British Energy

Annual Review 03–04

For the year ended 31 March 2004

British Energy plc
3 Redwood Crescent, Peel Park, East Kilbride G74 5PR
www.british-energy.com

Safe Harbour
This document contains certain "forward-looking" statements as defined in Section 21E of the US Securities Exchange Act of 1934, including statements with respect to British Energy's business plans, the performance of its stations, electricity prices and other matters that are not historical facts concerning the business operations, financial conditions and results of operations of British Energy. These forward-looking statements typically contain words such as "intends", "expects", "anticipates", "estimates", "aim", "believe", "assume", "should", and words of similar import, which are predictions of or indicate future events or trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the control of British Energy and may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. British Energy has identified some important factors that may cause such differences in British Energy's Form 20-F annual report for the year ended 31 March 2003 filed with the US Securities and Exchange Commission.

EBITDA is defined by the Company as operating income before interest expense, income taxes, depreciation and amortisation. The Company has included information concerning EBITDA because it believes that it is used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under United Kingdom Generally Accepted Accounting Principles and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with United Kingdom Generally Accepted Accounting Principles) as a measure of liquidity.

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Key Points

UK operating profit of £57m before exceptional operating credits of £283m, giving a total Group operating profit for continuing activities of £340m compared to a £3,899m loss last year. Profit before tax of £232m, after exceptional credits of £403m.

Exceptional credits include a non-cash accounting adjustment of £295m for the partial reversal of the write-down of fixed assets in the prior year following the impairment review.

Total output for the year of 72.6 TWh. Nuclear output of 65.0 TWh, up from 63.8 TWh in the prior year, but below the Company's target of 67.0 TWh. Eggborough output up 1.9 TWh to 7.6 TWh.

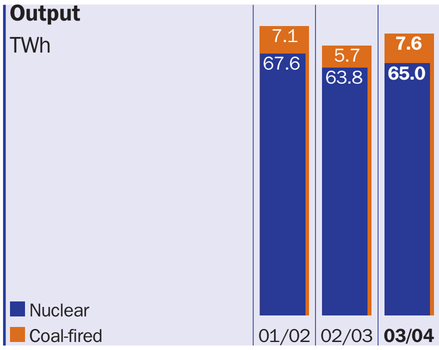
Realised price for the year was £16.9/MWh, with a total operating cost of £16.5/MWh – resulting in a positive margin of £0.4/MWh, an improvement over the negative margin of £0.3/MWh in the prior year.

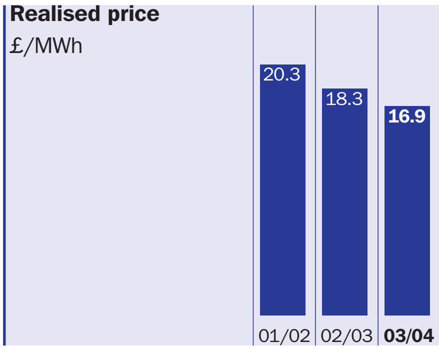
Implementation of the Performance Improvement Programme commenced during the year. The Company is taking forward plans to improve the operational performance and reliability of its nuclear plants, and now expects to increase plant expenditure and other costs above previously announced levels.

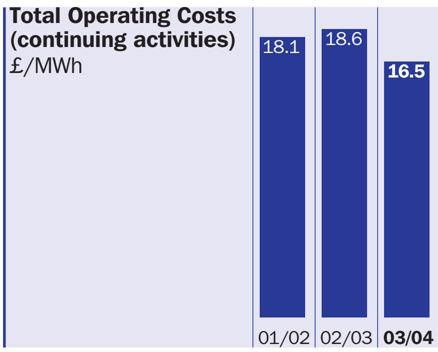
Progress has been made towards the completion of the restructuring but it still remains subject to a large number of significant uncertainties and important conditions. The Secretary of State for Trade and Industry now expects to receive a decision from the European Commission on the Government's State aid application this autumn. Restructuring costs of £43m were incurred during the year, compared to £35m last year.

Our investment in AmerGen was sold for US$277m allowing the Government Facility to be fully repaid. The year end cash balance was £573m of which £297m was deposited in support of collateral requirements. Net debt reduced by £240m to £310m.

No final dividend is proposed. The Board does not expect to propose any dividend in respect of the two financial years ending March 2005 and March 2006.







In the past 12 months we have made considerable progress towards restructuring, with significant milestones being achieved.

In last year's Annual Report, I reported to you on the traumatic events of 2002. Over the past twelve months we have made considerable progress in agreeing the shape of the proposed restructuring and the new British Energy with the Government and our creditors (the Proposed Restructuring), details of which can be found on page 25. In October, we reached agreement with our major creditors on the restructuring plan. The way forward is subject to a large number of significant uncertainties and important conditions including approval by the European Commission (the Commission), Court sanction and settling certain documents with creditors. We must also establish our viability to the satisfaction of the Secretary of State for Trade and Industry. It is intended that the Proposed Restructuring be implemented in the current financial year but there is a great deal to do in order to achieve this, and the size of the task should not be underestimated.

Total output for the year was 72.6 TWh. Nuclear output was 65.0 TWh, up from last year but less than the target we set for ourselves. The improved generation output helped lead to an operating profit of £57m which together with exceptional operating credits of £283m, resulted in a total Group operating profit for continuing activities of £340m compared to a £3,899m loss last year. It is the intention of the Company to pay dividends when the requirements of the business permit, subject to the distributable reserves position and restrictions under the restructuring arrangements. No dividend is expected in respect of the two financial years ending March 2005 and March 2006, as the Board believes that investing in the business is a prerequisite for a successful turnaround.

Restructuring

Since I reported to you last on the principles of our Proposed Restructuring we have reached formal agreement with our major creditors and the Government on the Proposed Restructuring plan and in October we exchanged a Creditor Restructuring Agreement and a Government Restructuring Agreement documenting these proposals.

The key features of these agreements are:

- Certain creditors have agreed to extinguish their unsecured claims against the Group in exchange for £275m of new bonds and at least 97.5% of the issued ordinary shares of the restructured Group.
- The Nuclear Liabilities Fund (NLF) will assume financial responsibility for discharging certain of the Group's uncontracted nuclear liabilities and costs of decommissioning the Group's nuclear power stations, and the Government will assume financial responsibility for certain of the Group's contracted nuclear liabilities and any shortfall in the NLF.
- In consideration for this assumption of financial responsibility, the Group will issue £275m in new bonds to the NLF and will also make further payments to the NLF.
- These payments to the NLF will include a proportion, initially (and not to exceed) 65%, of the Group's adjusted cash flow, which the NLF will be entitled to convert into a proportional equity shareholding in the Group.
- The Eggborough Bank Syndicate have agreed to replace their existing secured claims with a right to payments having a payment profile equivalent to £150m of new bonds. In addition, they will have an option to acquire the Eggborough station in 2010 upon payment of a £104m break fee and the extinguishing of outstanding bond equivalent payments.
- British Energy's existing shareholders will, if the Members' Scheme is implemented, receive new ordinary shares equal to 2.5% of the share capital of the Group immediately following implementation of the Proposed Restructuring as well as warrants to subscribe £28.95m for shares representing a further 5.0% of the Group's thereby diluted issued share capital immediately following implementation of the Proposed Restructuring.
- The standstill arrangements agreed on 14 February 2003 have been extended and will continue while the Proposed Restructuring is being implemented (subject to certain termination events not occurring).

