 14 February 2003. However, these restructuring principles are non-binding and remain subject to a large number of significant uncertainties. In addition, in drawing up the pro forma net asset statement, the Directors have made certain assumptions, principally regarding the outlook for future electricity prices and discount rates, which may change prior to final completion of the restructuring.

### Treasury Management

Treasury operations were conducted in accordance with policies and procedures approved by the Board. Procedures were amended as a result of special arrangements necessary as part of the Group's efforts to seek a solvent restructuring. Treasury's operations have focused on ensuring sufficient liquidity has been available to meet the Group's requirements and minimising draw-downs under HM Government's credit facility. The Group has reduced exposure to foreign currency exchange rate movements following the disposal of its investments in Bruce Power and Huron Wind. There are potential foreign currency receivables in respect of the retentions outstanding from the sale of Bruce Power and the potential sale of 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. Existing committed facilities were cancelled in September 2002 as a result of the Group's announcement of 9 September 2002. The Group has not raised finance in the capital markets nor entered into treasury management trades of a speculative nature in the period.

### Market Risk Management

Financial risks associated with market price movement and electricity trading are managed on a day-to-day basis by the Group's Power and Energy Trading division which operates within policies and procedures approved by the Board. The Trading Risk Committee meets on at least a quarterly basis to monitor the risk management processes, review the status of the trading risk log and approve changes to trading limits on behalf of the Board.

During the last financial year, British Energy operated a policy of balancing its anticipated generation with net sales in advance of the day of delivery. In this way, British Energy's exposure to prices in the daily spot market and the NETA Balancing Mechanism is kept small.

Sales are built up over time in a variety of ways, with a combination of contracts containing fixed and variable price elements. Direct sales to retail customers and tailored sales to retail suppliers typically cover periods of one to two years. Sales via the wholesale commodity market cover a range of periods, most commonly six months seasonal trades. Larger structured deals are also contracted directly with certain market counter-parties. A number of shorter-term trades are made to balance supply and demand on a continual basis.

A new UK electricity trading strategy is being implemented to reduce exposure to electricity price movements.

Certain of the Group's long-term trading contracts no longer form part of the Group's physical trading portfolio. The amounts due under these contracts are included within the financial creditor amounts which are being compromised as part of the restructuring of the Group's finances.

#### Pensions

Note 25 to the accounts provides the disclosures required under the transitional requirements of FRS17, the UK accounting standard dealing with retirement benefits. The UK Accounting Standards Board has postponed full implementation of FRS17, following the decision by the International Accounting Standards Board to review IAS19, the relevant international accounting standard. Full implementation of FRS17 is unlikely to be required until 2005 at the earliest and the content of FRS17 may change following the review of IAS19.

The FRS17 valuation is based on a snapshot of assets and liabilities at a particular point in time and does not necessarily take account of the long-term nature of pension schemes. Movements in equity markets and bond yields can create considerable volatility in the FRS17 valuation at different points in time.

Under FRS17, the net pension deficit was £352m for the UK schemes as at 31 March 2003, compared to a surplus of £43m one year earlier. The deficit reflects, in particular, the decline in equity markets over the last year.

The funding of the pension schemes is based on the results of three-yearly valuations by independent actuaries rather than on the results of the FRS17 valuation. The next actuarial valuation is scheduled to take place as at 31 March 2004. During the year, the actuary of the British Energy Generation Group Scheme (the main UK pension scheme) carried out an interim review of scheme assets and liabilities in order to assess the appropriateness of the continued use of the surplus that arose at the 31 March 2001 valuation. As a result of that review, the employer's contributions to that scheme were increased

from 10% to 17.1% from 1 November 2002. The employer's contributions to the British Energy Combined Group Scheme (the smaller UK pension scheme) had been increased from 12% to 15.3% from 1 April 2002.

We recognise that the funding of pension schemes is a matter of concern to scheme members, to shareholders and to our other stakeholders. We will keep the funding issues under close review in the coming year.

The Group balance sheet reported at 31 March 2003 does not include the FRS17 deficit.

#### Going Concern

Discussions regarding longer-term restructuring have commenced. However, if these discussions are not successful, British Energy may be unable to meet its financial obligations as they fall due and therefore British Energy may not be considered to be a going concern. The financial statements have been prepared on a going concern basis in accordance with FRS18 because the entity is not being liquidated nor ceasing to trade and the Directors are currently seeking an alternative to liquidating the Company or ceasing to trade.

#### Conclusion

The Group has had an extremely difficult year and the future remains uncertain. Although we have made significant progress in implementing our restructuring plan there is still a long way to go until the restructuring is completed.



**Keith Lough**  
Finance Director

# Board of Directors

## **Adrian Montague (55) ^**

Appointed Chairman of British Energy on 28 November 2002. Currently Deputy Chairman of Network Rail, Non-Executive Chairman of Michael Page International plc and a senior advisor to Société Générale. Non-Executive Director of Cellmark AB. Chairman of the Nominations Committee.

## **Mike Alexander (55) † ■**

Appointed Chief Executive on 1 March 2003. Formerly an Executive Director of Centrica plc, having previously held commercial and marketing roles with BP. After BP, held senior positions at British Gas, where he directed their move into electricity sales in the de-regulated electricity market and the financial sector with the launch of the Goldfish Credit Card. Non-Executive Director of Associated British Foods plc.

## **David Gilchrist (50) # † ■**

Managing Director of British Energy Generation. Formerly Finance Director of British Energy Generation and Executive Director, Finance, of Bruce Power. Previously held posts with Ford, GKN and PA Consulting Group. Elected UK Representative on the Governing Board of WANO Paris Centre in 2003. He is a member of the Institution of Mechanical Engineers.

## **Keith Lough (44) † ■**

Appointed Finance Director in 2001. Formerly Chief Financial Officer at Hurricane Hydrocarbons Ltd and Managing Director, Europe and North America, of Lasmo plc. He is a Fellow of the Chartered Association of Certified Accountants.

## **William A. Coley (60)**

Appointed as an Independent Director on 1 June 2003. Recently retired as Group President of Duke Power, a major US utility, after a career with that company. Non-Executive Director of CT Communications Inc., SouthTrust Corporation and Novant Healthcare.

## **Pascal Colombani (57)**

Appointed Independent Director on 1 June 2003. A Nuclear Physicist, formerly Non-Executive Chairman of Areva, the international nuclear services group in France. Former Board Member of France Télécom, and until last year, Chairman and CEO of the CEA (Commissariat à l'Énergie Atomique) in France. Member of the Electricité de France Supervisory Board.

+ denotes member of the Audit Committee

\* denotes member of the Remuneration Committee

^ denotes member of the Nominations Committee

## **Ian Harley (53) +\* ^**

Appointed an Independent Director on 1 June 2002. Formerly Chief Executive of Abbey National plc. A Non-Executive Director of Rentokil plc and a Fellow of the Institute of Chartered Accountants in England and Wales. Fellow and immediate past President of the Chartered Institute of Bankers. Chairman of the Audit Committee.

## **Duncan Hawthorne (47)**

Formerly Executive Director, North America with British Energy. Remained with Bruce Power as Chief Executive after its sale in February 2003. Previously held various posts in the British Energy Group and its predecessor companies. A Chartered Engineer and a Fellow of both the Institution of Electrical Engineers and the Institution of Mechanical Engineers.

## **Sir Robert Hill (66) +\* ^ #**

Appointed an Independent Director in 1999. Previously held senior posts with nuclear safety responsibilities within the Royal Navy. Chairman of the Safety, Health and Environment Committee and an Independent Director of the Generation Division and SEA (Group) Ltd. Chairman of the Safety, Health and Environment Committee. Due to retire at the forthcoming AGM.

## **Clare Spottiswoode (50) +\* ^**

Appointed as Deputy Chairman and senior Non-Executive Director in June 2002. Served as an Independent Director since 2001. Formerly held a variety of senior regulatory positions including the Director of Ofgas from 1993 to 1998. An Independent Director of Energy Ventures S.A., Advanced Technology plc and Caminus Inc. Chair of the Remuneration Committee.

## **Company Secretary**

## **Robert Armour (43) ■**

Company Secretary appointed in 1995. Formerly Secretary of Scottish Nuclear and, before that, a partner of Wright Johnston & Mackenzie, Solicitors.

# denotes member of the Safety, Health and Environment Committee

† denotes member of the Group Risk Management Committee (GRMC)

■ denotes member of the Executive Committee

# Corporate Governance

## Overview

British Energy seeks to apply best practice in corporate governance. The Directors consider that during the year, the Company complied with the requirements of Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority incorporating the principles of good governance and code of best practice (the "Combined Code") except that until 1 March 2003 the positions of Chairman and Chief Executive were combined.

## The Board

Adrian Montague succeeded Robin Jeffrey as Executive Chairman (initially combining the roles of Chairman and Chief Executive) on 28 November 2002. An early priority was to recruit a Chief Executive and Mike Alexander joined the Company in this role on 1 March 2003, since which time Mr Montague has ceased to have an Executive role and has become Non-Executive Chairman. The Board also comprises two Executive Directors (Keith Lough and David Gilchrist) and six Non-Executive Directors of whom five are independent. Brief biographies of the Directors are set out on page 20. The details of appointments and resignations of the Board members are provided in the Remuneration Report on pages 26 to 32. The Chief Executive is responsible for safety throughout British Energy.

The Non-Executive Directors are currently Adrian Montague, William Coley, Pascal Colombani, Ian Harley, Duncan Hawthorne, Sir Robert Hill and Clare Spottiswoode. All but Mr Hawthorne who previously held an executive post with the Company and Mr Montague who was executive for part of the year are Independent Non-Executive Directors. Clare Spottiswoode was the Company's Senior Non-Executive Director and Deputy Chairman since June 2002 when she succeeded Sir Robin Biggam in those roles. The Directors are satisfied that the Company complies with the sections of the Combined Code concerning the balance of the Board. At the start of the year the Company had five Executive and five Non-Executive Directors. At the year-end, the Company had three Executive and five Non-Executive Directors. Throughout the year, the number of Non-Executive Directors was equal to or greater than the number of Executive Directors except during the period from 28 November 2002 until 15 February 2003, when Dr Jeffrey ceased to be Executive Chairman or to attend Board meetings but remained a Board member pending agreement on the terms of his departure. During the year Sir Robin Biggam, Dr Julia Walsh and Peter Stevenson stepped down as Independent Non-Executive Directors. At each Annual General Meeting any Director who has been appointed by the Board since the previous Annual General Meeting is required to retire and may seek election, together with such other Directors necessary to ensure that the number nearest to, but not less than, one third of the Directors for the time being stand for election (or re-election) at that meeting. In order to comply with the provisions of Rule A.6 of the Combined Code, we ensure that all Directors seek re-election at least every three years. The Company's policy is that a Director should retire at the first Annual General Meeting after their 65th birthday. Exceptions to this policy may be made to ensure an orderly transition in the membership of the Board. The Company has announced that Sir Robert Hill will be retiring at the forthcoming Annual General Meeting.

The Board meets at least 11 times in any year and in view of the exceptional circumstances in the year ended 31 March 2003 the Board met 29 times. There is frequent contact amongst the Directors between Board meetings to progress the Company's business.

With the exception of Duncan Hawthorne, who was previously an Executive Director with the Company, all of the Non-Executive Directors serving on the Board have held senior positions in other major organisations, either in the UK or internationally. Each of them is involved in decision making on key issues facing the Group and brings a wide range of experience to the Board. Additionally, the Independent Non-Executive Directors of the Company meet as a group from time to time without Executive Directors present. The Chairman is present at some of these meetings and on occasion attended during the period when he held an executive role.

In accordance with the requirements of the Combined Code, the Board has a number of matters reserved to it, including appropriate strategic, financial and organisational matters. These are considered at the Board's monthly meetings. The Board receives reports covering operational, financial, safety, risk management and regulatory performance to assist in identifying key issues for the business on a regular and timely basis. All Directors may obtain independent professional advice at the Company's expense and all Directors have access to the advice and services of the Company Secretary who is accountable to the Board through the Chairman on all corporate governance matters. Where appropriate, matters have been delegated to Board Committees, all of which have written constitutions and terms of reference which are available on the Company's website. Individual Directors, their roles and membership of the various Committees are identified on page 20 of this Annual Report.

## Risk Management

The Board is responsible for determining strategies and policies for risk and control while executive management is responsible for designing, operating and monitoring risk and control processes which implement Board policies effectively. Risk management and internal control were considered by the Board and its Committees on a regular basis during the year.

The risk management process operating throughout the financial year was based on the identification, mitigation and monitoring of the key risks that influence the Company's strategy and business objectives. In particular, the Company's decision to seek Government support in September 2002 was driven in large part by its assessment of the prospects for and risks facing the business in the short, medium and long-term. A commentary on these events is provided elsewhere in this Annual Report. In the light of these events, and in view of the plans to concentrate on its UK operations and dispose of British Energy's international interests, the Board agreed steps in April 2003 to review its risk management and corporate governance procedures and committee structure.

At its regular meetings, the Board reviewed the Group's business objectives and the risks and controls associated with these business objectives. Specific categories of risk and control were also reviewed by appropriate Committees and subsidiary boards. Aspects of business reviewed on a regular basis by the Board include: safe operation of our plants; the financial position of the Group; changes in energy markets; nuclear safety; commercial and environmental regulation; policy proposals by legislative bodies in the jurisdictions in which we operate; treasury and trading financial exposures; major contracts; the acquisition of radioactive waste management services and acquisition opportunities.

The events of September 2002 placed additional demands on the process of risk management and on the executives and staff within British Energy. Throughout the year the Company reporting arrangements operated across the Group's operating subsidiaries and corporate functions, monitoring business performance against key performance indicators and the business plan. Risk logs identifying business risks facing the Group as a whole and particular parts of the business were regularly considered at subsidiary and divisional level and reported to the group executive. The Group's principal operating subsidiaries in the UK and Canada monitored internal control and risk mitigation throughout the year. In particular the generation boards (the boards of the UK nuclear subsidiaries) reviewed the operation of British Energy's UK nuclear fleet and risk and internal control issues affecting those businesses; similarly the Bruce Power Board and Board committees scrutinised the operations of the Group's nuclear stations in Canada. The generation boards and the Bruce Power Board each include one or more Independent Directors whose role is to ensure appropriate scrutiny and focus is given to safe and reliable operation and the proper conduct of business. The separate arrangements for AmerGen are described below.

Following the announcement of 5 September 2002 it was necessary to divert a significant portion of senior management time to negotiations with Government and creditors and planning the restructuring of British Energy. During that period the Board met frequently with its focus being primarily on the continued safe operation of the Group's nuclear power stations and on the urgent steps which had to be taken to ensure the continued survival of the business. To minimise the disruption to the wider business the restructuring efforts were ring-fenced from ongoing operations and driven forward by a small dedicated team reporting to the executive and the Board. This minimised the effect on the ongoing business where risk management and internal control processes continued to operate as before. The increased frequency of Board and executive meetings allowed management to continue to manage business risks while at the same time dealing with the issues arising from restructuring.

