

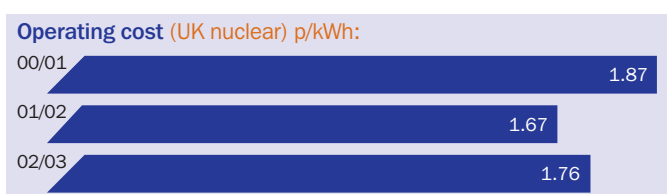
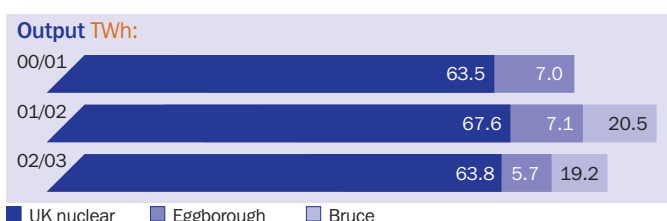


Annual Review
2002–03



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.

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).

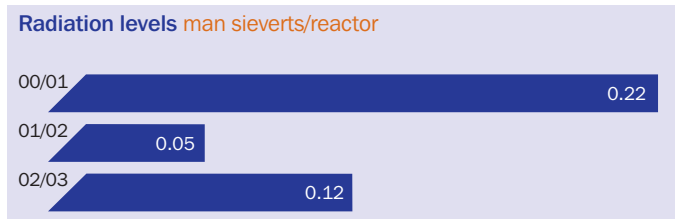
Costs and Reliability

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.

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. 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 Review, 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.

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	–	–	–	–	–	–
Fixed Assets	763	(138)	–	–	–	625
Current Assets						
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
	1,414	–	–	3,865	–	5,279
Creditors <1 year	(1,033)	–	179	–	316	(538)
Bonds and bank loans	(152)	–	–	–	152	–
	(1,185)	–	179	–	468	(538)
Net Current Assets	229	–	179	3,865	468	4,741
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	–	–	–	–	–	–
	(2,640)	–	(360)	(508)	306	(3,202)
Provisions	(1,735)	–	(81)	–	–	(1,816)
Net (liabilities)/assets	(3,383)	(138)	(262)	3,357	774	348

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

Summary Remuneration Report

for the year ended 31 March 2003

This Summary Remuneration Report is only a summary of the information in the Remuneration Report in the Company's Annual Report and Accounts. For further information on the Company's remuneration policy and practice, that report should be consulted.

Remuneration Committee

The Remuneration Committee is made up of Non-Executive Directors. 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.

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.

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 23 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 23.

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 ¹	100,000	–	–	–	300,000	–	–	–
M Alexander ²	33,333	–	–	–	–	–	–	–
D Gilchrist	183,563	96,250	3	38,981	–	–	–	–
D Hawthorne ⁴	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 ⁵	25,833	–	–	–	–	–	–	–
C Spottiswoode	53,333	8,333	–	–	–	–	–	–
Total Emoluments for serving Directors at 31 March 2003	817,790	373,734	–	122,607	300,000	–	–	–
R Jeffrey ⁶	309,188	336,250	–	130,220	–	–	98,000	–
Sir R Biggam ⁷	11,167	52,500	–	–	–	–	–	–
P Stevenson ⁸	25,893	30,000	–	–	–	–	–	–
M Kirwan ⁹	45,042	188,126	–	72,579	–	–	–	–
J Walsh ¹⁰	7,325	25,000	–	–	–	–	–	–
Sir J Robb	–	48,082	–	–	–	–	–	–
P Hollins	–	66,409	–	18,000	–	–	–	364,600
Total Emoluments (all Directors)	1,216,405	1,120,101	–	343,406	300,000	–	98,000	364,600

Name	Accommodation and Relocation (£)		Other Benefits (£)		Total Emoluments Excluding Pension (£)		Pension Contributions (£)	
	2003	2002	2003	2002	2003	2002	2003	2002
A Montague ¹	–	–	209	–	400,209	–	–	–
M Alexander ²	–	–	2,202	–	35,535	–	1,385	–
D Gilchrist	–	41,534	20,067	6,597	203,630	183,362	12,020	5,565
D Hawthorne ⁴	–	–	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 ⁵	–	–	–	–	25,833	–	–	–
C Spottiswoode	–	–	–	–	53,333	8,333	–	–
Total Emoluments for serving Directors at 31 March 2003	–	79,820	43,410	26,447	1,161,200	602,608	47,174	19,880
R Jeffrey ⁶	–	–	17,349	11,731	424,537	478,201	–	–
Sir R Biggam ⁷	–	–	–	–	11,167	52,500	–	–
P Stevenson ⁸	–	–	–	–	25,893	30,000	–	–
M Kirwan ⁹	–	–	4,007	20,195	49,049	280,900	4,453	26,526
J Walsh ¹⁰	–	–	–	–	7,325	25,000	–	–
Sir J Robb	–	–	–	–	–	48,082	–	–
P Hollins	–	–	–	3,456	–	452,465	–	2,134
Total Emoluments (all Directors)	–	79,820	64,766	61,829	1,679,171	1,969,756	51,627	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	Ordinary Shares		Executive Share Options		Share Save Options	
	2003	2002	2003	2002	2003	2002
A Montague	2,188	–	–	–	–	–
M Alexander	–	–	–	–	–	–
D Gilchrist	6,024	5,359	151,130	151,130	–	–
D Hawthorne	5,302	5,302	–	107,751	–	10,819
K Lough	10,000	10,000	125,786	125,786	–	–
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. No Directors have exercised share options during the year.