The restructuring plan has yet to be agreed by the Commission. Due to the need for the Company and the DTI to complete final assessments in relation to the financing of the Group, it will not be possible for the Secretary of State to present all the necessary information to the Commission to enable the Commission to take a decision before its summer break. The DTI now expects the Commission to take a decision this autumn. Thereafter we are required under our agreements with creditors and the Government to complete the restructuring by 31 January 2005 at the latest.

A condition of the restructuring principles we agreed in November 2002 was the disposal of our North American businesses. In February 2003, we sold our interest in Bruce Power. In December 2003, following a competitive sale process, British Energy sold its 50% interest in AmerGen to its joint venture partner, Exelon. The proceeds of US$277m from the sale of our interest in AmerGen were applied in repaying all sums owing under the Government Facility. The remaining proceeds were used to fund ongoing collateral requirements. At the year end, the Company had a cash and liquid funds balance of £573m of which £297m was deposited in support of collateral requirements.

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 important conditions and, that if, for any reason, the restructuring cannot proceed, the Board may have to seek the protection of insolvency proceedings. 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.

The Creditor Restructuring Agreement requires that, absent shareholder approval, the agreed restructuring will be completed by delisting the Company's shares from the Official List thus avoiding the requirement for shareholder approval under the existing Listing Rules. The UKLA has published a consultation paper proposing that a rule change should be made which would require shareholder consent for delisting. Even if the Proposed Restructuring is not approved by shareholders the Company does not believe that the timescale for this proposed rule change will prevent implementation of the agreed restructuring.

The Proposed Restructuring is only part of the story; the sale of our interest in AmerGen saw British Energy return to being solely a UK business, and much work has been undertaken to restructure our generation and trading businesses, including the planned relocation of our headquarters in Scotland and sale of the current premises at Peel Park. In his review, Mike Alexander outlines the significant steps taken over the year to put in place the foundations for improved performance and reliability from our stations and to change the culture in British Energy.

Industry Development

Over the past year, some commentators have voiced concerns over the availability of sufficient generation capacity to meet demand. This brought the need for investment in UK power generation into sharper focus. Much of the current debate has centred on whether future dependency on gas should be balanced by renewables or the replacement of existing nuclear generation. We regard a balanced portfolio of energy sources and addressing long-term decisions on the need for new power stations as fundamental to the future security of energy supply for the United Kingdom. Increases in wholesale prices for electricity during the year have started to improve the climate for investment in generation assets. The forthcoming Emissions Trading Scheme and other environmental legislation will aim to restrict the emission of greenhouse gases by generators. There is, however, some way to go before the UK has a stable market creating sufficient confidence for longer term investments. At the same time, progress needs to be made on the Government's initiative through the Committee on Radioactive Waste Management to develop a UK approach to nuclear waste disposal – this is essential to the future of nuclear power.

Safety

Safety as always remains our first priority and we recognise its importance to the continuing public confidence in our operations. Public confidence in our operations is in turn dependent upon our safety record. Our performance in the course of the year shows scope for further improvement, and we are working with the World Association of Nuclear Operators (WANO) to apply best practice from elsewhere in the world, especially the USA. We are appreciative of the support we have received from WANO and the international nuclear community in the last year. Our operational structure has already been revised to learn from this. As well as the reliability of our operations, our Performance Improvement Programme is intended to enhance both our safety performance and culture.

Board Changes

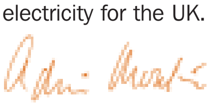
We have also strengthened the Board. The Non-Executive appointments in 2003 of William Coley, Pascal Colombani and Sir Robert Walmsley have greatly enhanced the Board's nuclear expertise while John Delucca, who joined us in February this year, brings us experience of finance and restructuring which is immensely valuable.

Having helped to secure creditor approval to the restructuring plan in October, Keith Lough stepped down as Finance Director and Martin Gatto was appointed as Interim Finance Director. Following the disposal of all our North American interests, Duncan Hawthorne stepped down from the Board in March. I would like to extend my thanks to both Keith and Duncan for their contributions to British Energy.

As well as bringing relevant expertise to the direction of our business, our new Board appointments considerably enhance the level of independent scrutiny of management's activities and will assist British Energy to meet the more stringent requirements expected under corporate governance developments. In the course of the year we have increased the comprehensiveness and frequency of our financial reporting.

I am also pleased to announce the appointment from 4 May 2004 of Neil O'Hara as Trading Director, and from 5 July 2004 of Roy Anderson as Chief Nuclear Officer.

Finally, the Board is very grateful to all our staff for their dedication during a difficult time. I would like to record my personal thanks for their continued professionalism and commitment to generating safe, reliable electricity for the UK.



Adrian Montague, CBE
Chairman

The challenge for British Energy is to improve efficiency and reliability in our stations.

Overview

Total output for the year was 72.6 TWh. Of this, nuclear output for the year was 65.0 TWh, an improvement on the 63.8 TWh produced last year, but short of our target of 67.0 TWh. Nuclear output was adversely affected by unplanned outages, particularly to both reactors at Heysham 1, described further on page 6. Unplanned outages forced the Group into the market to buy back replacement power at a time of higher prices, costing an additional £24m. The output from Eggborough, the Group's coal-fired power station was increased by 1.9 TWh to 7.6 TWh.

The key results were the UK operating profit of £57m before exceptional operating credits of £283m giving a total Group operating profit for continuing activities of £340m compared to a £3,899m loss last year, and the Group profit before tax of £232m, which included exceptional credits of £403m. The Group profit before tax included a contribution of £21m from AmerGen prior to its disposal on 22 December 2003. After incurring a UK operating loss of £9m before exceptional costs of £24m in the first half of the year, the Group made a UK operating profit of £66m in the second half before exceptional operating credits of £307m. This resulted mainly from a higher realised price, largely reflecting seasonal factors, even though second half output was affected adversely by a series of unplanned outages. The realised price for the year was £16.9/MWh, down from £18.3/MWh in the prior year. However, at the same time our total operating costs were £16.5/MWh, down from £18.6/MWh in the prior year, mainly as a result of higher output.

The financial statements for the period have been drawn up on the basis of the historic BNFL contracts in respect of back end fuel costs, pending satisfaction of the restructuring conditions set out in the revised contracts. The consequence of this is that the result for the year does not reflect the profit and loss account savings that will arise under the revised BNFL back end fuel contracts, which amounted to £58m in the year excluding the impact of revalorisation. The saving will be recognised on the completion of the restructuring, together with other restructuring adjustments.

During the year the Group's interest in AmerGen was sold for US$277m, subject to adjustment, allowing the Government Facility to be fully repaid. Part of the adjustment mechanism relates to the value of nuclear fuel. As a result of an accounting adjustment made by Exelon to the value of nuclear fuel contained in AmerGen's balance sheet dated 21 December 2003, British Energy may be required to make a payment to Exelon of up to US$13.7m which is the subject of a formal dispute procedure. Further details can be found under Discontinued Activities on page 9.