The conduct of risk assessment involves senior management of all of the Group's business units in addition to the Executive Directors. The results of these assessments are summarised and reported to the Board. These risk assessments will continue to be used as part of the Company's evaluation of the risks it faces.

The Board also receives regular reports on risks associated with AmerGen, our 50/50 United States joint venture with Exelon. The operation of AmerGen is integrated within the Exelon Group. Its risk management processes are separate from those applying within British Energy. British Energy has appointed its own Financial Manager for AmerGen and chaired the AmerGen Finance Sub-Committee (which oversees the operation of financial controls at AmerGen and has a similar role to the Audit Committee) at its meetings throughout the year. Until its disposal in February 2003, the Company also monitored and reviewed risks associated with its interest in Bruce Power. Throughout the year Bruce Power operated a Financial Management Committee, a Safety Supervisory Committee and an Executive Committee which reported to the Board of Bruce Power.

### **Committee Structure During the Year Ended 31 March 2003**

During the year the following Committees of the Board operated:

#### **Audit Committee**

The Audit Committee is comprised entirely of Independent Non-Executive Directors and has been chaired by Ian Harley since 1 March 2003. From June 2002 until February 2003 it was chaired by Peter Stevenson and prior to that date it was chaired by Sir Robin Biggam. The Committee is responsible for considering and recommending appropriate accounting policies for the Group, and reviewing the adequacy and effectiveness of internal control and compliance procedures within British Energy and ensuring that the Group complies with all statutory requirements in relation to the principles, policies and practices adopted in the preparation of the Financial Statements. The Committee reviews risk management processes across the Group including actions to mitigate or control key risks facing British Energy. The Committee seeks the

advice of both external and internal auditors in relation to matters arising from their work and is also responsible for encouraging and monitoring the adoption of best practice in corporate governance. The Committee reviews the scope and results of the external audit including the auditors' cost effectiveness, independence and objectivity, and is responsible for making recommendations to the Board in relation to the appointment and independence of the external auditors and their remuneration. The Committee also reviews the nature and extent of the non-audit services provided by the external auditors to the Group to ensure that these are appropriate and that a balance of objectivity and value for money is maintained.

#### **Pensions Committee**

This Committee monitors the management of the various Group Pension Schemes, and was chaired by Ian Harley from June 2002 to the year-end. Keith Lough, who previously chaired the Committee and who chairs the British Energy Generation Group Pension Trustees, and Ian Poad, who chairs the British Energy Combined Group Trustees, are members as are certain other Directors and senior managers of the Group. Peter Stevenson, who was an Independent Non-Executive Director until 28 February 2003, was a member until that date. The Committee reviews and advises on the policies being adopted by the Trustees of these Schemes and is responsible for advising the Board on all matters relating to these Schemes. Under the new committee structure described below the Pensions Committee has become an executive committee and accordingly Ian Harley has stepped down from membership.

#### **Remuneration Committee**

A separate Remuneration Report appears on pages 26 to 32.

#### **Nominations Committee**

Throughout the year the Nominations Committee was comprised entirely of Independent Non-Executive Directors and was chaired by Clare Spottiswoode. The Committee advises the Board in relation to senior appointments and succession policy throughout the Group. Board appointments recommended by the Committee are made after an appropriate search and selection process has been undertaken, including, where appropriate the use of external advisers to identify suitable candidates. From April 2003 this committee has been chaired by Adrian Montague.

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

This Committee provides advice to the Board in relation to the Health and Safety of staff, contractors, visitors and the general public, plant safety and the environmental performance of British Energy. It reviews key safety and environmental risks affecting British Energy's business and the actions taken to mitigate or control them. It is chaired by Sir Robert Hill and also includes three independent experts as well as certain other Directors and senior managers of the Group. Sir Robert Hill is also a member of the AmerGen Nuclear Safety Review Board in the United States.

#### **Trading Risk Committee (TRC)**

Clare Spottiswoode chaired this Committee during the year. It was responsible for reviewing the risks and exposure associated with the Group's trading activities, and other market issues. Under the new committee structure described below, the TRC has become an executive committee and accordingly Clare Spottiswoode has stepped down from membership. Members of the Trading Risk Committee include the Finance Director, the Group Treasurer and the Director of Power and Energy Trading.

#### **Executive Committees and Subsidiary Boards**

Throughout the year a number of executive committees and subsidiary boards were used to assist the Directors in controlling the business of the Group. These included the Executive Team which comprised the Executive Directors, the Company Secretary and certain senior managers, and which considered strategy and commercial issues affecting British Energy's businesses; and the generation boards which directed operational and safety policy in British Energy's UK nuclear operations. The Finance Director, Keith Lough, chaired an executive committee reviewing the operation of treasury and insurance matters (the Treasury Committee).

#### **New Committee Structure**

Following the year-end, the Company has undertaken a review of its committee structure. In the light of events in September 2002 the Board had increasingly adopted a management role of the Group's business necessitated by the complex issues facing British Energy. These arrangements were reviewed following the appointment of Mike Alexander as Chief Executive and the new structure is intended to allow the Board to focus to a greater extent on strategy and review of business risks and to delegate to the executive management of the business. The resulting changes are described below. The Company intends to make further changes which may be required in due course in order to comply with changes to the Combined Code which may result from the implementation of the Higgs and Smith reports when this occurs.

### Executive Committee

In April 2003, the Company formed an Executive Committee through which the Chief Executive, with the assistance of a number of executive colleagues, directs the business of the Group in accordance with delegated authorities from the main Board. The Executive Committee meets weekly to maintain close scrutiny and management of the Company's affairs, directing performance, taking corrective action and ensuring the Board is kept abreast of all material events. The Chief Executive and his executive colleagues on the generation boards continue to direct the operational and safety policy of our UK nuclear operations.

### Group Risk Management Committee

The Company also established a Group Risk Management Committee (GRMC) chaired by the Chief Executive or the Finance Director. This Committee meets regularly to review the group-wide internal control and risk management processes of the business and will report to the Audit Committee on a twice yearly basis as well as annually to the Board. With effect from April 2003, the Trading Risk Committee reports to the GRMC.

Following these changes the Audit Committee now receives regular reports from the Pensions and Treasury Committees and the GRMC.

### Internal control

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

During the period immediately before and following the announcement of 5 September 2002 a very significant proportion of the Board's effort was focused on the development of the restructuring proposals, ensuring the continued safe operation of the Group's nuclear stations and the survival of the Group (as described above in the section on Risk Management). As a consequence, during this period the Board delegated greater responsibility for reviewing the effectiveness of internal controls to certain committees and to management. However, the Board has considered the work of these groups and has considered the effectiveness of the system of internal controls operated by the Group during the year and up to the date of this report. The key procedures which are designed to provide effective internal control are summarised as follows:

- **Organisational Structure**

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

- **Investment Approval**

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

- **Business Planning**

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

- **Internal Compliance**

Management reviews and self-certification reports from Directors and senior officers of each of the key subsidiaries or divisions are used to monitor compliance with the Group's internal financial, risk management and other controls.

The Group's internal audit function is responsible for reviewing the performance of the internal financial and risk management control system and computer operations and reports regularly to the Audit Committee. Internal audit work is focused on the areas of highest risk as agreed and prioritised by the Audit Committee. The scope of work, authority and resources of the internal audit function is reviewed by the Board at least annually.

Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management and the Board's attention.

#### **Sarbanes-Oxley Act**

The United States Sarbanes-Oxley Act of 2002 introduces new and enhanced standards of corporate governance and business and financial disclosure which will apply to British Energy as a non-US company with securities registered in the US. Some of the new standards and rules affecting the Company are already in force and others will come into force during the current year. New standards directly applicable to the Company include certifications of the Annual Report on Form 20-F, which is submitted to the Securities and Exchange Commission and distributed to holders of the Company's American Depository Receipts, by the Chief Executive and Finance Director, on changes to the role of the Audit Committee and new rules relating to internal controls. The Group is following these developments closely and intends to implement all necessary changes as the new rules come into force. Further details will be included in the Company's Annual Report on Form 20-F which will be published later in the year.

#### **Corporate Social Responsibility**

The Company publishes a separate Safety Health and Environment Report on its website. This provides details of our record on safety and environmental performance. Further information on our approach to Corporate Social Responsibility is contained in the Chief Executive's Review on pages 4 to 9.

#### **Going Concern**

The Board considers it appropriate to prepare these accounts on a going concern basis for the reasons explained in Note 1 to the Accounts for the year ended 31 March 2003.

#### **Communication with Shareholders**

The Company recognises the importance of maintaining an informative relationship with all its shareholders. It uses its Annual General Meeting as an opportunity to communicate with shareholders and at that meeting a business presentation is made by the Chief Executive and by other Directors, if appropriate. It is the Company's policy that all Directors are available to answer shareholders' questions at the Annual General Meeting. In addition, the Chief Executive, the senior Non-Executive Director and the Finance Director have met with the Company's principal shareholders from time to time to discuss relevant issues when they arise. The Company Secretary's office responds to numerous letters from shareholders on various issues throughout the year.

The notice of last year's Annual General Meeting held on 16 July 2002 was dispatched to shareholders not less than 20 working days before the meeting and details of proxy votes received were made available at the meeting in accordance with the recommendations of the Combined Code.



#### **Robert Armour**

Company Secretary

2 June 2003

# Remuneration Report

for the year ended 31 March 2003

It is the opinion of the Directors that during the year the Company has complied fully with the relevant principles of the Combined Code concerning good governance and the Code of Best Practice, except as noted on page 21. In particular, the Remuneration Committee has, in preparing this report, given due regard to the Directors' Remuneration Report Regulations 2002.

## Terms of Reference and Membership of the Remuneration Committee

The Committee's prime concern is the pay, benefits and other employment conditions of the Executive Directors and the members of the Executive Committee. In this context, full consideration has been given to the Combined Code.

The Committee also reviews the pay and benefits of other senior staff to ensure reasonable consistency.

The Terms of Reference of the Committee empower it to:

- Establish the remuneration policies and practices for Executive Directors and certain other Directors and senior employees;
- Design and implement long-term incentive schemes;
- Determine and review the individual remuneration packages of the Executive Directors and other selected senior employees, including pension provision;
- Authorise the annual performance incentive plan for Executive Directors;
- Obtain external professional advice, and expertise necessary, for the performance of its duties.

The Committee is made up of the Non-Executive Directors identified on page 20. It was chaired by Sir Robin Biggam until 7 June 2002 and by Clare Spottiswoode since that date.

## Advisors to the Committee

Robin Jeffrey, when Executive Chairman, and Mike Alexander, as Chief Executive, attended meetings of the Committee during the year to give advice as required by the Committee. They were not present when matters affecting their own pay and benefits were being discussed. Mike Alexander will continue to attend the Committee. The Secretary of the Committee is Sally Smedley, Director HR.

The Remuneration Committee has appointed independent external consultants to provide advice on technical aspects of compensation policy. New Bridge Street Consultants provided advice to the Committee on equity incentive plans, and also provided advice to the Company on the implementation of these plans.

On 6 March 2003, the Committee appointed Watson Wyatt LLP to give advice on general remuneration matters to the Committee. Watson Wyatt LLP also provide actuarial and investment advice in respect of the Company's pension schemes.

## Executive Remuneration Policy and Practice

In determining the remuneration packages for individual Directors, the Committee targets total remuneration at the middle-market level of its comparator companies. The comparator group consists of other utilities and other companies of similar size, type of activity or complexity.

It is the Committee's aim to ensure that the total package (which includes benefits) is competitive and that, as a consequence, the Company continues to attract and retain Executive Directors with the skills and abilities to manage and develop the business.

In particular, it is British Energy's policy that:

- A significant proportion of Executive Directors' remuneration should be variable and linked to the performance of the Company;
- Recognising the external market, the movement in the base pay of Directors and Executive Committee members should be broadly in line with the pay increases awarded to other staff;
- In determining the link between base and variable pay, the Company's commitment to safety and the environment should be reflected;
- There should be a strong and clear link between reward and performance against agreed stretch targets.

### Elements of Remuneration

In determining a remuneration package for each individual Executive Director, the Committee considers five main elements.

Each element is benchmarked against the external market and a balance of elements is taken recognising the commercial and operational needs of the business and the policies outlined above.

The benchmarking process draws comparison across a wide range of organisations including other utilities. It also involves the external professional advisers and other commercially available remuneration surveys.

#### (a) Base Pay

Base pay and benefits in kind are reviewed annually. The Committee aims to maintain individual salaries around market median, taking into account experience, levels of responsibility and individual performance. The base pay of Executive Directors and senior staff was last reviewed effective from 1 July 2002.

#### (b) Annual Performance Incentive Plan

Bonus payments are determined by a range of challenging targets including the safety and environmental priorities necessitated by the nature of the Company's activities.

In 2002/3, Executive Directors could be awarded cash payments of up to 50% of salary, depending on achievement of financial and other targets. In 2002/3, the plan included profit before tax, operating cash flow and the performance of the operating businesses, and was subject to a safety and environmental performance modifier.

On the basis of the targets set, bonuses would have been due to Executive Directors and the Executive Committee. In view of the financial position of the Company, the Executive Committee recommended to the Remuneration Committee that no bonus under the Annual Performance Incentive Plan be paid. The Remuneration Committee accepted this recommendation. Mike Alexander, because of his date of appointment, did not participate in the 2002/3 bonus arrangements.

Following a review of market practice, the maximum bonus level for Executive Directors and Executive Committee has been increased to 60% of base salary for the year 2003/4. Payment will be based on cash flow, cost and output targets.

#### (c) Share Option Schemes

At the AGM in July 2002, shareholders gave approval to a new Executive Share Option Plan.

No share options under this, or any other plan, have been awarded during the year. All Executive Directors are eligible to participate in the all-employee Sharesave Scheme, for which there are no performance conditions.

Existing share options have a performance criterion of earnings per share growth of 3% above RPI. The performance criterion chosen is in line with the then market practice and ABI guidelines. On the basis of this criterion, no further options vested during the year.

The Remuneration Committee believes that it is important that there are suitable long-term incentives in place for Executive Directors and senior staff. The Committee is currently reviewing this area and proposals may be brought to shareholders for approval in due course. If this proves impracticable the Committee will consider additional short-term incentives using appropriate short-term stretch targets.

#### (d) Retirement Benefits

The retirement benefits offered to Executive Directors are individually tailored as described below:

Mike Alexander, Keith Lough and David Gilchrist are members of the British Energy Generation Group (BEGG) of the Electricity Supply Pension Scheme. No elements of remuneration other than base pay are pensionable. Robin Jeffrey was also a member of this Scheme during his term of office, as was Duncan Hawthorne when he was an Executive Director.