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

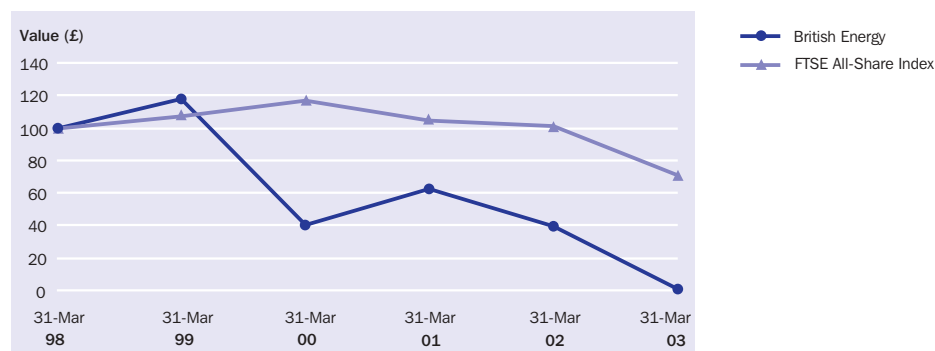
Any ordinary shares required to fulfil entitlements under current option schemes may be provided by the British Energy Employee Share Trust (BEEST) and the Qualifying Employee Share Trust (QUEST). As beneficiaries under the BEEST and the QUEST, the Directors are deemed to be interested in the shares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

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.

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.

Summary Financial Statement

for the year ended 31 March 2003

Introduction

The Directors present the summary financial statement for the year ended 31 March 2003.

The summary financial statement is only a summary of the information in the Company's Annual Accounts and Directors' Report. This summary information does not contain sufficient information to allow for a full understanding of the results and state of affairs of the Company. For further information the full Annual Accounts, the Auditors' Report on those accounts and the Directors' Report should be consulted.

Copies of the full Annual Report and Accounts may be obtained, free of charge, on request from the Company's Registrars whose address appears on page 32. Shareholders may also elect in writing to receive the full Report and Accounts in place of summary financial statements for all future years. The Annual Report and Accounts is also available on the Company's website at www.british-energy.com.

Corporate Governance

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 Directors' full Corporate Governance Statement is set out on pages 21 to 25 of the full Annual Report and Accounts.

Summary Directors' Report

The Directors present the Annual Review and summary financial statement for the year ended 31 March 2003.

Principal activities and review of business

The Group's principal activity is the generation and sale of electricity. A detailed review of the Group's activities is set out on pages 4 to 9.

Results

The consolidated results for the Group are set out in the summary profit and loss account on page 26.

Independent Auditors' Statement to the Members of British Energy plc

We have examined the summary financial statement of British Energy plc.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review with the annual financial statements, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 251 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the annual financial statements, the Directors' report and the Directors' remuneration report of British Energy plc for the year ended 31 March 2003 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. Our report on the Company's annual financial statements contained an explanatory paragraph concerning going concern. Details of the circumstances relating to this fundamental uncertainty are described in the note to the summary financial statement. Our opinion on the annual financial statements is not qualified in this respect.



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.

Summary Group Profit and Loss Account

For the year ended 31 March 2003

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

Summary Group Balance Sheet

as at 31 March 2003

	2003 £m	2002 £m
Fixed assets	763	4,909
Current assets	1,414	1,866
Creditors: amounts falling due within one year	(1,185)	(975)
Net current assets	229	891
Total assets less current liabilities	992	5,800
Creditors: amounts falling due after more than one year	(4,375)	(5,173)
Net (liabilities)/assets	(3,383)	627
Capital and reserves		
Called up equity share capital	277	277
Share premium	76	76
Capital redemption reserve	350	350
Profit and loss account – (deficit)	(4,179)	(213)
Equity shareholders' interests	(3,476)	490
Non-equity shareholders' funds	93	93
Minority interests	–	44
	(3,383)	627

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

Summary Group Cash Flow Statement

for the year ended 31 March 2003

	2003 Total £m	2002 Total £m
Net cash inflow from operating activities	336	380
Returns on investments and servicing of finance	(84)	(53)
Taxation received	3	4
Capital expenditure and financial investment	(282)	(187)
Acquisitions and disposals	262	(129)
Equity dividends paid	(31)	(46)
(Increase)/decrease in term deposits	(37)	18
Financing	(80)	13
Movement in cash	87	–

Note to the Summary Financial Statement

for the year ended 31 March 2003

Basis of Preparation – 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 which 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.

The principal features of the proposed restructuring are as follows:

- 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.

Basis of Preparation – principles underlying going concern assumption continued

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.

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

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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Financial Advisor

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Citigroup Centre
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Brokers

HSBC BANK PLC
8 Canada Square
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Solicitors

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ADR Administration

JPMORGAN SERVICE CENTER
PO Box 43013
Providence, RI 02940-3013
USA
Tel. (001) 781 575 4328
www.adr.com/shareholder

Website

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 and can check their registered holding at 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 834 064.

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.

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.





British Energy plc

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