There was a year end cash and liquid funds balance of £573m of which £297m had been deposited in support of collateral requirements. Net debt reduced by £240m to £310m.

Following the disposal of its interest in Bruce Power in February 2003, the Company received C$20m on 28 April 2003 which had been retained in an escrow account at completion of the disposal of the Group's interest in Bruce Power in respect of a possible price adjustment relating to pensions. This followed confirmation that no such adjustment was required. We also received payment of C$20m as a result of the restart of one unit at Bruce A (Unit 4 returned to service during the third quarter of the year). Subsequently Unit 3 returned to service in the fourth quarter. A further payment of C$10m was received on 25 May 2004. In February 2004, we received a notice of warranty claims from the consortium which purchased our interest in the Bruce power station relating to the alleged condition of certain plant at the power station and to the treatment of expenditure at the Bruce plant during the period of the Group's ownership which is currently being considered by the Canadian tax authorities. The Company expects to defend the claim if it is pursued further. Further details can be found on page 20.

In February 2004 we announced the settlement of a long-standing dispute with Siemens Power Generation Limited (Siemens) whereby Siemens agreed to pay the Company £18.3m, which was received in March.

The challenge for British Energy is to complete the Proposed Restructuring and focus on improving efficiency and reliability in our stations in order that we may compete in the very competitive UK electricity market. Clearly there is much to be done to ensure that British Energy achieves world class standards of reliability. The Company has already embarked on a number of programmes which are intended to tackle the causes of under-performance and reduce losses from unplanned outages to competitive levels, improve our trading performance and reduce our overheads. In doing so, we are seeking to harness the skills and experience of leading operators in various fields. A major part of the drive is the Performance Improvement Programme which is central to the operational plans designed to enhance the prospects of the Group.

A key appointment as part of our operational plans is that of Roy Anderson as Chief Nuclear Officer, responsible for the operation of our eight nuclear power stations. He joins us from PSEG Nuclear in the US where he was



President. Mr Anderson was also previously Chief Nuclear Officer of Nuclear Management Company and prior to that of Florida Power Corporation. Mr Anderson has significant experience of nuclear turnarounds and his experience will be valuable as the Company progresses the Performance Improvement Programme and restructuring. David Gilchrist, currently Managing Director, British Energy Generation, will take on the new Group wide position of Technical Director, which will strengthen the technical and operational involvement in key regulatory and commercial support areas across British Energy.

The Group has continued to seek to reduce its exposure to volatility in market prices through a trading strategy which utilises diverse sales channels whilst minimising the amount of trading collateral required. Our direct sales business has continued to show strong growth, increasing volumes supplied during the year by almost 30%, to 29.1 TWh.

During the course of the year, the Company also continued to streamline overhead costs in various areas, for example the decision to sell its existing headquarters at Peel Park, East Kilbride and relocate to Livingston, near Edinburgh. The Company also announced in July 2003 that the nuclear power station support functions, currently split between Peel Park and Barnwood in Gloucester would be brought together to create a centre of excellence. As a result, around 150 operational jobs will be relocated to Barnwood, whilst the electrical and civil engineering support groups and some business support functions will remain in Scotland.

Business Review

British Energy has a total of eight nuclear power stations. Seven are Advanced Gas-cooled Reactor (AGR) power stations; Dungeness B; Hartlepool; Heysham 1; Heysham 2; Hunterston B; Hinkley Point B and Torness. The eighth station, Sizewell B, is the UK's sole Pressurised Water Reactor (PWR). The results for Eggborough, our coal-fired power station in Yorkshire, are discussed in the Power and Energy Trading section beginning on page 7.

Performance Improvement Programme

During the year, British Energy started its drive to focus on four fundamentals – human performance, equipment reliability, management of work and operational focus. In order to address these and as part of its efforts to reduce the level of unplanned generation losses to competitive levels, the Company announced the launch of its Performance Improvement Programme. The human performance element is a drive to implement and reinforce a standard set of error reduction tools used widely in the nuclear industry. The focus on equipment reliability aims to identify and rectify the root causes of equipment problems and therefore improve our performance. Management of work is concentrated on getting the best out of our investment in our work management tools and processes and finally, operational focus is about getting the whole British Energy organisation aligned to support our power stations in delivering safe and reliable output.

To support the implementation of these programmes the Company has engaged a consortium of experienced consultants in conjunction with significant support from WANO. Through WANO, the Company's Performance Improvement Programme and power station management teams have been supplemented with additional experienced nuclear professionals.

British Energy's focus over the coming twelve months is to continue to improve infrastructure, including significantly improving training arrangements and focusing on the human performance aspects of our business. Already changes have been made to the power station organisation. In addition, a number of operationally experienced people have been appointed to senior positions in the Group's central support functions. A review of the condition of our generation assets is underway, and once the Company has the correct structures and operational processes in place, further emphasis will be put on improving the Materiel Condition of plant (see Glossary for definition).

I am grateful to our staff, creditors, customers and shareholders for their support and understanding during the implementation of the restructuring and the other changes being undertaken by the Company to improve its performance. I recognise that this has been a very testing period for all concerned with the Company. However, I am convinced that full implementation of the restructuring and Performance Improvement Programme will allow the Company to play a key role in the UK's electricity generating mix.

Update on Unit Costs and Collateral

Over the past few months, the Company has been evaluating its business plan for the three years ending 31 March 2007. As a result British Energy's expected cost base post restructuring and anticipated collateral levels have been revised.

In relation to the current financial year ending 31 March 2005, British Energy expects that the investment in major plant projects, repairs and strategic spares across the whole Group, including incremental costs associated with the Performance Improvement Programme of approximately £25m, will be around £175m. Whether or not any of this expenditure will be capitalised or expensed depends on the future carrying value of fixed assets as a result of impairment and fair value reviews and whether the expenditure will enhance the value of the assets. The Performance Improvement Programme costs above include an increase in revenue expenditure relating to staff and support costs which will be expensed in any event.

The detailed budgets for each of the last two years of the business plan will not be finalised until shortly prior to the commencement of the relevant financial year. The incremental expenditure of the Performance Improvement Programme will depend on the financial resources and prospects of the Group at the relevant time. Based on its current expectations of future electricity prices and output, and therefore financial resources, the Company believes that annual investment in major plant projects, repairs and strategic spares across the whole Group which includes incremental Performance Improvement Programme annual expenditure of £85m to £120m will be in the range £220m to £255m in the two years ending 31 March 2006 and 2007. This compares with the range of capital expenditure of £85m to £90m stated in the 1 October 2003 announcement which did not include any Performance Improvement Programme expenditure, nor the costs of repairs and strategic spares.

The Company anticipates that there may be a need to increase the level of its future annual contributions to the pension fund depending on the performance of financial markets, from a previously estimated £35m to approximately £65m per annum for the three years commencing 1 April 2005.

The Company has therefore revised its projected nuclear unit cash operating costs for the three financial years ending 31 March 2007. These costs include maintenance, expenditures on plant and equipment and corporate overheads but exclude the impact of the NLF cash sweep. It excludes movements in working capital and all costs relating to Eggborough. An illustration of the projected nuclear unit operating costs is shown below.