## Remuneration Report

Continued

The following Directors had accrued entitlements under defined benefit schemes as follows:

Name	Age	Accrued Pension at 31/03/2002 £	Increase in Accrued Pension (Excluding Inflation) £	Increase in Accrued Pension £	Transfer Value of Increase in Accrued Benefit £	Accrued Pension at 31/03/2003 £	Transfer Value of Pension at 31/03/2002 £	Transfer Value of Pension at 31/03/2003 £	Increase in Transfer Value Less Contributions Made by Directors £
M Alexander	55	–	833	833	–	833	–	8,000	6,333
D Gilchrist	50	32,317	12,627	13,578	107,997	45,895	278,000	404,000	116,822
D Hawthorne	47	60,714	21,594	23,380	209,465	84,094	567,000	803,000	227,493
K Lough	44	2,462	4,544	4,616	14,047	7,078	13,000	38,000	14,437
R Jeffrey	63	190,547	8,432	14,036	156,000	204,583	3,393,000	3,601,000	208,000

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

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

Mike Kirwan was not a member of any Company Pension Scheme. However, he received an annual salary supplement in 2002/3 of £4,453 in accordance with a previously agreed schedule.

Robin Jeffrey left service on 15 February 2003. He was beyond minimum retirement age (60) and, as such, his pension became payable immediately. The accrued pension at 31 March 2003, and the transfer value at 31 March 2003, represent the pension entitlement that Robin Jeffrey was entitled to on 15 February 2003, before commutation to provide any tax-free lump sum. Following his retirement, Robin Jeffrey ceased to be entitled to any transfer value payment from the scheme.

The accrued pension to 31 March 2002 for Robin Jeffrey has been restated to reflect the value of added years that he purchased under the rules of the scheme from March 1984 until aged 60. The value quoted in the 2001/2 report of £151,313 did not include these added years.

The accrual rate of Mike Alexander is fixed at a value of £10,000 per year of service, which on the basis of current salary equates to 1/40.

The accrual rate of both Keith Lough and David Gilchrist is 1/30, and is the maximum rate subject to total pension from all sources not exceeding two-thirds of final salary.

### (e) Other Benefits

Other benefits are available to Executive Directors. These differ by individual but will comprise a selection of the following:

- A company car and fuel;
- Medical and additional life insurance;
- Reimbursement of telephone rental and a mobile phone;
- Subscriptions to professional bodies;
- Eligibility to participate in the all-employee Sharesave Scheme.

In addition, Mike Kirwan had dental insurance and financial advisory services included as part of his package.

### Service Contracts

The Company aims to set notice or contract periods for Executive Directors at one year or less. Where it is necessary to offer longer notice or contract periods to new Directors recruited from outside the Company, it is policy to reduce these as soon as possible after the initial period.

Mike Alexander has a contract which provides for 24 months' notice if given in the first 12 months of employment. Thereafter, he will revert to 12 months' notice on a rolling basis.

All other Executive Directors have a 12 month rolling contract.

The Company permits Executive Directors to accept Non-Executive Directorships and other similar appointments provided that they do not cause a conflict or inhibit the Director's ability to work for the Company. It is recognised that such appointments increase the Director's commercial knowledge and business experience to the general benefit of the Company. Each appointment, including the details of emoluments, is subject to Board approval. The Board has determined that any compensation receivable in respect of these appointments is paid directly to the Executive Director.

**Termination Provisions**

The Company's policy is that service contracts should not have express termination provisions.

Mike Alexander's contract provides for a payment of 50% of his maximum bonus of 60% of base salary if employment is terminated within the first 12 months of employment.

Other than this exception, and the contractual periods of notice referred to above, there are no express termination provisions in Executive Directors' contracts or Non-Executive Directors' letters of appointment.

Robin Jeffrey resigned from the Board on 15 February 2003. The Directors' Emoluments table on page 30 gives details of his compensation payment for loss of office. The payment is significantly below the unexpired period of his notice (his contract made provision for 12 months' notice of termination) and the Remuneration Committee considers it to be reasonable in the circumstances.

**Non-Executive Directors**

The remuneration of Non-Executive Directors is determined by the Board without the participation of the Directors concerned. Appointed for three-year terms they do not have service contracts, they are not eligible for participation in any of the Company Share Schemes and they do not receive any pension provision from the Company.

The expiry dates of the current Non-Executive Directors' appointments are:

<u>Name</u>	<u>Expiry Date</u>
W Coley	31/05/2006
P Colombani	31/05/2006
I Harley	01/06/2005
D Hawthorne	15/07/2005
Sir R Hill	30/07/2003
A Montague	01/12/2005
C Spottiswoode	01/12/2004

Levels of fees paid during this year are given on page 30.

Adrian Montague has received additional fees to reflect both the period without a Chief Executive and the extra time-commitment required during the financial restructuring. He will continue with the additional time-commitment until the financial restructuring is complete. His service agreement also provides for additional lump sum fees to be made when certain restructuring milestones are achieved. His standard fees are £150,000 per annum.

**Directors' Emoluments**

This information and the information on Shares and Share Options has been subject to audit as required by the Companies Act.

Name	Basic Salary and Fees (£)		Bonus (£)		Contingent Fees (£)		Compensation for Loss of Office (£)	
	2003	2002	2003	2002	2003	2002	2003	2002
A Montague <sup>1</sup>	100,000	–	–	–	300,000	–	–	–
M Alexander <sup>2</sup>	33,333	–	–	–	–	–	–	–
D Gilchrist	183,563	96,250	3	38,981	–	–	–	–
D Hawthorne <sup>4</sup>	152,978	94,984	3	38,943	–	–	–	–
K Lough	211,250	116,667	3	44,683	–	–	–	–
Sir R Hill	57,500	57,500	–	–	–	–	–	–
I Harley <sup>5</sup>	25,833	–	–	–	–	–	–	–
C Spottiswoode	53,333	8,333	–	–	–	–	–	–
<b>Total Emoluments for serving Directors at 31 March 2003</b>	<b>817,790</b>	<b>373,734</b>	–	<b>122,607</b>	<b>300,000</b>	–	–	–
R Jeffrey <sup>6</sup>	309,188	336,250	–	130,220	–	–	98,000	–
Sir R Biggam <sup>7</sup>	11,167	52,500	–	–	–	–	–	–
P Stevenson <sup>8</sup>	25,893	30,000	–	–	–	–	–	–
M Kirwan <sup>9</sup>	45,042	188,126	–	72,579	–	–	–	–
J Walsh <sup>10</sup>	7,325	25,000	–	–	–	–	–	–
Sir J Robb	–	48,082	–	–	–	–	–	–
P Hollins	–	66,409	–	18,000	–	–	–	364,600
<b>Total Emoluments (all Directors)</b>	<b>1,216,405</b>	<b>1,120,101</b>	–	<b>343,406</b>	<b>300,000</b>	–	<b>98,000</b>	<b>364,600</b>

Name	Accommodation and Relocation (£)		Other Benefits (£)		Total Emoluments Excluding Pension (£)		Pension Contributions (£)	
	2003	2002	2003	2002	2003	2002	2003	2002
A Montague <sup>1</sup>	–	–	209	–	400,209	–	–	–
M Alexander <sup>2</sup>	–	–	2,202	–	35,535	–	1,385	–
D Gilchrist	–	41,534	20,067	6,597	203,630	183,362	12,020	5,565
D Hawthorne <sup>4</sup>	–	–	8,046	12,949	161,024	146,876	21,749	8,750
K Lough	–	38,286	12,886	6,901	224,136	206,537	12,020	5,565
Sir R Hill	–	–	–	–	57,500	57,500	–	–
I Harley <sup>5</sup>	–	–	–	–	25,833	–	–	–
C Spottiswoode	–	–	–	–	53,333	8,333	–	–
<b>Total Emoluments for serving Directors at 31 March 2003</b>	–	79,820	<b>43,410</b>	26,447	<b>1,161,200</b>	602,608	<b>47,174</b>	19,880
R Jeffrey <sup>6</sup>	–	–	17,349	11,731	424,537	478,201	–	–
Sir R Biggam <sup>7</sup>	–	–	–	–	11,167	52,500	–	–
P Stevenson <sup>8</sup>	–	–	–	–	25,893	30,000	–	–
M Kirwan <sup>9</sup>	–	–	4,007	20,195	49,049	280,900	4,453	26,526
J Walsh <sup>10</sup>	–	–	–	–	7,325	25,000	–	–
Sir J Robb	–	–	–	–	–	48,082	–	–
P Hollins	–	–	–	3,456	–	452,465	–	2,134
<b>Total Emoluments (all Directors)</b>	–	79,820	<b>64,766</b>	61,829	<b>1,679,171</b>	1,969,756	<b>51,627</b>	48,540

## Notes:

1. Appointed on 1 December 2002.
2. Appointed on 1 March 2003.
3. Appointed as Executive Directors on 1 September 2001.
4. D Hawthorne's pro rata salary to termination date of 14 February 2003 is C\$357,107 and has been converted into £ sterling at the average exchange rate for the year (£1=C\$2.40). Mr Hawthorne became a Non-Executive Director serving on the Board from 15 February 2003.
5. Appointed on 1 June 2002.
6. R Jeffrey resigned as Director on 15 February 2003.
7. Sir R Biggam resigned as Director on 7 June 2002.
8. P Stevenson resigned as Director on 28 February 2003.
9. M Kirwan resigned as Director on 31 May 2002. The Salary figure for 2003 includes accrued holiday pay of £13,458.
10. J Walsh resigned as Director on 16 July 2002.

### Shares and Share Options

Ordinary Shares	2003	2002
A Montague	2,188	–
M Alexander	–	–
D Gilchrist	6,024	5,359
D Hawthorne	5,302	5,302
K Lough	10,000	10,000
Sir R Hill	1,395	1,395
I Harley	2,000	–
C Spottiswoode	–	–

There has been no change in Directors' shareholdings since 31 March 2003.

Duncan Hawthorne has 477 'A' shares. None of the Directors has a non-beneficial interest in any shares of the Company.

Any ordinary shares required to fulfil entitlements under current option schemes may be provided by the British Energy Employee Share Trust (BEEST) and the Qualifying Employee Share Trust (QUEST). As beneficiaries under the BEEST and the QUEST, the Directors are deemed to be interested in the shares held by both Trusts, which, at 31 March 2003, amounted to 27,026,922 ordinary shares and 19,165,471 'A' shares.

### Executive Share Options

Directors' interests in executive and SAYE share options over ordinary shares are as follows:

Name	Options Held at 01/04/2002	Options Granted during the year	Options Exercised during the year	Options Lapsed during the year	Options Held at 31/03/2003	Option Exercise Price (£)	Date from which Exercisable	Expiry Date
<b>R Jeffrey</b>	113,846	–	–	113,846	–	2.6	12/08/2000	11/08/2004
	11,538	–	–	11,538	–	2.6	12/08/2000	11/08/2007
	35,990	–	–	35,990	–	5.08	29/06/2001	28/06/2005
	32,021	–	–	32,021	–	5.295	25/06/2002	24/06/2006
	81,160	–	–	81,160	–	2.4125	14/07/2003	13/07/2007
	100,401	–	–	100,401	–	2.49	07/12/2003	06/12/2007
	374,956	–	–	374,956	–			
<b>M Kirwan</b>	118,077	–	–	–	118,077	2.6	12/08/2000	11/08/2004
	11,538	–	–	–	11,538	2.6	12/08/2000	11/08/2007
	37,192	–	–	–	37,192	5.08	29/06/2001	28/06/2005
	33,097	–	–	–	33,097	5.295	25/06/2002	24/06/2006
	76,269	–	–	–	76,269	2.4125	14/07/2003	13/07/2007
	276,173	–	–	–	276,173			
<b>K Lough</b>	9,433	–	–	–	9,433	3.18	14/09/2004	13/09/2011
	116,353	–	–	–	116,353	3.18	14/09/2004	13/09/2008
	125,786	–	–	–	125,786			
<b>D Hawthorne</b>	13,269	–	–	13,269	–	2.6	15/07/2000	14/07/2004
	11,538	–	–	11,538	–	2.6	15/07/2000	14/07/2007
	17,869	–	–	17,869	–	5.08	29/06/2001	28/06/2005
	24,516	–	–	24,516	–	5.295	25/06/2002	24/06/2006
	40,559	–	–	40,559	–	2.4125	14/07/2003	13/07/2007
	107,751	–	–	107,751	–			
<b>D Gilchrist</b>	57,692	–	–	–	57,692	2.6	15/07/2000	14/07/2004
	11,538	–	–	–	11,538	2.6	15/07/2000	14/07/2007
	19,862	–	–	–	19,862	5.08	29/06/2001	28/06/2005
	21,379	–	–	–	21,379	5.295	25/06/2002	24/06/2006
	40,659	–	–	–	40,659	2.4125	14/07/2003	13/07/2007
	151,130	–	–	–	151,130			

The market price of the ordinary shares at 31 March 2003 was 3.75p and the range during the year was 3.2p to 183.5p.

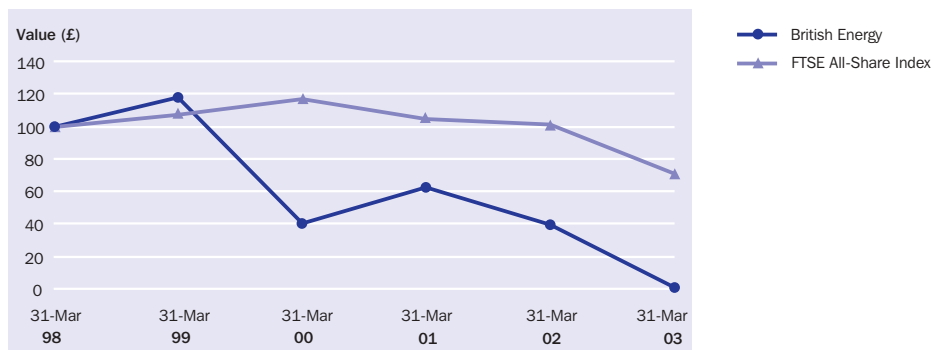
For any of the options disclosed in the above table, the performance conditions described earlier must be satisfied.

Robin Jeffrey and Duncan Hawthorne ceased to be Executive Directors in 2002/3. All share options granted to them lapsed on the dates when, respectively, Mr Hawthorne ceased to be an Executive Director and when Dr Jeffrey tendered his resignation. Mike Kirwan retired in 2002/3 and his share options lapsed on 31 May 2003.

**Performance Graph**

This graph illustrates the performance of British Energy and a broad equity market index over the past five years. As British Energy has been a constituent of the FTSE All-Share index throughout this five-year period, that index is considered to be the most appropriate. Performance is measured by total shareholder return (share-price growth plus dividends paid).

**Total Shareholder Return**



This graph looks at the value, by 31 March 2003, of £100 invested in British Energy on 31 March 1998 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

Signed by and approved on behalf of the Board on 2 June 2003:

**Clare Spottiswoode CBE**  
Chair, Remuneration Committee

# Directors' Report

for the year ended 31 March 2003

## Financial Statements

The Directors present their annual report and the audited Group financial statements for the year ended 31 March 2003.

## Principal Activities, Review of the Business and Future Developments

The Group's principal activities are the generation and sale of electricity. The Operating Review and Financial Review on pages 4 to 19 review the Group's business performance during the financial year and its future prospects. The Group publishes a separate Health, Safety and Environment Report which will be available on the Company website later in the year.

## Share Capital

Details of British Energy shares purchased by employee share trusts, which are sponsored by the Company, are included in note 26.

## Results and Dividends

The consolidated results for the Group are set out in the Group Profit and Loss Account on page 37. Under the current circumstances the Board has decided that no dividend will be payable for the period. The loss for the year of £3,941m was transferred to reserves.

## Substantial Shareholdings

As at 2 June 2003 the Company had been notified of the following interests in 3% or more of the issued ordinary share capital of the Company:

Amvescap PLC	10.14%
Brandes Investment Partners	7.8%
Legal & General Investment Management Limited	3.01%

The Company is not aware of any other interest in the issued ordinary share capital of the Company of 3% or more.

## Research and Development

During the year the Group spent £15m on research and development (2002: £16m). This is primarily scientific and engineering research activity which is directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities.

## Directors

Information required under the provisions of the Companies Acts regarding the remuneration and share options of Directors, the interests of the Directors and their families in the share capital of the Company and Directors' service contracts is detailed in the Remuneration Report on pages 26 to 32.

## Policy on Payment of Creditors

The Company supports the Prompt Payers' Code of the Confederation of British Industry. The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and to abide by the agreed terms. The Company had no trade creditors at 31 March 2003. Suppliers to the Group were paid on an average of 40 days for the financial year (2002: 40 days). The supplier purchases exclude payments to BNFL, the Group's principal supplier, which are made against an agreed contract profile.

## European Economic and Monetary Union

Although the majority of British Energy's income and expenditure is denominated in Sterling, it recognises that European Economic and Monetary Union (EMU) could have a significant impact on its commercial activities in the long term. The Group has developed an appropriate strategy to deal with the impact of EMU on its business in the short term. The Group has not entered into euro-denominated transactions to any significant extent to date.

## Charitable and Political Contributions

The Group made charitable donations of £43,512 (2002: £306,000). No political donations were made.

### Employees

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

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

### Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a limited liability partnership (LLP) from 1 January 2003 PricewaterhouseCoopers resigned on 7 March 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution to appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

### AGM

The Company's AGM will be held at Murrayfield Stadium, Edinburgh at 11am on 30 July 2003. A letter from the Chairman detailing the business to be considered at the meeting, together with a Notice of Meeting, accompanies this Annual Report.

### Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company, and of the results of the Group, for that period. A statement by the Directors on Corporate Governance matters is set out in a separate report on pages 21 to 25.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

This report was approved by the Board of Directors on 2 June 2003 and signed on its behalf by:



**Robert Armour**

Company Secretary

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

for the year ended 31 March 2003

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

## Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement.

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

## Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 concerning the preparation of the financial statements on the going concern basis. The validity of this depends on the continuation of the financial assistance from the Secretary of State for Trade and Industry and the Group's significant creditors and the successful completion of financial restructuring. In view of the significance of the uncertainty concerning the continuation of financial assistance from the Secretary of State for Trade and Industry and the Group's significant creditors and the successful completion of financial restructuring we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

### Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2003 and of the loss and cash flows of the Group for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and,
- Those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Edinburgh

2 June 2003

**Notes:** (a) The maintenance and integrity of the British Energy plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Group Profit and Loss Account

for the year ended 31 March 2003

	Notes	2003 Total £m	Exceptional Items £m	2003 Business Performance £m	2002 Business Performance £m	Exceptional Items £m	2002 Total £m
Turnover: Group and share of joint venture		2,115	41	2,074	2,259	–	2,259
Less: share of turnover in joint venture		(212)	–	(212)	(210)	–	(210)
<b>Turnover:</b>							
Continuing activities		1,528	41	1,487	1,701	–	1,701
Discontinued activities		375	–	375	348	–	348
<b>Turnover:</b>							
Operating costs	3	1,903	41	1,862	2,049	–	2,049
	4	(5,705)	(3,947)	(1,758)	(1,818)	(512)	(2,330)
<b>Group operating (loss)/profit:</b>							
Continuing activities		(3,899)	(3,906)	7	179	(512)	(333)
Discontinued activities		97	–	97	52	–	52
<b>Group operating (loss)/profit</b>		<b>(3,802)</b>	<b>(3,906)</b>	<b>104</b>	<b>231</b>	<b>(512)</b>	<b>(281)</b>
Share of operating profit of joint venture		43	–	43	37	–	37
<b>Operating (loss)/profit: Group and share of joint venture</b>		<b>(3,759)</b>	<b>(3,906)</b>	<b>147</b>	<b>268</b>	<b>(512)</b>	<b>(244)</b>
(Loss)/profit on sale of business	5	(35)	(35)	–	–	4	4
Financing charges							
– revalorisation	8	(364)	(159)	(205)	(160)	(27)	(187)
– interest payable and similar charges	8	(134)	(62)	(72)	(66)	–	(66)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(4,292)</b>	<b>(4,162)</b>	<b>(130)</b>	<b>42</b>	<b>(535)</b>	<b>(493)</b>
Taxation on (loss)/profit on ordinary activities	9	378	370	8	(52)	56	4
Share of taxation for joint venture		(10)	–	(10)	(29)	–	(29)
<b>Loss on ordinary activities after taxation</b>		<b>(3,924)</b>	<b>(3,792)</b>	<b>(132)</b>	<b>(39)</b>	<b>(479)</b>	<b>(518)</b>
Minority interest		(17)	–	–	–	–	(9)
Loss attributable to shareholders		(3,941)	–	–	–	–	(527)
Dividends:							
– annual	11	–	–	–	–	–	(48)
– non-equity	11	–	–	–	–	–	(2)
<b>Loss for the financial year</b>		<b>(3,941)</b>					<b>(577)</b>
Loss per share (p)							
– basic	12	(654.7)	–	(24.8)	(8.4)	–	(88.5)
Dividends per share (p)							
– annual	11	–	–	–	–	–	8.0
– non-equity	11	–	–	–	–	–	2.3

Other gains and losses for the years are set out in the Statement of Total Recognised Gains and Losses on page 39. Notes 1 to 35 form part of these financial statements.

# Balance Sheets

as at 31 March 2003

	Notes	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
<b>Fixed assets</b>					
Tangible assets	13	686	4,714	–	39
<b>Interest in joint venture:</b>					
– share of gross assets		477	544	–	–
– share of gross liabilities		(406)	(457)	–	–
	14	71	87	–	–
Other investments	14	6	108	14	19
		763	4,909	14	58
<b>Current assets</b>					
Decommissioning fund	15	334	411	–	–
Stocks	16	360	514	–	–
Debtors: amounts falling due within one year		331	412	85	2,517
Debtors: amounts falling due after more than one year		56	320	–	–
	17	387	732	85	2,517
Investments – liquid funds	31	246	209	210	179
Cash at bank	31	87	–	83	–
		1,414	1,866	378	2,696
<b>Creditors: amounts falling due within one year</b>					
– borrowings	19	(152)	(153)	(110)	(116)
– other	18	(1,033)	(822)	(3,742)	(49)
		(1,185)	(975)	(3,852)	(165)
Net current assets/(liabilities)		229	891	(3,474)	2,531
Total assets less current liabilities		992	5,800	(3,460)	2,589
<b>Creditors: amounts falling due after more than one year</b>					
– borrowings	19	(731)	(915)	(298)	(298)
– other	18	(1,909)	(1,858)	–	–
Provisions for liabilities and charges	21	(1,735)	(2,400)	(9)	–
Net (liabilities)/assets		(3,383)	627	(3,767)	2,291
<b>Capital and reserves</b>					
Called up equity share capital	26	277	277	277	277
Share premium		76	76	76	76
Capital redemption reserve		350	350	350	350
Profit and loss account	27	(4,179)	(213)	(4,563)	1,495
Equity shareholders' interests	28	(3,476)	490	(3,860)	2,198
Non-equity shareholders' funds	26	93	93	93	93
Minority interests		–	44	–	–
		(3,383)	627	(3,767)	2,291

The financial statements were approved by the Board of Directors on 2 June 2003 and signed on its behalf by:



**Adrian Montague CBE**  
Chairman



**Keith Lough**  
Finance Director

Notes 1 to 35 form part of these financial statements.

# Group Cash Flow Statement

for the year ended 31 March 2003

	Notes	2003 Total £m	2002 Total £m
<b>Net cash inflow from operating activities</b>	29	<b>336</b>	<b>380</b>
Interest paid		(91)	(62)
Interest received		9	13
Fees paid		–	(2)
Dividends paid on non-equity shares		(2)	(2)
Returns on investments and servicing of finance		(84)	(53)
Taxation received		3	4
Payments to acquire tangible fixed assets		(282)	(225)
Receipts from sale of financial investments		–	38
Capital expenditure and financial investment		(282)	(187)
Investment in Canada		–	(129)
Receipts from sale of Canadian investment		262	–
Acquisitions and disposals		262	(129)
Equity dividends paid		(31)	(46)
(Increase)/decrease in term deposits		(37)	18
<b>Management of liquid resources</b>	31	<b>(37)</b>	<b>18</b>
Minority funding of Bruce Power		12	4
Repayment of amounts borrowed net of new loans		(92)	9
Financing		(80)	13
<b>Movement in cash</b>	31	<b>87</b>	<b>–</b>

Notes 1 to 35 form part of these financial statements.

## Statement of Total Recognised Gains and Losses

for the year ended 31 March 2003

		2003 £m	2002 £m
Loss for the financial year		(3,941)	(527)
Translation differences on foreign currency net investments	28	(25)	(8)
Total recognised losses for the year		(3,966)	(535)
Prior year adjustments in respect of accounting policy changes: – deferred tax		–	(130)
Total recognised losses since last annual report		(3,966)	(665)

# Notes to the Financial Statements

for the year ended 31 March 2003

## 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 2003.

On 14 February 2003, the Group disposed of its stake in Bruce Power and Huron Wind, therefore their results up to the point of disposal have been classified as discontinued operations. All other activities of the Group have been shown as continuing activities.

To assist shareholders to compare the underlying financial performance of the Group, "business performance" profit and loss account figures are shown which exclude exceptional items.

### (ii) Principles Underlying Going Concern Assumption

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 to provide working capital for British Energy'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 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 facility agreement had been further extended until 9 March 2003.

On 7 March 2003 British Energy announced that the UK Government had agreed to extend the facility, which will now mature on the earlier of 30 September 2004 or the date on which the restructuring plan, as outlined below, becomes effective and was reduced from £650m to £200m to provide working capital for the business and collateral to support UK trading operations. HMG is entitled to require immediate repayment of the facility if, in the opinion of the Secretary of State for Trade and Industry, the restructuring cannot be implemented in the manner envisaged. The facility agreement is cross-guaranteed by the principal Group subsidiaries (excluding Eggborough Power (Holdings) Limited and Eggborough Power Limited) and is secured by, among other things, fixed and floating charges and/or share pledges granted by those subsidiaries. The facility agreement also contains a requirement to provide further security as required by the Secretary of State for Trade and Industry 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 is a breach of law.

On 14 February 2003 British Energy announced that it had entered into binding standstill agreements and had reached a non-binding agreement on the principles of the Company's restructuring with certain of the bondholders, the steering committee of the Eggborough bank syndicate, The Royal Bank of Scotland plc as provider of a letter of credit to the Eggborough banks, Teesside Power Limited, TotalFinaElf and Enron Capital & Trade Europe Finance LLC.

The significant creditors and BNFL agreed with British Energy that they would not take any steps to initiate any administration proceedings or demand or accelerate any amounts due and payable by British Energy during the period commencing on 14 February 2003 and ending on the earliest of 30 September 2004 or a termination event or the completion of the restructuring.

Under the standstill agreements certain significant creditors are paid interest but not principal in respect of any claims against the British Energy Group. The standstill agreements contain certain covenants for the benefit of the significant creditors and BNFL (including the bondholders who have signed the bondholders' standstill agreement). For example, during the standstill period, British Energy has undertaken that it will not, without the unanimous consent of the significant creditors and BNFL, make any acquisition or disposal greater than £5m (except for the sale of Bruce Power and AmerGen) and it will not issue equity or pay any dividends.

BNFL or any of the significant creditors may terminate the standstill agreement following the occurrence of a termination event. The termination events include certain insolvency events affecting the Company, British Energy Generation Limited, British Energy Generation (UK) Limited, British Energy Power & Energy Trading Limited or Eggborough Power Limited, acceleration of the repayment terms of the facility, the required approvals under the standstill agreement not being obtained within the time scales envisaged, any of the British Energy companies failing to discharge certain continuing obligations and definitive documentation not having been executed by 30 September 2003.

## 1. Basis of Preparation continued

### (ii) Principles Underlying Going Concern Assumption continued

The principal features of the proposed restructuring include:

- 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 a new Nuclear Liabilities Fund (NLF) for uncontracted nuclear liabilities and decommissioning costs to which British Energy would make initial and ongoing contributions;
- The Government funding liabilities relating to historic spent fuel and any shortfall in the NLF;
- Compromising the existing claims of significant creditors in exchange for new bonds and new ordinary shares and settling new off-take arrangements for Eggborough;
- British Energy disposing of its interests in AmerGen as well as Bruce Power.

The financial statements have been prepared on a going concern basis in accordance with FRS18, because the entity has not been liquidated nor is it ceasing to trade and the Directors are currently seeking an alternative to liquidating the Company or ceasing to trade. The going concern basis assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on continuation of financial assistance from the Secretary of State for Trade and Industry and the Group's significant creditors, and the successful completion of the proposed restructuring.

The terms of the proposed restructuring will need to be agreed definitively with the significant creditors whose entitlements are to be compromised and will need to be approved by, inter alia, the Secretary of State, existing shareholders (where required), the Inland Revenue and the European Commission (under State aid rules) prior to being finally implemented. If such agreements with creditors cannot be reached, the standstill arrangements are terminated, the required approvals are not forthcoming, the assumptions underlying the restructuring proposals are not fulfilled, the UK Government credit facility is not maintained or the conditions to the restructuring are not satisfied or waived, in each case within the time scales envisaged, the Company may be unable to meet its financial obligations, in which case the Company could no longer be considered to be a going concern.