Assuming an average nuclear output level for the three years commencing 1 April 2004 of 67.0 TWh, the average nuclear unit cash costs are expected to be as follows:

As announced in October 2003			**Updated in June 2004**	
Base reference price per MWh[(1)(2)] (£)	Average nuclear cost per MWh[(3)] (£)	Average nuclear cost per MWh increased by inflation[(5)] (£)	Average reference price per MWh increased by inflation[(4)(5)] (£)	Average nuclear cost per MWh[(4)(5)] (£)
14.0	13.8	14.1	15.1	15.5
15.0	13.9	14.2	16.2	15.6
16.0	14.5	14.9	17.3	16.2
17.0	15.0	15.4	18.4	16.7
18.0	15.5	15.9	19.4	17.2
19.0	15.9	16.3	20.5	17.6
20.0	16.2	16.6	21.6	17.9
21.0	16.4	16.8	22.7	18.1
22.0	16.4	16.8	23.8	18.1

Note 1 : Reference price is the wholesale price of electricity upon which the price of nuclear fuel from BNFL is based.
Note 2 : Stated in 2002/03 money values.
Note 3 : Average over the period 2003/04 to 2005/06.
Note 4 : Average over the period 2004/05 to 2006/07.
Note 5 : Inflation assumed at 2.5% pa.

The average nuclear costs per MWh as updated in June 2004 represents an increase of approximately £1.3/MWh, after eliminating the impact of inflation, in the Company's nuclear cash cost per MWh compared with the range stated in the 1 October 2003 announcement. This is attributable almost entirely to increased investment in the plant and the costs of the Performance Improvement Programme.

It should be noted that, as British Energy's costs are primarily fixed, at different output levels these units costs would be different. In addition, under the terms of the revised arrangements with BNFL the reference price is based on 2002/03 prices and indexed to the RPI and therefore needs to be escalated to take account of actual inflation. There is no change in nuclear cash cost above a baseload electricity price of £21.0/MWh (2002/03 prices).

In the announcement of 1 October 2003, British Energy provided its view of the level of collateral that it expects would be required to support its trading activities. The Company has updated its view of the expected range of future collateral reflecting the higher level and volatility of electricity prices, taking account also of increased sales through routes to market that generally have lower collateral requirements.

The Company now expects that the collateral required to support the trading activities will be in a range of £270m to £320m based on the current sales mix and no further undue volatility in the forward curve for electricity prices. Collateral amounts in this range would result in an increase in the target amount for cash reserves under the contribution agreement with the Government (see the note to the summary financial statement).

Nuclear Generation

Nuclear output for the year was 65.0 TWh (a load factor of 77%). This compared to a target of 67.0 TWh and the 63.8 TWh (a load factor of 76%) achieved in the prior year. The shortfall in the year compared to the target arose as a result of the significant impact of unplanned outages, in particular at Heysham 1. The outages of both reactors at Heysham 1 were due to a cast iron pipework failure in the seawater cooling system within the turbine hall. Following repairs, both units returned to service before the financial year end. The resultant loss of output was some 3.2 TWh, equivalent to some £71m of lost profit contribution inclusive of imbalance costs and associated fuel savings.

Following the unplanned outages at Heysham 1, the Company reviewed the implications for further cast iron pipework replacement at its other stations, and on 19 March 2004 announced that its target for nuclear output for 2004/05 was 64.5 TWh. This target takes into account an estimated loss of 2.5 TWh resulting from the Company's estimates of the work required to carry out cast iron pipework replacement at other stations in 2004/05. Some of this work may be moved to 2005/06 as the Company seeks to utilise planned outages to maximum effect.

Last year we carried out 5.5 statutory outages (with the half representing an overlap between two financial years), representing a total loss of output of 4.9 TWh. A further loss of output of 3.0 TWh was attributable to refuelling. In addition to the loss of 3.2 TWh output resulting from the unplanned outage at Heysham 1, there were further losses of potential generation from unplanned outages of 7.5 TWh. Of these, 4.8 TWh was due to outages of 14 days or less.

Improvements in the performance of Dungeness B have continued. The station marked 21 years of supply to the National Grid by generating output of 6.7 TWh, a record for Dungeness B. The station also gained Nuclear Installations Inspectorate approval to adopt three year intervals, rather than two year, between statutory outages, bringing it in line with the rest of the British Energy AGR fleet.

The year's best performing station (by load factor) was Heysham 2 with a total output of 9.81 TWh (a load factor of 89%), exceeding the prior year by some 0.5 TWh. This was achieved despite having to replace part of a low pressure turbine at the start of the year.

Radiation Levels (Nuclear Generation)
man sievert/reactor

Safety

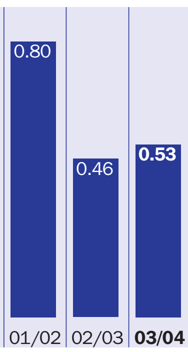
Overview

The Company seeks to operate to world-class safety standards. However, during the year the Company's performance against certain key safety indicators deteriorated. These are discussed below. This is being addressed as part of the human performance aspect of the Performance Improvement Programme. One of the reasons for the review of the Company's organisational structure, and the key appointments being made as part of the Performance Improvement Programme is to implement the required changes to improve safety. The new organisational structure is designed to promote clarity of accountability for every aspect of the Company's safety performance. British Energy works closely with WANO, benefiting from the sharing of best practice and the secondment of personnel.

Nuclear Safety

The International Nuclear Event Scale (INES) is the standard scale measuring the significance of nuclear safety events. In 2003/04 one event occurred, the degradation of a feed pump system with no release of radioactivity either on or off site, which was registered at level two on the seven point INES scale – at Dungeness B on 11 July 2003. Level two is used to describe an incident with significant failure in safety provisions but with sufficient defence in depth remaining to cope with additional failures. There is no off-site impact associated with such an event. All other events were at or below level one (minor operating anomalies with no impact on staff or the general public). In 2003/04, the number of reportable minor events was 77, representing a disappointing increase on the 65 reportable minor events recorded in the prior year.

Accident Frequency Rate (Nuclear Generation)
Lost time accidents per 200,000 man hours worked



Radiological Safety

The collective radiation dose to workers at our UK stations was 0.09 manSv/reactor in 2003/04. This was a decrease from the collective dose of 0.12 manSv/reactor in the prior year. This represents approximately one-tenth of the worldwide median of the operators contributing to WANO and places British Energy in the top 10% of performers in this respect.

Industrial Safety

The Company encourages an open culture which promotes the reporting of all accidents, including those where no actual injury resulted. Over the last twelve months our accident frequency rate was 0.53 lost-time accidents per 200,000 man-hours of operation, an increase from 0.46 in the prior year.

Looking at the performance of our conventional plant, it was with deep regret that British Energy reported an accident at Eggborough power station last July, where one of our contractors lost his life. A full panel of inquiry was held to examine the circumstances and determine the cause of the accident.

Power and Energy Trading

Market Overview

At the end of March 2003, the forward price for baseload power for 2003/04 delivery was £17.0/MWh. Both spot and forward prices increased during the year, driven primarily by increases in fossil-fuel prices and tightening of capacity margins. International coal prices rose sharply during the year to unprecedented levels, and UK gas prices, which are partly linked to oil prices, also increased. The Group was protected against the rise in coal prices due to fixed-price contracts that ended during the year. At the end of March 2004, the forward price for baseload power for 2004/05 delivery was £22.2/MWh, an increase of 30% compared with prices prevailing in March 2003 for 2003/04 delivery as shown in the graph on the following page.