If for any reason British Energy is unable to implement the restructuring and ceases to be a going concern, 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.

Certain energy trading financial derivatives and open positions on physical energy trading contracts 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 (xviii).

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 (xvi).

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 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 prices, expected annual output, 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 (xv) below.

## 2. Accounting Policies continued

### (i) Basis of Accounting continued

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 amounts receivable for sales of electricity and sales of other related goods, net of value added tax. Sales are recognised on an accruals basis, with reference to meter readings. Turnover includes estimates of selling prices for electricity generated in the year.

### (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

Owing 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.

**2. Accounting Policies** continued**(viii) Research and Development**

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

**(ix) 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 life 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.

**(x) 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 translated into Sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the profit and loss account.

Differences on foreign exchange arising from the re-translation of the opening net investment in, and results of, subsidiary and associated undertakings and joint ventures are taken to reserves and, where appropriate, are matched with differences arising on the translation of related foreign currency borrowings. Any differences are reported in the Statement of Total Recognised Gains and Losses.

**(xi) Tangible Fixed Assets and Depreciation, Including Decommissioning Costs**

Fixed assets comprise assets acquired or constructed by the Group. Expenditure of a capital nature incurred to improve operational performance, to improve safety or in order to meet increased regulatory standards is also capitalised. Interest on major capital projects is included in the cost of the fixed asset from the date of cash settlement until the date of commissioning. Other expenditure, including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost less accumulated depreciation. Accumulated depreciation includes additional charges made where necessary to reflect impairment in value. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

The carrying values of fixed assets are reviewed for impairment 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 2003 were:

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AGR power stations	25–35 years
PWR power station	40 years
Bruce power station assets	18 years
Coal power station	20 years
Other buildings	40 years
Other assets	5 years

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## 2. Accounting Policies continued

### (xi) Tangible Fixed Assets and Depreciation, Including Decommissioning Costs continued

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.

### (xii) 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 joint ventures is stated at cost plus the Group's share of retained earnings. 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 under UITF17 in respect of Save As You Earn Share Schemes.

### (xiii) 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.

### (xiv) Deferred Taxation

The Group makes full provision for deferred tax on all temporary timing differences which arise between its taxable profits and results as stated in the financial statements. 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. The unwinding of one year's worth of discount is included in the tax charge for the year. Deferred tax assets are recognised in the accounts to the extent to which they are considered to be recoverable in the foreseeable future.

### (xv) 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 provisioned 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) on page 42. 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.

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

**2. Accounting Policies** continued**(xvi) Decommissioning Fund**

The Group makes contributions into an independently administered fund to cover all costs of decommissioning its UK 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 loss before tax by £82m (2002: £4m) and to reduce the reported loss before exceptional items for the year by £29m (2002: increase in profit £23m). There is no impact on the net assets at 31 March 2003 as the fund has been restated at market value (2002 net assets were £82m higher due to this departure). There are no tax consequences of this departure.

The effect of the departure for the AmerGen Fund is to increase the loss before tax by £28m and to reduce the reported loss before exceptional items for the year by £20m. There is no impact on net assets as the AmerGen Fund has been restated at market value.

**(xvii) 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.

**(xviii) Financial Instruments and Derivatives**

Financial instruments and derivatives are used to hedge interest rate, foreign exchange and trading risks.

Energy trading financial derivatives, renewable obligation certificates and open positions on physical energy trading contracts are marked to market using externally derived market prices and subsequent movements in the fair value reflected through the profit and loss account. This is not in accordance with the general provisions of Schedule 4 of the Companies Act 1985, which requires that these contracts be 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 these requirements would fail to provide a true and fair view of the results for the year since the marketability of energy trading contracts enables decisions to be taken continually on whether to hold or sell them. Accordingly the measurement of profit in any period is properly made by reference to market values. The effect of the departure on the financial statements is to reduce the loss for the year by £5m (2002: nil) and increase the net assets at 31 March 2003 by £5m (2002: nil).

Amounts payable or receivable in respect of interest rate swaps and forward rate agreements 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 or the hedged transaction occurs, the resulting gain or loss is recognised on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur, any deferred gain or loss that has arisen on the related derivative is recognised in the profit and loss account, together with any gain or loss on the terminated item.

Profits and losses on financial instruments and derivatives are reported in the profit and loss account in the period to which underlying hedging transactions are completed. In the event that a financial instrument no longer forms part of the Group's physical trading portfolio, the value of the instrument is estimated using discounted future cash flows, and provisions made if required. Short-term debtors and creditors have been excluded from the disclosures made under FRS13 – 'Derivatives and other financial instruments'.

**2. Accounting Policies** continued**(xix) 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.

**(xx) Joint Ventures**

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

**(xxi) Operating Lease**

The Group entered into an operating lease with Ontario Power Generation Inc (OPG) to lease the Bruce 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 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.

**3. Turnover, Operating Profit and Net Assets****(i) Turnover**

	2003 TWh	2002 TWh
<b>Output</b>		
– United Kingdom	69.5	74.7
– Canada	19.2	20.5
	<b>88.7</b>	<b>95.2</b>
	£m	£m
<b>Continuing activities</b>		
United Kingdom		
– wholesale generation	852	1,162
– direct supply	603	522
– exceptional income	41	–
– miscellaneous income	32	17
	<b>1,528</b>	<b>1,701</b>
<b>Discontinued activities</b>		
Canada	375	348
Turnover	<b>1,903</b>	<b>2,049</b>

The Company has agreed revised terms for the Nuclear Energy Agreement (NEA) with Scottish Power and Scottish and Southern Energy. Under the terms of the revised agreement, which has now had regulatory approval, the Company is in a position to release as income a balance of £41m in respect of cash amounts previously received. This release has been treated as an exceptional item as it does not relate to current year trading.

Turnover from discontinued activities in Canada in 2002 and 2003 represent the sales by Bruce Power which was acquired on 12 May 2001 and 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.

**3. Turnover, Operating Profit and Net Assets** continued**(ii) Operating Profit**

A geographical analysis of operating profit before exceptional items is as follows:

	2003 £m	2002 £m
United Kingdom	7	189
Canada	97	42
	<b>104</b>	<b>231</b>

All exceptional items applicable to operating profits relate to the United Kingdom.

**(iii) Net Liabilities/Assets**

A geographical analysis of the Group's net (liabilities)/assets is as follows:

	2003 £m	2002 £m
United Kingdom	<b>(3,454)</b>	388
Canada	–	158
United States	71	81
	<b>(3,383)</b>	627

**4. Operating Costs**

	2003 Total £m	2003 Exceptional Items £m	2003 Business Performance £m	2002 Business Performance £m	2002 Exceptional Items £m	2002 Total £m
<b>Continuing activities</b>						
Fuel	371	–	371	467	–	467
Materials and services	519	94	425	395	209	604
Staff costs	227	–	227	209	3	212
Depreciation	4,011	3,738	273	280	300	580
	<b>5,128</b>	<b>3,832</b>	<b>1,296</b>	1,351	512	1,863
Amounts written off non-operational assets	115	115	–	–	–	–
Energy supply costs	184	–	184	171	–	171
	<b>5,427</b>	<b>3,947</b>	<b>1,480</b>	1,522	512	2,034
<b>Discontinued activities</b>						
Fuel	17	–	17	23	–	23
Materials and services	143	–	143	149	–	149
Staff costs	111	–	111	119	–	119
Depreciation	7	–	7	5	–	5
	<b>278</b>	<b>–</b>	<b>278</b>	296	–	296
<b>Total operating costs</b>	<b>5,705</b>	<b>3,947</b>	<b>1,758</b>	1,818	512	2,330

	2003 £m	2002 £m
<b>Analysis of exceptional items</b>		
Restructuring costs	35	–
Stock obsolescence	57	–
Staff costs	–	3
Onerous trading contracts	2	209
Fixed asset write-down (note 13)	3,738	300
Investments in own shares write-down (note 14)	102	–
UK Decommissioning Fund write-down (note 15)	13	–
	<b>3,947</b>	512

**4. Operating Costs** continued

There were exceptional materials and services costs of £35m in respect of costs incurred on advisory fees and other costs associated with restructuring the Group's activities. An exceptional charge of £57m has been recorded for stock obsolescence following an extensive review of slow moving stores and spares conducted during the year.

During the year the Group had certain pre-NETA electricity trading contracts with Enron Capital & Trade Europe Finance LLC (Enron), Teesside Power Limited (TPL) and TotalFinaElf Gas and Power Limited (TFE). As a result of the terms inherent in these contracts and the Directors' view of future market prices, the contracts are considered to be onerous. The Enron and TFE contracts were terminated during the year thus giving rise to claims for certain amounts which became payable. These accounts reflect the claim amounts which have been agreed in principle with Enron, TPL and TFE for the purposes of the restructuring. An exceptional charge of £2m has been made in the year to make further provision for these long-term trading contracts.

The Directors have reviewed the economic values and net realisable values of the Group's fixed assets and compared them to their book value. As a result of this review, the carrying value of fixed assets has been written down by £3,738m.

The carrying value of the nuclear stations has been 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 is based on an assessment of net realisable value.

The electricity price assumptions are a very significant component of the asset value calculation. The Directors have considered the market's views on future prices of wholesale electricity and also the forecasts specifically commissioned for the Company. They have considered the potential for rationalisation of generation capacity in the UK and the potential effect on the market of changes in Government policy on renewables generation. In determining the price assumptions the Directors have also taken account of the effect on the market as a result of the dramatic fall in prices over the last two years and have taken a cautious view on there being a significant recovery in prices. As market prices are outside the Directors' control actual prices may differ from those forecast.

In future years the Directors will review the economic assumptions underlying the calculation of fixed asset carrying values, in line with the requirements of FRS11, and make revisions as appropriate.

The 2001/2 results reported exceptional operating costs amounting to £512m, as follows:

- A £209m provision in respect of the onerous pre-NETA contracts with Enron, TPL and TFE;
- A charge of £3m for share option costs charged to staff costs;
- An asset write-down of £300m in respect of the Eggborough Power Station.

	2003 £m	2002 £m
Operating costs are stated after charging:		
– research and development	15	16
– operating lease costs – Bruce	70	38

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 world-wide basis is provided below:

	2003		2002	
	£000's	%	£000's	%
Services as auditors	595	19	358	16
Due diligence	35	1	189	9
Tax services	331	11	1,249	57
Other non-audit services	509	17	387	18
Restructuring advice (including asset disposals)	1,608	52	–	–
<b>Total</b>	<b>3,078</b>	<b>100</b>	<b>2,183</b>	<b>100</b>

Statutory audit fees for British Energy plc were £60,000 (2002: £45,000).

**5. (Loss)/Profit on Sale of Business**

On 14 February 2003 the Group completed the sale of its 82.4% interest in Bruce Power Limited Partnership (Bruce Power) and 50% share in Huron Wind Limited Partnership to a Canadian consortium led by Cameco Corporation, TransCanada and BPC Generation Infrastructure Trust.

The Group received initial consideration of C\$678m upon financial close on 14 February 2003, together with a C\$20m retention initially held in escrow pending confirmation of the pension deficit which was subsequently received in April 2003. In addition, there are certain amounts held in escrow which the Group may be entitled to receive pending satisfaction of various conditions related to the disposal. These amounts, which have not been recognised in these accounts, are:

- C\$100m, contingent on the restart of two Bruce A units, with C\$50m to be released provided the first unit restarts by 15 June 2003 and an additional C\$50m if the second unit restarts by 1 August 2003. If the units do not restart on the specified dates then the contingent amounts released for each unit will be reduced by C\$5m and such payment is reduced by a further C\$5m if that unit is not restarted on or before the first day of each successive calendar month following the scheduled restart date;
- C\$20m, which is held in escrow from closing to cover any successful claims in respect of representations and warranties until any claims made against British Energy and British Energy International Holdings which are made within two years from the date of closing are resolved.

A further C\$80m is held in an escrow account to cover the estimated outstanding tax liabilities of the Bruce Group. In the event that the sums held back to satisfy the tax liability are insufficient, then British Energy would be required to repay the amount of such excess to the Bruce Power consortium. Conversely, British Energy will be refunded any balance remaining after settlement of the tax liability.

The loss arising from the disposal and cash consideration which have been recognised in these accounts are analysed as follows:

	£m
<b>Net assets sold:</b>	
Tangible fixed assets	303
Investment in joint venture and associates	4
Stocks	37
Debtors	313
Cash at bank	4
Borrowings	(92)
Creditors and provisions	(192)
Net assets disposed	377
Minority interests	(68)
Net assets disposed less minorities	309
<b>Accounted for by:</b>	
Cash consideration net of transaction costs	266
Contingent consideration received post year-end on determination of pension deficit	8
Loss on disposal – exceptional item	(35)
<b>Cash flows:</b>	
Cash consideration net of transaction costs received in 2002/3	266
Less: cash held by disposed subsidiary	(4)
Net cash inflow	262

The disposal of the Group's interest in Humber Power Limited resulted in an exceptional profit of £4m in 2002.

**6. Employee Information****(i) Staff Costs**

	2003 £m	2002 £m
Salaries	322	314
Social security costs	29	26
Pension costs (note 25)	18	11
Severance charges	11	–
Amortisation of share option costs	–	9
Amounts capitalised	(42)	(32)
Business performance staff costs	338	328
Exceptional items	–	3
<b>Total staff costs</b>	<b>338</b>	<b>331</b>

**(ii) Employee Numbers**

	2003 Number	2002 Number
Average number of employees during the year:		
Continuing operations	5,103	4,969
Discontinued operations	2,799	2,701
<b>Total</b>	<b>7,902</b>	<b>7,670</b>

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

	2003 Number	2002 Number
United Kingdom		
Power stations:		
– nuclear	3,579	3,499
– coal-fired	247	251
Engineering, technical and corporate support	1,228	1,170
North America – continuing operations	28	32
<b>Total continuing operations</b>	<b>5,082</b>	<b>4,952</b>
Canada – discontinued operations	2,798	2,701
	<b>7,880</b>	<b>7,653</b>

**7. Summary of Directors' Emoluments**

	2003 £'000	2002 £'000
Total emoluments, including pension contributions		
As Directors	585	221
For management services:		
– salaries and other benefits	996	1,041
– performance related bonuses	–	343
– pension contributions	52	48
	<b>1,633</b>	<b>1,653</b>
– compensation for loss of office	98	365
	<b>1,731</b>	<b>2,018</b>

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

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

	2003 £m	2002 £m
Revalorisation of nuclear liabilities (note 22)		
– changes in price levels	117	65
– discharge of one year's discount	111	110
	228	175
Revalorisation of other provisions	10	12
Revalorisation of decommissioning fund (note 15)	(29)	(23)
Share of revalorisation of joint venture	(4)	(4)
Revalorisation charge before exceptional items	205	160
Exceptional item (see below)	159	27
Revalorisation charge	364	187
	2003 £m	2002 £m
<b>Interest:</b>		
Interest on loans repayable within five years:		
– bank	11	27
– other	24	27
Interest on loans repayable in five years or more:		
– bank	38	20
– other	8	8
Exceptional item – interest rate swaps	56	–
Exceptional item – borrowing costs	6	–
Interest receivable	(9)	(16)
Interest payable and similar charges	134	66

At 31 March 2003 the market value of the UK decommissioning fund at £334m was lower than the value of £458m that would have been derived from revalorising the amounts contributed. As a result an exceptional charge of £124m has been recognised to record the fund at market value of which £111m relates to the write-off of previous revalorisation and £13m has been classified as a write-off of non-operational assets. The UK Decommissioning Fund was also written down by £27m in the 2001/2 accounts, to reflect a lower market value at 31 March 2002.