Short-term power prices were exceptionally volatile during July and August 2003, when an unusually large number of generating units were shut down for annual maintenance and high demand in France meant that power was exported via the England-France interconnector. During the summer period the operator of the National Grid was forecasting a tight margin of supply over demand for the winter peak demand periods, and called for mothballed plants to be returned to service. Market prices rose in response to this and a number of oil-fired and gas-fired units were subsequently returned to service to meet forecast demand, thereby stabilising prices.

The forward market for electricity to be delivered in 2005 and beyond reflects in part the impact of the European Union's Emissions Trading Scheme (ETS), which is scheduled to start on 1 January 2005. Under the scheme, all large fossil-fired generators will be required to submit allowances to cover their emissions of carbon dioxide. The initial allowances will be allocated by the Government according to a National Allocation Plan, which must be approved by the European Commission. The Government has indicated that the scheme could increase wholesale electricity prices in the UK by some 10%. As the owner of a coal-fired power station, British Energy is seeking an equitable allocation of allowances and preparing to be an active participant in the carbon dioxide emissions market.

The Government announced an Energy Bill in November 2003, which includes provisions (amongst others) for extending the electricity trading arrangements operating in England and Wales to all of Great Britain. The Bill is expected to become law in summer 2004, and will enable the proposed British Electricity Transmission and Trading Arrangements (BETTA) to be implemented in April 2005. These new arrangements will create a much larger market for British Energy's Scottish generation once the Nuclear Energy Agreement (NEA), under which all of the Group's Scottish generation is currently sold to Scottish Power and Scottish and Southern Energy, ends in April 2006 or following the introduction of BETTA, whichever is earlier. However, the ending of the NEA will mean a loss of the guaranteed market for the output of our Scottish stations and other routes to market are being developed.

Trading Strategy

During the year the overriding concern of British Energy was to reduce the Group's exposure to potential falls in the market price of electricity. Therefore a prudent trading strategy was adopted to sell forward a high proportion of our output. As a result the Company has not fully benefited from the more recent rises in market prices. The Group has continued with its trading strategy to reduce exposure to volatility in medium term market prices, utilising diverse routes to market whilst minimising the amount of trading collateral required. The routes to market include direct sales to industrial and commercial customers, contracting in the wholesale market, and long-term contracts (such as the NEA), together with sales of balancing and ancillary services to National Grid. There are contracts in place for substantially all planned production in 2004/05. The large majority of these are fixed-price contracts. As of the beginning of June the average price of the fixed-price contracts for 2004/05 was £19.5/MWh.

The requirement to provide trading collateral arose when the Group lost its investment grade rating in September 2002. This loss of investment grade rating means that the Group now has to provide significant levels of collateral to counterparties in order to cover their trading exposures to maintain trading arrangements, thereby substantially reducing the levels of liquid cash resources available to the Group. Given the financial circumstances of the Group, certain contracts may be capable of being terminated. Such termination may result in termination payments being payable as well as having an adverse effect on cash flows. British Energy intends to seek a new credit rating upon the issue of new bonds as part of the Proposed Restructuring of the Group.

Forward price for annual baseload electricity traded in England and Wales
(£/MWh)

It is inevitable that, in a period of rising prices such as has been seen in 2003/04, hedging forward against falls in price results in a realised price which is less than the market out-turn. However, a proportion of that output is contracted at variable prices and can benefit from the recent rise in forward prices. The risks associated with electricity trading are discussed under the Electricity Trading Risk Management section.

Trading Development Programme

During the year we have undertaken a comprehensive review of our trading capabilities and embarked upon a development programme to improve and extend existing skills and asset utilisation. This involves recruiting to strengthen the analysis, risk management and back office functions and reviewing trading procedures and performance incentives. A new Trading Director, Neil O'Hara, has also been appointed. Neil O'Hara has over ten years trading and risk management experience in the energy sector, including the power, coal and gas sectors. Neil brings experience from working at AEP, Centrica and RWE. In addition we will be upgrading the IT systems used within trading. These changes will enable better risk management and control and should enable us to increase the value of our trading activities. This trading development programme should be largely complete by April 2005.

Business Performance

The direct sales business (DSB) has once again shown strong growth, with the volume supplied during the year reaching 29.1 TWh, an increase of some 30% on 2002/03. The volume of power sold directly to customers through the DSB is now equivalent to approximately 40% of total output. This growth has been achieved through increasing the range of customers served, with a particular focus on multi-site groups. At the same time, the DSB has retained its number one overall ranking for the 20th successive quarter in the customer satisfaction survey of industrial and commercial customers carried out by the Energy Information Centre.

British Energy's realised price (which is calculated by dividing total UK turnover, net of energy supply costs and miscellaneous and exceptional income, by total output during the period) for 2003/04 was £16.9/MWh, a decrease of 8% compared with £18.3/MWh in

2002/03. The Company benefited from higher prices for variable price contracts as the year progressed, but this was offset by a number of unplanned outages and earlier fixed-price contracts at lower prices. Market purchases at higher prices were required to cover lost generation from the unplanned outages. Fixed-price contracts provided protection against falls in market price, although certain of these were agreed at lower prevailing market prices to meet the requirements of the Proposed Restructuring.

Eggborough

Output from the 2000 MW coal-fired power station at Eggborough was 7.6 TWh during the year compared with 5.7 TWh for the prior year. As Eggborough is operated primarily as a flexible mid-merit plant, its output level is influenced by market prices, the Company's contracted trading position and the extent to which it is operated as cover for unplanned outages. In the draft National Allocation Plan published by the Government an indicative allocation of 4.9 million tonnes of carbon dioxide emissions allowances under the ETS for each of the calendar years 2005, 2006 and 2007 has been made for Eggborough (equivalent to output of approximately 5.4 TWh). However, the allocation will not be finalised until autumn 2004. Additional allowances will need to be acquired if Eggborough is to maintain its output at 2003/04 levels.

Eggborough's future output will also be affected by the impact of the Large Combustion Plant Directive (LCPD), which is intended to limit the emissions of sulphur and nitrogen from fossil-fuel power stations. Good progress has been made with the project to fit flue gas desulphurisation (FGD) equipment to two of the four units at Eggborough. Since the year end, the first flue gases from one unit have been processed by the FGD equipment as part of the active commissioning of the plant. The work is scheduled to be completed within budget during the current year.

The Government has been in discussion with the electricity industry in recent months concerning the implementation of the LCPD. Discussion has focused on whether to limit future emission rates for fossil-fuel plants or to limit total emissions based on historic generation (through a National Emission Reduction Plan); and on whether a plant will be defined as being a whole power station, or an individual generating unit for the purpose of the LCPD – in which case Eggborough's four units would be defined as separate plants. Station owners will have the option to "opt-out" of the LCPD in which case they will be permitted to run plants for a total of 20,000 hours between 1 January 2008 and 31 January 2015. Clearly the details of the implementation of the LCPD may affect the level of generation from Eggborough and other fossil-fuel plants in the future.

Discontinued Activities

The disposal of the investment in Bruce Power was completed on 14 February 2003. In the prior year a loss on disposal of £35m was recognised by the Group and the results of Bruce Power were classified as discontinued activities.

C$20m was retained in an escrow account at completion of the disposal of the Group's interest in Bruce Power in relation to a possible price adjustment relating to pensions. On 28 April 2003 the Company announced that this sum had been released following confirmation that no adjustment was required and was accounted for in the prior year results.

On 12 February 2004 British Energy received a notice of warranty claims from the consortium which purchased the Group's 82.4% interest in Bruce Power (the consortium) alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce power station. Further details of these claims can be found on page 20.

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

In addition to the consideration received at the time of the disposal of its interest in Bruce Power, British Energy was entitled to receive up to C$100m, contingent on the restart of two of the Bruce A Units. On 22 March 2004 the Company received the sum of C$20m in respect of the restart of Unit 4, and on 25 May 2004 received the further sum of C$10m in respect of the restart of Unit 3 (which has not been accounted for in the results for the year ended 31 March 2004). Discussions are ongoing with the Ontario Provincial Government regarding the release of further sums (if any). The total amount that will be released will be significantly less than C$100m.

Following the completion of the sale of the Group's 50% interest in AmerGen to Exelon, the Group received consideration of US$277m upon financial close on 22 December 2003 prior to adjustments relating to working capital levels, stocks of unspent nuclear fuel, inventory, capital expenditures and low level waste disposal costs to be determined as at the time of closing. Finalisation of these adjustments is outstanding.

As a result of an accounting adjustment made by Exelon to the value of nuclear fuel contained in AmerGen's balance sheet dated 21 December 2003 British Energy may be required to make a payment to Exelon of up to US$13.7m. This amount has not been provided for in the financial statements. British Energy served a Dispute Notice on Exelon on 4 June 2004 to preserve its rights. The agreement with Exelon for the sale of AmerGen requires that, prior to instituting any litigation or other dispute resolution procedure, the companies will in good faith seek to resolve any dispute.

In December 2003 the Company announced the sale of the Group's 50% interest in Offshore Wind Power Limited to GB Gas Holdings Limited for an up-front cash consideration of approximately £2m, with deferred consideration of up to £0.7m.

The combined gain on sales of the joint ventures and other businesses was £47m, of which the largest element was the profit on disposal of the Group's interest in AmerGen of £37m.

Financial Review

This Financial Review contains references to notes to the financial statements of British Energy plc (the Company) for the financial year ended 31 March 2004. These notes form part of the Company's Annual Report and Accounts for that year which are available from the Company Secretary, the Company's Registrars and on the Company's website **www.british-energy.com**. The notes do not form part of this Annual Review, with the exception of note 1, which is contained in full on page 38.

Group Results

In the following discussion the "period" or "year" refers to the year ended 31 March 2004 and the "prior period" or "prior year" refers to the year ended 31 March 2003. The "current year" refers to the year that will end on 31 March 2005.

The operating result after exceptional operating credits of £283m was an operating profit of £340m for the period compared with an operating loss of £3,802m for the prior year, after exceptional operating charges of £3,947m. Exceptional items for the period include a non-cash accounting adjustment for the partial reversal of £295m of the write-down of fixed assets in the prior year following a further review of fixed assets carrying values.

The profit before taxation was £232m for the period and a loss before taxation of £4,292m for the prior year.

AmerGen was sold and a provisional gain on sale was recorded at £37m. The sale of AmerGen contributed to the reduction in net debt which decreased in the year by £240m to £310m.

The discussion below will focus primarily on the results of continuing activities for the year compared to the prior year, both before exceptional items.

Turnover

Group turnover from continuing activities comprised generation sales, direct supply sales and miscellaneous income. Turnover for the period was £1,516m, a decrease of £12m on the prior year, as detailed below:

Increased/(Decreased) Turnover:	£m
– owing to increased output	57
– owing to lower electricity prices realised	(103)
– owing to increased energy supply costs recharged to customers	76
Decrease in miscellaneous sales	(1)
Decrease in exceptional turnover	(41)
	(12)

Output increased by a total of 3.1 TWh compared to the prior year, and comprised output increases of 1.2 TWh from nuclear operations and 1.9 TWh from Eggborough. Nuclear output was however affected by a number of unplanned outages and in particular the major outage at Heysham 1 where 3.2 TWh was lost due to cast iron pipework failure, equivalent to some £71m of lost profit contribution inclusive of imbalance costs and associated fuel savings. Output at Eggborough was higher than the prior year as it was operated primarily to take advantage of higher market prices and to provide cover for unplanned outages at nuclear plants.

The realised price (which is calculated by dividing UK turnover, net of energy supply costs and miscellaneous and exceptional income, by total output) for the period was £16.9/MWh compared with £18.3/MWh in the prior year. A discussion on the movement of prices and the Company's strategy on trading is contained in the Power and Energy Trading section on page 7.

Turnover from discontinued activities in the prior year was £375m and represented sales by Bruce Power prior to its disposal on 14 February 2003.

Operating Costs

The operating costs of continuing activities excluding exceptional items were £1,459m in the period, compared to £1,480m in the prior year, a reduction of £21m.

Total operating unit costs excluding revalorisation (which is calculated by dividing the total UK operating cost, net of the exceptional items and energy supply costs, by total output), was £16.5/MWh compared to £18.6/MWh, primarily as a result of higher output.

The component elements of the operating costs are discussed below.

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Continuing activities excluding exceptional items:		
Fuel	**413**	371
Materials and services	**512**	425
Staff costs	**224**	227
Depreciation charges	**50**	273
Energy supply costs	**260**	184
	1,459	1,480
Continuing activities – exceptional items:		
Materials and services	**25**	94
Depreciation (credits)/charges due to impairment review	**(295)**	3,738
Amounts (credited)/charged to non-operational assets	**(13)**	115
	(283)	3,947
Continuing activities – total costs:		
Fuel	**413**	371
Materials and services	**537**	519
Staff costs	**224**	227
Depreciation (credits)/charges	**(245)**	4,011
Energy supply costs	**260**	184
Amounts (credited)/charged to non-operational assets	**(13)**	115
Total operating costs	**1,176**	5,427

Fuel costs in total amounted to £413m for the period compared with £371m. Nuclear fuel costs were £318m compared with £298m and coal costs were £95m compared with £73m.

The £22m increase in coal costs relates primarily to the increase in output from Eggborough over the period.

The costs of nuclear fuel increased by £20m in total, of which £7m was attributable to increased output, offset by savings and efficiencies of £1m. The main increase, however, was due to a non-recurring credit in the prior year costs of £14m following a one-off review of contract cost schedules with BNFL.

On 16 May 2003, the Company announced that it had exchanged contracts covering front end and back end fuel services required to give effect to the non-binding heads of terms entered into with BNFL. The front end contracts became effective on 1 April 2003 but may be terminated if the Proposed Restructuring is not completed. The revised back end contracts are conditional on completion of the Proposed Restructuring but payments are being made as if the revised back end contracts had become effective on 1 April 2003.