The market value of the decommissioning fund of AmerGen is also lower than the value that would have been derived from revalorising the amounts contributed. The British Energy share of the adjustment required to restate the value of the fund to market value is £48m, all of which relates to previous revalorisation.

The total exceptional revalorisation charge relating to the two funds amounts to £159m.

An exceptional charge of £56m has been recognised for interest rate swaps. The basis of the provision is discussed in note 23. In addition, an exceptional charge of £6m has been recorded for the write-off of borrowing costs which had been previously capitalised and were being amortised over the expected duration of loan financing the acquisition of the Eggborough power station.

**9. Taxation on (Loss)/Profit on Ordinary Activities**

	2003 £m	2002 £m
UK corporation tax – prior year	–	(11)
Deferred taxation on business performance loss before tax	(40)	34
Unwinding of discount	14	14
Credit for year on business performance loss (note 24)	(26)	48
Exceptional deferred tax credit	(370)	(56)
Deferred tax credit for the year	(396)	(8)
Foreign tax – current year	18	15
	(378)	(4)

The deferred tax exceptional credit in 2002/3 arises mainly as a result of the write-down of fixed asset carrying values.

**9. Taxation on (Loss)/Profit on Ordinary Activities** continued

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

	2003	
	Tax Terms £m	Percentage
Tax credit on loss at standard rate of 30%	(1,288)	30%
Deferred tax:		
Current year movement	396	-9%
Impact of discounting	619	-14%
Deferred tax asset not recognised (note 24)	150	-4%
Total deferred tax pre-discounting	1,165	-27%
Expenses not deductible for tax purposes	140	-3%
Loss on sale of investment not allowable	11	0%
(Lower)/higher tax rates on overseas earnings	(6)	0%
Minority interests	(4)	0%
Current tax charge for year	18	0%

The Group's joint venture, AmerGen, is not a tax paying entity. The share of taxation for 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 £6,058m (2002: loss of £310m) attributable to the Company, inclusive of a provision of £5,909m made in the current year for bad and doubtful inter-company debtors which is eliminated on consolidation. The Company did not have any distributable reserves at 31 March 2003 (2002: £491m). As permitted under Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account.

**11. Dividends**

	2003 p per share	2002 p per share	2003 £m	2002 £m
Annual dividend per ordinary share:				
– interim paid	–	2.7	–	16
– final proposed	–	5.3	–	32
Total annual	–	8.0	–	48
Non-equity dividend	–	2.3	–	2

**12. Earnings Per Share**

The basic total earnings per share and basic business performance earnings per share for the year have been calculated on the basis of the loss on ordinary activities after taxation, minority interests and non-equity dividends of £3,941m (2002: loss £529m) for the total figures and a loss of £149m (2002: loss £50m) for the business performance figures; and by reference to a weighted average of 602 million ordinary shares (2002: 598 million ordinary shares).

A reconciliation of total earnings per share to business performance earnings per share (which exclude exceptional items) is set out below for information.

**12. Earnings Per Share** continued

	2003		2002	
	Loss attributable to shareholders £m	Basic loss per share p/share	Loss attributable to shareholders £m	Basic loss per share p/share
Total	(3,941)	(654.7)	(529)	(88.5)
Adjusted for exceptional items:				
– turnover	(41)	(6.8)	–	–
– operating costs/(credits)	3,947	655.6	512	85.7
– (profit)/loss on disposal	35	5.8	(4)	(0.7)
– revalorisation	159	26.4	27	4.5
– interest payable and other finance charges	62	10.3	–	–
Taxation on exceptional items	(370)	(61.4)	(56)	(9.4)
Business performance (post minorities)	(149)	(24.8)	(50)	(8.4)

**13. Tangible Fixed Assets**

Group	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
<b>Cost</b>				
As at 1 April 2002	10,793	47	408	11,248
Foreign exchange	(9)	–	(1)	(10)
Additions	258	–	35	293
Disposal of Bruce Power and Huron Wind	(295)	–	(8)	(303)
<b>As at 31 March 2003</b>	<b>10,747</b>	<b>47</b>	<b>434</b>	<b>11,228</b>
<b>Depreciation</b>				
As at 1 April 2002	6,275	24	235	6,534
Exceptional asset write-down	3,594	–	144	3,738
Charge for the year	247	–	33	280
Disposal of Bruce Power and Huron Wind	(8)	–	(2)	(10)
<b>As at 31 March 2003</b>	<b>10,108</b>	<b>24</b>	<b>410</b>	<b>10,542</b>
<b>Net book value</b>				
<b>As at 31 March 2003</b>	<b>639</b>	<b>23</b>	<b>24</b>	<b>686</b>
As at 31 March 2002	4,518	23	173	4,714

**13. Tangible Fixed Assets** continued

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

	2003 £m	2002 £m
Cost	2,245	2,223
Net book value	107	1,120

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% was applied to the economic value review. As a result of this review, the value of its fixed assets has been reduced by £3,738m. The background to the review is discussed more fully in note 4.

Company	Plant and equipment £m
<b>Cost</b>	
As at 1 April 2002	150
Additions	6
<b>As at 31 March 2003</b>	<b>156</b>
<b>Depreciation</b>	
As at 1 April 2002	111
Exceptional asset write-down	31
Charge for the year	14
<b>As at 31 March 2003</b>	<b>156</b>
<b>Net book value</b>	
<b>As at 31 March 2003</b>	–
As at 31 March 2002	39

**14. Fixed Asset Investments**

Group	AmerGen joint venture £m	Loans to Nirex £m	Own shares £m	Other investments £m	Total £m
<b>Cost/carrying value</b>					
As at 1 April 2002	87	37	140	4	268
Foreign exchange	(11)	–	–	–	(11)
Share of retained profits	43	–	–	–	43
<b>As at 31 March 2003</b>	<b>119</b>	<b>37</b>	<b>140</b>	<b>4</b>	<b>300</b>
<b>Provision for diminution in value</b>					
As at 1 April 2002	–	37	36	–	73
Charge for the year:					
– exceptional items	48	–	102	–	150
<b>As at 31 March 2003</b>	<b>48</b>	<b>37</b>	<b>138</b>	<b>–</b>	<b>223</b>
<b>Net book value</b>					
<b>As at 31 March 2003</b>	<b>71</b>	<b>–</b>	<b>2</b>	<b>4</b>	<b>77</b>
As at 31 March 2002	87	–	104	4	195

The Group is engaged in a sale process to dispose of its investment in AmerGen as required by the conditions attaching to the UK Government credit facility agreement. The investment has been classified as a fixed asset investment as the Group has not yet entered into an agreement for its disposal.

**14. Fixed Asset Investments** continued

An analysis of British Energy's share of the aggregate net assets of the AmerGen joint venture is set out below:

	2003 £m	2002 £m
Negative goodwill	(7)	(14)
Tangible assets	144	107
Stocks	10	52
Cash	6	2
Decommissioning fund	306	378
Debtors	18	19
Creditors	(51)	(67)
Decommissioning liabilities	(321)	(340)
Loan notes	(34)	(50)
<b>Net assets</b>	<b>71</b>	<b>87</b>

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

The market value of the AmerGen decommissioning fund has fallen following the fall in the value of the equity markets. An exceptional charge of £48m has been recorded for British Energy's share of the adjustment required to restate the balance sheet value to market value.

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 2003 British Energy Employee Share Trust held 21,734,839 ordinary shares at an average cost of £4.68 for a total consideration of £101m. These shares were held at cost less charges to write down the shares to the exercise price of the share options over the minimum life of the options.

At 31 March 2003 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). These shares were held at cost less charges to write down the shares to the exercise price over the minimum life of the options.

The market value of the shares held by the employee trusts at 31 March 2003 was £2m, compared to a book value of £104m. As the long-term prospects of the Company have deteriorated considerably the Directors consider it appropriate to recognise a permanent diminution in the value of the shares held in employee trusts. As a result an exceptional charge of £102m has been recognised within 'Amounts written off non-operational assets'.

Company	Subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost</b>			
As at 1 April 2002	19	–	19
Transferred to Group undertaking	5	–	5
<b>As at 31 March 2003</b>	<b>14</b>	<b>–</b>	<b>14</b>

**14. Fixed Asset Investments** continued

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
<b>Subsidiary undertakings</b>					
British Energy Generation (UK) Limited	Scotland	Ordinary	100	100	Generation and 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
Lochside Insurance Limited	Guernsey	Ordinary	100	100	Insurance
British Energy US Holdings Inc	USA	Ordinary	100	–	Holding company
British Energy Holdings Limited	Canada	Ordinary	100	–	Holding company
<b>Other holdings of more than 10 per cent</b>					
AmerGen Energy LLC	USA	Ordinary	50	–	Generation and sale of electricity
United Kingdom Nirex Limited	England and Wales	Ordinary	10.8	–	Disposal of nuclear waste

Included in the Group 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.

The accounting reference dates of AmerGen Energy LLC and British Energy US Holdings Inc are both 31 December.

**15. UK Decommissioning Fund**

	Group £m
As at 1 April 2002	411
Regular contributions	18
Revalorisation (note 8)	29
	458
Less exceptional items to write down to market value	(124)
<b>As at 31 March 2003</b>	<b>334</b>

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.

At 31 March 2003 the market value of the decommissioning fund's investment was £334m (market value 2002: £411m). As a result of the market value being lower than the balance sheet carrying value an exceptional charge of £124m has been recognised in the accounts to restate the decommissioning fund receivable to market value. Of this charge £111m represents the write-down of previous revalorisation and has been treated as an exceptional financing charge. The balance of £13m has been included in 'Amounts written off non operational assets' and classified as an operating cost.

**16. Stocks**

	Group	
	2003 £m	2002 £m
Unburnt nuclear fuel in reactors	469	451
Provision for unburnt fuel at station closure	(272)	(266)
Net unburnt nuclear fuel in reactors	197	185
Other nuclear fuel	74	152
Coal stocks	14	15
Stores	75	162
	<b>360</b>	<b>514</b>

**17. Debtors**

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	226	294	3	5
Other debtors	89	158	–	76
Operating lease prepayment	–	176	–	–
Prepayments	72	104	1	3
Amounts due from subsidiary undertakings	–	–	81	2,433
	<b>387</b>	<b>732</b>	<b>85</b>	<b>2,517</b>

Included within the Company's amount due from subsidiary undertakings is £81m (2002: £67m) which was denominated in foreign currencies and translated at the year-end exchange rate, and a provision for bad and doubtful debts of £6,209m relating to amounts due from UK subsidiaries.

£56m of Group debtors fall due in more than one year (2002: £320m).

**18. Creditors**

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts falling due within one year:				
Nuclear liabilities (note 22)	355	224	–	–
Trade creditors	198	285	–	–
Retentions	5	4	–	–
Other taxes and social security	9	21	–	–
Other creditors	326	72	1	–
Accruals	140	182	20	15
Proposed dividends	–	34	–	34
Amounts due to subsidiary undertakings	–	–	3,721	–
	<b>1,033</b>	<b>822</b>	<b>3,742</b>	<b>49</b>
Other creditors: amounts falling due after more than one year				
Nuclear liabilities (note 22)	<b>1,909</b>	<b>1,858</b>		

Other creditors includes £316m in respect of claims relating to onerous trading contracts. These contracts are pre-NETA electricity trading contracts with Enron Capital & Trade Europe Finance LLC (Enron), Teesside Power Limited (TPL) and TotalFinaElf Gas and Power Limited (TFE). The Enron and TFE contracts were terminated during the 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 TFE for the purpose of the proposed restructuring of the Group.

**19. Borrowings****(i) Summary**

The Group's borrowings at 31 March 2003 were as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Long-term project finance loan – Sterling	475	508	–	–
Bonds – Sterling	408	408	408	408
Short-term – US dollar	–	6	–	6
Long-term – Canadian dollar	–	42	–	–
Long-term OPG loan – Canadian dollar	–	104	–	–
	<b>883</b>	<b>1,068</b>	<b>408</b>	<b>414</b>

The long-term project finance loan is secured on the assets of Eggborough Power Limited (EPL). Amounts owed by EPL to the lenders are not guaranteed by British Energy plc but British Energy guarantees the payment of amounts by British Energy Power & Energy Trading Limited (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 will 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.

The remainder of the Group's borrowings are unsecured. The interest rate coupons on the bonds are as follows:

	2003	
	Coupon rate %	Principal £m
Bond 2003	5.949	110
Bond 2006	6.077	163
Bond 2016	6.202	135
		<b>408</b>

The March 2003 bond has not been repaid as scheduled. It is proposed that claims of bondholders will be restructured as part of the restructuring of the Group.

**(ii) Risk profile**

The interest rate risk profile of the Group's borrowings is as follows:

	Weighted average interest rate %	Weighted average period for which the rate is fixed Years	2003			2002
			Floating rate £m	Fixed rate £m	Total £m	Total £m
Sterling	6.41	5.8	–	883	883	916
Canadian dollar	–	–	–	–	–	146
US dollar	–	–	–	–	–	6
At 31 March 2003			–	883	883	1,068

At 31 March 2003, the effect of the Group's interest rate contracts is to classify £475m (2002: £508m) of borrowings as fixed rate in the above table.

**(iii) Fair values**

The fair values of the Group's borrowings at 31 March 2003 are as follows:

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Long-term project finance loan – Sterling	475	150	508	508
Bonds – Sterling	408	171	408	388
Short-term – US dollar	–	–	6	6
Long-term – Canadian dollar	–	–	42	42
Long-term OPG loan – Canadian dollar	–	–	104	104
	<b>883</b>	<b>321</b>	<b>1,068</b>	<b>1,048</b>

**19. Borrowings** continued

## (iii) Fair values continued

The fair value of long-term bonds reflects their market value as at 31 March 2003.

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 which has been attributed to the loan has been based on the Directors' best estimate of the net realisable value of the Eggborough Station upon which this debt is secured.

## (iv) Maturity of borrowings

	2003 £m	2002 £m
Less than one year	152	153
Between one and two years	45	41
Between two and five years	319	410
Over five years	367	464
	<b>883</b>	<b>1,068</b>

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.

## (v) Borrowing facilities

At 31 March 2003 the Group had the following borrowing facilities excluding the bonds.

	Drawn £m	Undrawn £m	Total £m	Expiry Date
Long-term project finance loan	475	–	475	2011
Credit facility with UK Government	–	200	200	2004
Total	475	200	675	

**20. Financial Instruments and Derivatives**

A summary of derivative financial instruments at 31 March 2003 is set out below:

	2003			2002		
	Contract principal amounts £m	Carrying value £m	Fair value £m	Contract principal amounts £m	Carrying value £m	Fair value £m
Foreign exchange forward contracts	–	–	–	5	–	1
Interest rate contracts	498	(56)	(56)	518	–	(29)

The Group uses interest rate contracts to manage exposure to interest rate fluctuations.

The Group has reduced exposure to foreign currency exchange rate movements following the disposal of its investments in Bruce Power and Huron Wind. There are potential future foreign currency receivables in respect of the retentions outstanding from the sale of Bruce Power and the potential sale of 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. Financial Instruments and Derivatives** continued

A summary table of the net losses on derivative instruments is set out below.

	2003		2002	
	Un- recognised £m	Deferred £m	Un- recognised £m	Deferred £m
Net losses on derivative instruments at 1 April 2002	(28)	(10)	(30)	(20)
Net losses arising in previous period included in current period profit and loss account	28	8	–	5
Net losses arising before 1 April 2002 not included in current period profit and loss account	–	(2)	(30)	(15)
Net gains/(losses) arising in current period not included in current period profit and loss account	–	–	2	5
Net losses on hedges at 31 March 2003	–	(2)	(28)	(10)
Of which:				
Net losses expected to be included in 2003/4 profit and loss account	–	(2)		
Net losses expected to be included in profit and loss accounts beyond 2003/4	–	–		

**21. Provisions for Liabilities and Charges**

	Group	
	2003 £m	2002 £m
Nuclear liabilities (note 22)	1,673	1,637
Other provisions (note 23)	62	349
Deferred taxation (note 24)	–	414
	<b>1,735</b>	<b>2,400</b>

**22. Nuclear Liabilities**

	Back-end fuel costs contracted £m	Back-end fuel costs uncontracted £m	Decomm- issioning £m	2003 Total £m	2002 Total £m
As at 1 April 2002	2,082	702	935	3,719	3,728
Charged/(credited) to profit and loss account:					
– operating costs	72	33	–	105	148
– revalorisation (note 8)	126	41	61	228	175
– reclassifications	97	(97)	–	–	–
Payments in the year	(114)	(1)	–	(115)	(332)
As at 31 March 2003	2,263	678	996	3,937	3,719

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

	2003 £m	2002 £m
Creditors:		
– amounts falling due within one year	355	224
– amounts falling due after more than one year	1,909	1,858
Provisions for liabilities and charges	1,673	1,637
	<b>3,937</b>	<b>3,719</b>

**Fuel Costs – Back-End**

Accruals for AGR fuel services relating to spent AGR fuel are based on the terms of 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.

**22. Nuclear Liabilities** continued**Decommissioning**

The costs of decommissioning the power stations have been estimated on the basis of 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 2003 Total £bn	Group 2002 Total £bn
Undiscounted	5.1	4.6	5.0	14.7	14.1
Discounted	3.3	1.0	1.0	5.3	5.2
Accrued to date	2.2	0.7	1.0	3.9	3.7

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(xvi) 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 2003 Total £m	Group 2002 Total £m
Within five years	1,181	30	92	1,303	1,308
6 – 10 years	1,063	101	227	1,391	1,411
11 – 25 years	1,629	410	336	2,375	2,683
26 – 50 years	708	1,082	55	1,845	1,188
51 years and over	487	3,002	–	3,489	3,436
	5,068	4,625	710	10,403	10,026

**23. Other Provisions**

	Eggborough site restoration £m	Interest rate swaps £m	Onerous trading contracts £m	Re- structuring £m	2003 Total £m
As at 1 April 2002	–	–	344	5	349
Provided in year	3	56	2	3	64
Revalorisation	–	–	10	–	10
Utilised in the year	–	–	(40)	(5)	(45)
Reclassified as other creditors	–	–	(316)	–	(316)
As at 31 March 2003	3	56	–	3	62

The interest rate swaps provision 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 financial restructuring of the Group and have concluded that the swaps are no longer effective as hedges, thereby necessitating the creation of a provision of £56m, Company £9m, being the out of the money element.

**24. Deferred Taxation**

	2003 £m	2002 £m
Accelerated capital allowances	(56)	1,020
Other long-term timing differences	(64)	(63)
Short-term timing differences	20	41
Corporation tax losses	(262)	(189)
ACT recoverable offset	–	(76)
Undiscounted (asset)/provision for deferred tax	(362)	733
Discount	212	(319)
De-recognition of asset	150	–
Discounted provision for deferred tax	–	414
		<b>Group 2003 £m</b>
As at 1 April 2002		<b>414</b>
Release of provision set up on acquisition of Bruce Power assets		<b>(18)</b>
Credit on exceptional items		<b>(520)</b>
De-recognition of asset exceptional item		<b>150</b>
Credit for the year on business performance loss (note 9)		<b>(26)</b>
<b>As at 31 March 2003</b>		<b>–</b>

The Company does not have a deferred tax liability at 31 March 2003 (2002: £nil).

**25. 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.

British Energy contributed 10% to the BEGG and 15.3% to the BECG for the period from 1 April 2002 to 31 October 2002. The BEGG contribution was increased to 17.1% from 1 November 2002. Contributing members contribute 5% and 6% to the respective plans. Any deficiency disclosed in the BEGG or BECG following an actuarial valuation has to be made good by British Energy.

The Group's UK pension costs for the year to 31 March 2003 were £6m net of surplus amortisation (2002: £1m). At that date there was a SSAP24 prepayment of £72m (2002: £50m) in the UK.

**Bruce Power Pension Scheme**

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

**25. Post Retirement Benefit Obligations** continued**Bruce Power Pension Scheme** continued

Bruce Power also operates a supplemental retirement pension plan which provides additional pensions to some retirees. This plan is not funded. Retiree group life insurance and health care benefits are 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 (2002: £10m).

**FRS17 Disclosures**

The Group has not implemented FRS17 'Retirement benefits' in the accounts for the year ended 31 March 2003. The disclosures required under the transitional arrangements for UK and Canadian plans within FRS17 as advised by the Company's actuaries are, however, set out below:

## (i) UK pension schemes

## a) Major assumptions for significant defined benefit schemes:

	2003 % pa	2002 % pa
Price inflation	2.25	2.75
Rate of general increase in salaries	3.75	4.25
Rate of increase of pensions in payment*	2.25	2.75
Rate of increase of deferred pensions*	2.25	2.75
Discount rate	5.50	6.0

\* in excess of Guaranteed Minimum Pension (GMP) element

## b) Impact of full compliance with FRS17 if the consolidated financial statements had been drawn up on the basis of the assumptions above:

	2003 (Gain)/Loss £m
<b>Operating profit</b>	
Current service cost	32
Past service cost	13
<b>Total charge to operating profits</b>	<b>45</b>
<b>Finance income</b>	
Expected return on assets in the pension scheme	(132)
Interest on pension scheme liabilities	107
<b>Net credit to finance income</b>	<b>(25)</b>
<b>Total P&amp;L charge before tax</b>	<b>20</b>
<b>Consolidated statement of total recognised gains and losses</b>	
Actual return less expected return on post-employment plan assets	410
As % of plan assets at end of year	27%
Experience losses arising on plan liabilities	(3)
As % of plan liabilities at end of year	-
Changes in assumptions (financial & demographic)	-
<b>Actuarial loss recognisable in consolidated statement of total recognised gains and losses (before tax)</b>	<b>407</b>
As % of plan liabilities at end of year	22%

**25. Post Retirement Benefit Obligations** continued**FRS17 Disclosures** continued

b) Impact of full compliance with FRS17 if the consolidated financial statements had been drawn up on the basis of the assumptions above: continued

	2003 £m	2002 £m
<b>Balance sheet impact</b>		
The fair value of plan assets at 31 March	1,525	1,842
The present value of plan liabilities at 31 March	(1,877)	(1,799)
Net pension (deficit)/asset	(352)	43
Other non-pension post retirement benefits	-	-
Related deferred tax liability	-	-
Net (deficit)/asset for post retirement benefits net of tax	(352)	43

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

## c) Movement in plan surplus during the year:

	2003 £m
Surplus in plan at beginning of the year	43
Contributions paid	31
Current service cost	(32)
Past service cost	(12)
Other finance income	25
Actuarial loss	(407)
<b>Deficit in the plan at the end of the year</b>	<b>(352)</b>

## d) Assets in the plan together with expected long-term rate of return:

	Rate of return %	Value at 31 March 2003 £m	Rate of return %	Value at 31 March 2002 £m
Equities	8.5	878	8.0	1,248
Bonds	4.5	438	5.3	412
Property	6.5	183	6.7	175
Others	3.75	26	4.75	7
		1,525		1,842

## (ii) Bruce Power Pension Scheme

## a) Major assumptions for significant defined benefit scheme:

	2003 % pa	2002 % 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

**25. Post Retirement Benefit Obligations** continued**FRS17 Disclosures** continued

b) Impact of full compliance with FRS17 if the consolidated financial statements had been drawn up on basis of the assumptions above:

	2003 (Gain)/Loss £m
<b>Operating Profit</b>	
Current service cost	15
Past service cost	–
Total charge to operating profits	15
Gain on settlements – disposal of Bruce Power	(103)
<b>Finance income</b>	
Expected return on assets in the pension scheme	(26)
Interest on pension scheme liabilities	26
Net credit to finance income	–
Total P&L credit before tax	(88)
<b>Consolidated statement of total recognised gains and losses</b>	
Actual return less expected return on post employment plan assets	50
Experience gains and losses arising on plan liabilities	–
Changes in assumptions (financial & demographic)	2
Foreign exchange adjustments	(4)
Actuarial loss recognisable in consolidated statement of total recognised gains and losses (before tax)	48
	2003 £m
	2002 £m
<b>Balance sheet impact</b>	
The fair value of plan assets at 31 March	–
The present value of plan liabilities at 31 March	(396)
Net pension asset	–
Other non-pension post retirement benefits	(64)
Related deferred tax liability	(2)
Net deficit for post retirement benefits net of tax	(40)

c) Movement in plan surplus during the year:

	2003 £m
Deficit in plan at beginning of the year	(38)
Contributions paid	–
Current service cost	(15)
Past service cost	–
Gain on settlement	103
Foreign exchange	2
Other finance income	–
Actuarial loss	(52)
<b>Deficit in the plan at the end of the year</b>	–

**25. Post Retirement Benefit Obligations** continued**FRS17 Disclosures** continued

## d) Assets in the plan together with expected long-term rate of return

	Rate of Return %	Value at 31 March 2003 £m	Rate of Return %	Value at 31 March 2002 £m
Equities	–	–	8.5	255
Bonds	–	–	6.0	151
Property	–	–	–	–
Others	–	–	5.0	16
		–		422

**26. Called Up Share Capital**

	2003 £m	2002 £m
Authorised		
991,679,020 ordinary shares of 44 <sup>28</sup> / <sub>43</sub> p each	443	443
720,339,029 'A' shares of 60p each	432	432
One special right redeemable preference share of £1	–	–
	<b>875</b>	<b>875</b>
Allotted, called up and fully paid		
620,362,444 ordinary shares of 44 <sup>28</sup> / <sub>43</sub> p each	277	277
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	–	–
	<b>370</b>	<b>370</b>

**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 right 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 2003 had a market value of 3p (2002: 51p). The deferred shares have a £nil fair value at 31 March 2003 (2002: £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 continuing dividend 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 'A' shares confer no rights to participate in the capital or profits of the Company beyond their nominal value. 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.

**26. Called Up Share Capital** continued**Share Option Schemes**

Details of Share Options Schemes are set out on Page 31 of the Remuneration Report. Options outstanding at 31 March 2003, together with their exercise prices and earliest dates of exercise, are as follows:

	Exercise price per share £	Exercise date	No. of ordinary shares	
			2003	2002
British Energy ShareSave Scheme	1.60	2001	-	21,562
	1.95	2002	-	859,398
	4.44	2001	-	6,593
	4.44	2003	<b>174,600</b>	199,089
	4.39	2002	-	191,805
	4.39	2004	<b>113,268</b>	142,757
	1.36	2003	<b>4,895,405</b>	5,983,552
	1.36	2005	<b>3,624,113</b>	4,547,742
	2.61	2004	<b>484,116</b>	1,644,154
	2.61	2006	<b>485,011</b>	2,105,241
	2.29	2005	<b>499,455</b>	1,761,994
	2.29	2007	<b>453,946</b>	1,856,523
	1.36	2005	<b>3,726,626</b>	-
	1.36	2007	<b>4,616,840</b>	-
Employee Share Scheme	2.60	2000	<b>6,423,428</b>	6,644,826
	4.08	2000	<b>516,572</b>	530,572
	5.08	2001	<b>3,915,603</b>	4,045,603
	5.29	2002	<b>4,022,000</b>	4,169,000
Senior Management Share Scheme	2.60	2000	<b>1,099,802</b>	1,477,875
	3.95	2000	<b>22,264</b>	22,264
	4.72	2001	-	-
	5.08	2001	<b>444,425</b>	660,531
	6.67	2002	<b>19,865</b>	19,865
	5.29	2002	<b>599,337</b>	688,582
	3.57	2002	<b>33,952</b>	33,952
	2.41	2003	<b>1,636,752</b>	1,992,092
	2.49	2003	-	100,401
	3.18	2004	<b>125,786</b>	125,786

**27. Profit and Loss Account**

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
As at 1 April 2002	(213)	372	1,495	1,855
Loss for the year	(3,941)	(577)	(6,058)	(360)
Foreign currency translation adjustments	(25)	(8)	-	-
<b>As at 31 March 2003</b>	<b>(4,179)</b>	<b>(213)</b>	<b>(4,563)</b>	<b>1,495</b>

The Company did not have distributable reserves at 31 March 2003 (2002: £491m).