The financial statements for the period have been prepared upon the basis of the historic BNFL contracts in respect of back end fuel costs, pending satisfaction of the restructuring conditions set out in the revised contracts. This is the only element of the Proposed Restructuring that will have a retrospective accounting impact.

The consequence of this is that the result for the year does not reflect the profit and loss account savings that will arise under the revised BNFL back end contracts, which amounted to £58m in the year. The total saving under the revised contracts will be recognised on the completion of the restructuring, together with other restructuring adjustments. The benefit has been calculated using an average electricity price, as defined in the revised BNFL back end contracts, of £17.6/MWh.

As noted above and as part of the standstill arrangements, the Group has made payments during the year to BNFL as if the revised BNFL back end contracts were in place. The difference in the cash payments which include the profit and loss account savings under the revised contracts, means that included within current liabilities are amounts due to BNFL which will never be paid by the Group, provided the Proposed Restructuring is completed. These amounts totalled £306m at 31 March 2004, an increase of £193m from £113m at 31 March 2003.

This is also set out in note 31 to the financial statements.

Amounts in current liabilities due to BNFL but not expected to be paid by the Group provided the Proposed Restructuring is completed

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

The benefit under the revised BNFL back end contracts to the date of restructuring will be recognised in the balance sheet of the restructured Group upon implementation of the Proposed Restructuring together with other restructuring related adjustments. The ultimate benefit recognised will depend on a number of factors including the date of restructuring, the market price of electricity between 1 April 2004 and the date of restructuring as defined in the contract and the amount of fuel.

Materials and services costs comprise the operating expenses of the power stations and support functions excluding fuel costs, staff costs and depreciation. The costs during the year were £512m compared with £425m, an increase of £87m. The increase is largely explained by capital investment expenditure of £92m that was expensed as operating costs in the period. This arises because it was not possible to demonstrate that this expenditure enhanced the value of the Company's fixed assets after taking account of the impairment review. The Group has reviewed the capital investment expenditure of £92m incurred, primarily on the power stations, and concluded that of this, an amount estimated at £70m may have been capitalised in the absence of the impairment review. The balance of capital investment expenditure of £22m has been classified as refurbishment costs within materials and services.

Staff costs decreased by £3m from £227m to £224m mainly due to reduced severance costs of £11m partly offset by salary inflation and increased headcount.

Depreciation charges were £50m for the period compared to £273m. The charges for depreciation in the period were significantly affected by the fixed assets write-down of £3,738m at 31 March 2003 (see note 12 of the financial statements).

Energy supply costs mainly comprise the costs incurred for the use of the distribution and transmission systems and are fully recovered through turnover. This year energy supply costs also include costs of £36m related to the purchase of Renewable Obligation Certificates (ROCs) which are also recovered through turnover. The Group is required to purchase ROCs as part of the regulations governing climate change. Total energy supply costs in the period were £260m compared with £184m in the prior year, an increase of £76m. This increase reflects the inclusion of ROC costs and growth in the Direct Sales Business since 31 March 2003 as discussed above.

Operating costs from discontinued activities in the prior year were £278m and represented the costs of Bruce Power prior to its disposal on 14 February 2003.

The exceptional operating items are analysed on page 14.

Operating Profit/(Loss)

As shown below, Group operating profit before exceptional items for continuing activities increased by £50m to £57m for the period.

Operating profit/(loss):

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m	Variance £m
Operating profit before exceptional items – continuing activities	**57**	7	50
Exceptional items	**283**	(3,906)	4,189
Total operating profit/(loss) – continuing activities	**340**	(3,899)	4,239
Operating profit – discontinued activities	–	97	(97)
Group operating profit/(loss)	**340**	(3,802)	4,142

The increase in operating profit before exceptional items for continuing activities of £50m over the prior year is explained as follows:

	£m
Increased/(decreased) operating profit due to:	
Output increases – turnover impact	57
Output increases – operating cost impact	(31)
Price movements	(103)
Capital investment expenditure expensed	(92)
Depreciation reduction	223
Other	(4)
Increase	50

Share of Operating Profit of Discontinued Joint Venture

The Group's 50% share in AmerGen was sold to Exelon on 22 December 2003. The Group's share of the operating profit of AmerGen prior to the date of disposal was £21m. The Group's share of operating profit for the prior period was £43m. This reduction of £22m was due primarily to an extended outage at Three Mile Island and the contribution of only a part year result within the period.

Financing Charges, Net Interest and Revalorisation

The total financing charges were £176m made up of revalorisation and net interest of £249m, exceptional financing credits of £5m and an exceptional revalorisation credit of £68m. This compares with prior year financing charges of £498m made up of revalorisation and net interest of £277m, exceptional financing charges of £62m and an exceptional revalorisation charge of £159m.

The total financing charges are analysed below:

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Revalorisation of nuclear liabilities	**215**	228
Revalorisation of decommissioning fund	**(28)**	(29)
Revalorisation of other provisions	–	10
Share of revalorisation of joint venture	**(2)**	(4)
Total revalorisation	**185**	205
Net interest expense	**64**	72
Financing charges before exceptional items	**249**	277
Exceptional interest (credit)/charge	**(5)**	62
Exceptional revalorisation (credit)/charge	**(68)**	159
Total financing charges	**176**	498

Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per annum real 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 a year's discount. Similarly, a revalorisation credit arises in respect of the decommissioning fund that is calculated by applying an actuarial assessment of the long-term investment growth rate to fund contributions in order to determine the asset value to be recorded in the balance sheet. The growth rate used in the calculations is 3.5% per annum real.

The net revalorisation charge excluding exceptional items was £185m, a decrease of £20m from the prior year principally due to a reduction in inflation and discontinuation of revalorisation of onerous contract provisions. The weighted average of RPI and RPIX used to revalorise the Group's nuclear liabilities was 2.4% compared with 3.0% for the prior year.

The net interest expense charge of £64m for the period was £8m lower than the charge for the prior year. The reduction arises from a lower charge in respect of interest rate swaps and increased interest earned on deposits, partly offset by a full year charge for standstill interest in the period.

In the prior year there were exceptional interest charges of £62m resulting from the provision for the out of the money element of interest rate swaps which were no longer considered to be effective as hedges and the write-off of borrowing costs. The borrowing costs had been previously capitalised and were being amortised over the expected duration of loan financing in respect of the acquisition of the Eggborough power station. In the current year there were exceptional interest credits of £5m reflecting a partial reversal of the provision for interest rate swaps.

The exceptional revalorisation credit of £68m in the period results from the increase in the market value of the UK decommissioning fund and the AmerGen decommissioning fund. This partially reverses the exceptional charge of £159m in the prior year required as a result of decreases in the values of the funds.

Exceptional Items

The financial results of both years were affected by a number of exceptional items. The table below summarises the impact of exceptional items before tax.

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
(Reversal of write-down)/write-down of fixed asset carrying values	**(295)**	3,738
UK decommissioning fund (credit)/charge	**(13)**	13
Write-down of own shares held	**–**	102
Provision for slow moving stocks	**–**	57
Restructuring costs	**43**	35
Onerous trading contracts	**–**	2
Settlement of claim	**(18)**	–
Nuclear Energy Agreement	**–**	(41)
Exceptional items included within operating results	**(283)**	3,906
UK/AmerGen decommissioning fund (credit)/charge	**(68)**	159
(Credit)/charge for interest rate swap provision	**(5)**	56
Write-off of capitalised borrowing costs	**–**	6
Exceptional items included within financing costs	**(73)**	221
	(356)	4,127
Exceptional (gain)/loss on sale of joint venture and businesses	**(47)**	35
Total net exceptional (credits)/charges	**(403)**	4,162

Exceptional items are discussed more fully in notes 4, 5 and 8 to the financial statements.