**28. Reconciliation of Movement in Equity Shareholders' Funds**

	Group	
	2003 £m	2002 £m
As at 1 April 2002	490	1,075
Loss for the financial year	(3,941)	(527)
Ordinary dividend	-	(48)
Foreign currency translation adjustments	(25)	(8)
Non-equity dividend	-	(2)
<b>As at 31 March 2003</b>	<b>(3,476)</b>	<b>490</b>

**29. Reconciliation of Operating Profit to Operating Net Cash Flows**

	Group			2002
	Continuing Activities £m	Discontinued Activities £m	Total £m	Total £m
Operating (loss)/profit including exceptional items	(3,899)	97	(3,802)	(281)
Operating exceptional items	3,906	–	3,906	512
Business performance operating profit	7	97	104	231
Depreciation charges (includes lease amortisation)	274	13	287	285
Nuclear liabilities charged to operating costs	105	–	105	156
Nuclear liabilities discharged	(115)	–	(115)	(332)
Other provisions discharged	(45)	–	(45)	(43)
Regular contributions to decommissioning fund	(18)	–	(18)	(18)
Decrease/(increase) in stocks	72	(12)	60	66
Decrease/(increase) in debtors	12	(30)	(18)	(117)
Increase/(decrease) in creditors	(48)	24	(24)	152
<b>Net cash inflow from operating activities</b>	<b>244</b>	<b>92</b>	<b>336</b>	<b>380</b>
Payments to acquire tangible fixed assets	(112)	(170)	(282)	(225)
<b>Net cash inflow from operating activities net of capital expenditure</b>	<b>132</b>	<b>(78)</b>	<b>54</b>	<b>155</b>

**30. Reconciliation of Net Cash Flow to Movement in Funds**

	2003 £m
Increase in cash in the year	87
Increase in liquid resources	37
Decrease in debt	185
Decrease in net debt in the year	309
Net debt at 1 April 2002	(859)
<b>Net debt at 31 March 2003</b>	<b>(550)</b>

**31. Analysis of Net Debt**

	Cash at bank £m	Term deposits/ bank balances £m	Debt due in less than one year £m	Debt due after more than one year £m	Net debt £m
Net debt at 1 April 2002	–	209	(153)	(915)	(859)
Disposal of Bruce Power debt	–	–	–	93	93
Cash flows	87	37	1	91	216
<b>Net debt at 31 March 2003</b>	<b>87</b>	<b>246</b>	<b>(152)</b>	<b>(731)</b>	<b>(550)</b>

Cash not immediately required for business purposes is invested in fixed-rate term deposits. At 31 March 2003, these term deposits were due to mature within one month and earned interest at an average rate of 3.7%. Term deposits and bank balances at 31 March 2003 include £209m of cash which has been deposited in collateral bank accounts for trading purposes, availability of this cash is therefore restricted over the period of the collateralised position.

**32. Contingent Assets**

The Group has not recognised certain cash retentions in respect of the disposal of Bruce Power as an asset in its balance sheet at 31 March 2003, because of uncertainties regarding their realisation. The conditions attached to these retentions are described more fully in note 5.

**33. 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 which are applicable to the Group and the Company.

The Group has been provided with a financing facility by the Secretary of State for Trade and Industry, (the "Secretary of State") as described in note 1 to these accounts. As at 31 March 2003 the Group had drawn down no cash drawings and had not utilised collateral available under the financing facility to support trading operations in the UK.

**33. Contingent Liabilities** continued

The following security has been granted for obligations under the financing facility made available by the Secretary of State for Trade and Industry:

- 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;
- Pledge and mortgage of shares in certain Group subsidiaries in favour of the Secretary of State;
- Pledge agreement between British Energy US Holdings Inc and the Secretary of State over certain membership interests in British Energy US Investments LLC and certain limited partnership interests in British Energy LP.

Amounts owing by Eggborough Power Limited (EPL) to the Eggborough bank syndicate are not guaranteed by the Company. However, the Company guarantees the payment of amounts by British Energy Power & Energy Trading Limited to EPL, calculated to cover EPL's borrowing and operating costs. In addition the Company also provides a subordinated loan facility to EPL.

The Group has entered into formal standstill agreements with certain significant creditors and BNFL and it has also reached non-binding agreement in principle regarding the recognition, compromise and allocation of certain claims under the terms of the restructuring as announced on 28 November 2002. However, while the Directors believe that the amounts of the agreed claims currently reflect the amounts legally claimable, in the event of restructuring not being completed then different amounts may be calculated as being claimable.

On 25 September 2002 the Nuclear Generation Decommissioning Fund Limited (the "Fund") served a default notice relating to the solvency of the Company, British Energy Generation Limited and British Energy Generation (UK) Limited. Unless the default is cured to the satisfaction of the Fund, or waived, the Fund has the right to require accelerated payment of all of the contributions due to the Fund prior to the next quinquennial review in Autumn 2005. Annual payments are in the region of £18m. The Fund has agreed not to take enforcement action without further notice while the Group progresses satisfactorily towards achieving restructuring.

The Directors understand that AES and Greenpeace have lodged an appeal in the Court of First Instance in Luxembourg against the EU approval of HMG's decision to grant rescue aid to the Group. The Directors also understand that other parties may take similar action.

The Group has given certain indemnities and guarantees in respect of the disposal of its investment in Bruce Power. The Group does not currently anticipate any losses will arise in connection with them.

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.

**34. Financial Commitments**

	2003 £m	2002 £m
Capital expenditure contracted but not provided	40	93

In addition to the reprocessing commitments there are commitments at 31 March 2003 for nuclear fuel purchase totalling £583m, at current prices, over the next ten years. These commitments may be subject to change in the future as the Group's contractual terms with BNFL are expected to be amended in the event of the successful completion of the restructuring proposals.

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 and AmerGen. The Group also enters into commitments to purchase and sell electricity in the normal course of business.

**35. Post Balance Sheet Events**

In April 2003 the Group received payment of C\$20m in respect of a pension related cash retention which formed part of the disposal proceeds of its investment in Bruce Power. The receipt of this cash has been recognised in the accounts to 31 March 2003 as being part of the disposal proceeds of Bruce Power as described more fully in note 5.

# Five Year Financial Summary

	2003 £m	2002 £m	2001 (restated) £m	2000 £m	1999 £m
<b>Business performance results (excluding exceptional items)</b>					
Turnover	1,862	2,049	2,124	2,058	2,067
Operating profit	104	231	226	428	473
(Loss)/profit before tax	(130)	42	10	241	298
(Loss)/earnings	(132)	(39)	(23)	161	201
Operating cash flow (net of capital expenditure)	54	155	144	313	479
<b>Results (including exceptional items)</b>					
Turnover	1,903	2,049	2,124	2,058	2,067
Operating (loss)/profit	(3,802)	(281)	280	412	481
(Loss)/profit before tax	(4,292)	(493)	57	225	276
Earnings	(3,941)	(527)	29	150	186
Ordinary dividends	–	(48)	(48)	(48)	(110)
<b>Balance sheet</b>					
Net (liabilities)/assets	(3,383)	627	1,168	1,313	1,684
Net current assets	229	891	854	73	1,042
Nuclear liabilities (discounted)	3,937	3,719	3,728	3,770	3,762
Capital expenditure	(282)	(225)	(133)	(137)	(78)
Net (debt)/funds	(550)	(859)	(730)	(936)	176
<b>Ratios</b>					
Dividends per ordinary share (p/share)	–	8.0	8.0	8.0	16.0
(Loss)/earnings per share (p/share)	(654.7)	(88.5)	1.2	23.2	27.1
Business performance (loss)/earnings per share (p/share)	(24.8)	(8.4)	(4.2)	24.9	29.3
Dividend cover (based on business performance)	–	–	–	3.3	1.8

The figures for 1999 and 2000 have not been restated for the introduction of FRS19 on deferred tax.

# Shareholder Information

## Band Analysis of Ordinary Shares as at 31 March 2003

Range	Number of Shareholders	%	Number of Shares	%
1 – 999	218,950	93.24	<b>84,626,534</b>	13.64
1,000 – 9,999	13,902	5.92	<b>36,048,632</b>	5.81
10,000 – 49,999	1,455	0.62	<b>25,537,578</b>	4.12
50,000 – 99,999	158	0.07	<b>10,499,793</b>	1.69
100,000 – 999,999	292	0.12	<b>90,512,682</b>	14.59
1,000,000+	69	0.03	<b>373,137,225</b>	60.15
	<b>234,826</b>	<b>100.00</b>	<b>620,362,444</b>	<b>100.00</b>

## Shareholder Information

Continued

### Directors

Adrian Montague\* (Chairman)  
Mike Alexander (Chief Executive)  
Keith Lough  
David Gilchrist  
William Coley\*  
Pascal Colombani\*  
Ian Harley\*  
Duncan Hawthorne\*  
Sir Robert Hill\*  
Clare Spottiswoode\*  
\*Non-Executive Directors

### Company Secretary

Robert Armour

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### Brokers

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London  
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### Solicitors

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### Registrars

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Tel. (001) 781 575 4328  
[www.adr.com/shareholder](http://www.adr.com/shareholder)

### Website

[www.british-energy.com](http://www.british-energy.com)

### Shareholder Enquiries

Lloyds TSB Registrars Scotland are the Company's Registrars. Their address appears above. Alternatively, shareholders can access their website at [www.lloydstsb-registrars.co.uk](http://www.lloydstsb-registrars.co.uk) and can check their registered holding at [www.shareview.co.uk](http://www.shareview.co.uk).

In the event of any enquiries, such as the loss of a share certificate, or to notify a change of address, shareholders should write to the Company's Registrars at the above address.

### Low-Cost Share Dealing

HSBC provides a low-cost, execution-only, postal share-dealing service, which enables investors to buy or sell shares in British Energy. Commission is 1% with a minimum charge of £10. Further details and forms may be obtained from HSBC on Tel: 01926 834064.

### Share Price Information

British Energy's share price is broadcast on BBC1 Ceefax, page 222, and on Channel 4 Teletext, page 521. It also appears in the financial columns of the national press and on the Company's website.

### CREST

In conjunction with its Registrars, British Energy has established arrangements to offer a special CREST service for British Energy shareholders, which will allow them to hold shares through CREST while still receiving Company information. Further details about this nominee service can be obtained from the Registrars.

### ADR

JPMorgan Chase Bank is Depositary for British Energy's American Depositary Receipts. Further information can be obtained by contacting them directly, or by visiting their website at [www.adr.com](http://www.adr.com).

# Glossary of Terms

## **AGR (advanced gas-cooled reactor)**

The second generation of gas-cooled nuclear reactor built in the UK.

## **Balancing error**

A balancing error occurs where an electricity generator's output does not match its net contracted sales under NETA.

## **Balancing market**

The market operating under NETA which is designed to match electricity supply with demand.

## **BEPET**

British Energy Power & Energy Trading Limited.

## **BETTA**

British Electricity Transmission and Trading Arrangements.

## **Base load generation**

Mode of operation of a power station at a constant high level of output for a sustained period of time to assist in meeting minimum national demand.

## **BNFL**

British Nuclear Fuels plc.

## **Bruce**

The Bruce A and B nuclear power stations in Ontario, Canada.

## **Decommissioning**

The process whereby a nuclear power station is shut down at the end of its economic life, eventually dismantled, and the site made available for other purposes.

## **Decommissioning Fund**

An independently administered fund into which the Group makes contributions to cover all costs of decommissioning nuclear power stations, except defuelling costs.

## **DSB**

Direct supply business.

## **DTI**

The United Kingdom Department of Trade and Industry.

## **EPL**

Eggborough Power Limited.

## **Exelon**

An American utility and our 50/50 joint venture partner in AmerGen.

## **FGD (flue gas desulphurisation)**

Equipment fitted to coal-fired power stations to reduce sulphur emissions.

## **GW (gigawatt): GWh (gigawatt-hour)**

One gigawatt equals 1,000 MW: one gigawatt-hour represents one hour of electricity consumed at a constant rate of 1 GW.

## **HMG**

Her Majesty's Government.

## **INES**

International Nuclear Event Scale. The standard scale measuring the significance of nuclear safety events.

## **ISRS**

International Safety Rating System. A recognised rating system for industrial safety standards.

## **kW (kilowatt): kWh (kilowatt-hour)**

A kilowatt is a unit of power, representing the rate at which energy is used or produced: one kilowatt-hour is a unit of energy and represents one hour of electricity consumption at a constant rate of 1 kW.

## **LLW, ILW, HLW (low, intermediate, high level waste)**

Radioactive waste is classified as low, intermediate or high level waste according to its heat-generating capacity and radioactivity. LLW comprises slightly radioactive materials, such as discarded protective clothing and used wrapping materials. ILW comprises more radioactive materials, including sludges and resins from the cleaning of fuel-storage pond water, fuel cladding and other materials arising from the reprocessing of spent fuel, and some radioactive components arising from the decommissioning of plant. HLW comprises nuclear waste products separated out from uranium and plutonium during the reprocessing of spent nuclear fuel.

## **Load factor**

The electricity produced by a power station expressed as a percentage of the electricity it could have produced if operating at maximum output in a fixed time period, usually one year.

## **MW (megawatt): MWh (megawatt-hour)**

One megawatt equals 1,000 kW: one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.

## **Ofgem**

The Office of Gas and Electricity Markets.

## **NDF**

Nuclear Decommissioning Fund.

## **NEA**

Nuclear Energy Agreement, an electricity sales contract between British Energy, Scottish Power and Scottish and Southern Energy.

## **NETA**

The New Electricity Trading Arrangements for England and Wales which were introduced on 27 March 2001.

## **NII**

Nuclear Installations Inspectorate.

## **NLF**

Nuclear Liabilities Fund.

## **On-load refuelling**

Refuelling operations conducted while the reactor is operating and pressurised.

## **OPG**

Ontario Power Generation Inc.

## **Outage (planned and unplanned)**

A period during which a reactor is shut down. The periodic shutdown of a reactor for maintenance, inspection and testing or, in some cases, for refuelling, is known as a planned outage. In the UK, some planned outages are known as statutory outages and are required by the conditions attached to the nuclear site licence needed to operate the station. Unscheduled shutdown of a reactor for a period is known as an unplanned outage.

## **PWR (pressurised water reactor)**

The most recent type of nuclear reactor to be constructed in the UK which uses pressurised water as both the coolant and the moderator.

## **Revalorisation**

Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per year from the eventual payment dates. The revalorisation charge is the adjustment that results from restating these liabilities to take into account the effect of inflation in the year, and to remove the effect of one year's discount as the eventual dates of payment become one year closer. A similar revalorisation credit arises from restatement of the decommissioning fund assets.

## **RPI**

Retail Price Index.

## **TW (terawatt): TWh (terawatt-hour)**

One terawatt equals 1,000 GW: one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.

## **WANO**

The World Association of Nuclear Operators. A nuclear industry organisation which encourages peer review and collects and shares operating data world-wide which is then used to benchmark performance.





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