Profit/(Loss) Before Tax

The profit before taxation was £232m compared with a loss before tax of £4,292m in the prior year. The main reason for the movement of £4,524m is the large exceptional costs in the prior year, some of which were partially reversed in the period.

Taxation

There was a £2m taxation credit on ordinary activities for the period relating to the release of an over provision for foreign tax in earlier years. The share of taxation for the discontinued joint venture was nil, comprising a tax charge on trading results to the date of the AmerGen disposal of £9m, offset by credits for overprovisions of £9m in earlier years.

In the prior year there was a net tax credit of £368m, comprising tax charges of £18m on North American activities, £10m share of taxation for joint venture and a £396m credit for release of UK deferred tax provisions. The deferred tax credit in the prior year arose as a result of the large exceptional charges.

The deferred tax assets of £297m and £150m at 31 March 2004 and at 31 March 2003 were not recognised because there is insufficient certainty of recovery within the foreseeable future.

Earnings per Share

The earnings per share in the period was 38.9p compared to a deficit of 654.7p for the prior year, an improvement of 693.6p.

Review of Fixed Assets Values

In view of the ongoing restructuring, the Directors have reassessed the economic values and net realisable values of the Group's power stations and compared them to their book values as at 31 March 2004, in accordance with FRS11 "Impairment of fixed assets and goodwill". As a result of this review, the carrying value of fixed assets has been increased by £295m to partially reverse the impairment loss recognised in the prior year. Recognition of changes to asset impairment calculations is shown as a non-cash exceptional item in the year end financial statements, included within 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 with their recoverable amount.

The outlook for electricity prices is the single most significant factor in the assessment of the carrying values of fixed assets. The Directors have considered market views on future prices of wholesale electricity and also commercially available forecasts. They have considered the impact on future prices of the increases in market electricity prices which occurred in the past year, the outlook for coal and gas fuel prices, potential for changes in generation capacity in the UK, and the potential effect on the market of changes in Government policy particularly in the area of environmental legislation.

The outlook for prices in the UK electricity market has improved since the Directors carried out their review for the 2003 financial statements, which resulted in a £3,738m write-down of the carrying value of fixed assets. However, in determining the price assumptions for the valuation the Directors have taken a cautious view on whether there has been a significant long-term recovery in market prices. 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. These assumptions are based on the Directors' best estimates. The discount rate used was 15% nominal pre-tax, the same as used at 31 March 2003, which is an assessment of a rate of return that the market would expect for a similar risk investment. The basis of the valuation of Eggborough is unchanged from the previous year, that is net realisable value and is based on the value attributed as part of the Proposed Restructuring.

The calculation of fixed asset carrying values at 31 March 2004 includes cash flow estimates regarding the level of increase in pension fund contributions required to repair the actuarial pension fund deficit at 31 March 2004. The payments included in the fixed asset calculation amount to approximately £207m after being discounted at 15% and are equivalent to a pension fund deficit calculated on an actuarial basis in the range of £330m to £440m. Formal triennial valuations of the British Energy Generation Group or the British Energy Combined Group (together, the Schemes) pension schemes at 31 March 2004 are currently being undertaken, but the results of these valuations will not be finalised until later in 2004.

These financial statements do not incorporate the key elements of the restructuring, which is still subject to EU State aid approval and a large number of other significant conditions and uncertainties. As a result, the carrying value of fixed assets in the March 2004 financial statements 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 financial statements purposes when there is reasonable certainty of their becoming legally effective.

Net Liabilities
Group net liabilities decreased from £3,383m to £3,164m due to the profit after tax of £234m and exchange rate translation losses of £15m.

Capital Expenditure
There have been no additions to fixed assets recorded in the period as a consequence of the fixed asset write-down carried out in the prior year. It has not been possible to demonstrate that the capital investment expenditure enhanced the value of the Company's fixed assets after taking account of the impairment review. Included within material and services, an element of operating costs, in the period were amounts of capital investment expenditure of £92m. Of this, an amount estimated at £70m may have been capitalised in the absence of the impairment review, with the balance of £22m being classified as refurbishment costs. In the prior year expenditure of £112m was capitalised within fixed assets.

Current Assets
Total current assets increased in the period by £323m to £1,737m, from £1,414m in the prior year. The largest component of this rise was the £240m increase in cash and liquid funds from £333m in the prior year to £573m in the period.

Total stocks reduced by £10m. Nuclear fuel stocks reduced by £18m, in part as a result of a supply chain review. This reduction was partly offset by an increase in stores of £7m mainly due to the acquisition of certain key strategic spares at Eggborough following a risk review and an increase in coal stock of £1m.

The level of total debtors reduced by £13m to £374m. This is due to a decrease in the taxation and social security balance recorded in debtors of £65m, which was reallocated to current liabilities in the current year. This decrease is offset by an increase in the pension prepayment of £29m and there was also an increase of £23m in trade debtors and other prepayments.

The Nuclear Decommissioning Fund will be used to fund post-defuelling decommissioning costs. The balance sheet carrying value of the fund has been restated to a market value of £440m compared to £334m. The increase in market value reflects the upturn in equity market values that occurred in the period and further contributions made by the Company of £19m.

Current Liabilities
The level of creditors due within one year (excluding borrowings) has increased from £1,033m to £1,250m. The main movement is an increase in the level of nuclear liabilities classed as due within one year from £355m to £554m. The difference arises principally because the liability continues to be recorded under the historic BNFL back end contracts while payments are based on the revised BNFL back end contracts.

The other movements within creditors comprise a net increase in the other taxes and social security balances of £40m relating to the reallocation from debtors of £65m, a reallocation of VAT from trade creditors of £86m and an increase in the amount during the period of £19m. Trade creditors decreased by £18m due to a reallocation of £86m, as mentioned, to the other taxes and social security balance and an increase in trade creditors of £68m. There were other decreases of £4m in retentions, accruals and other creditors.

Provisions
Included in provisions at 31 March 2004 were accrued nuclear liabilities of £1,776m, an increase of £103m over the prior year. The liabilities increased due to additional fuel burnt in the Group's power stations, revalorisation (inflation and removal of one year's discount to restate the provision at balance sheet money values) and reduced by cash payments made during the year and the part release of the provision for the out of the money element of the Group's interest rate swaps.

Pensions
The financial statements have been prepared applying SSAP24 in respect of pensions. Note 24 to the financial statements provides the disclosures required under the transitional requirements of FRS17, the UK accounting standard dealing with retirement benefits. The FRS17 valuation is based on a valuation 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 2004, unchanged from 31 March 2003. However, the value of the Schemes' assets has increased with the rise of the equity markets, but this was offset by increased liabilities due to future higher inflation rate assumptions and improved actuarial information.

The interaction of the pension deficit and the valuation basis for fixed assets is discussed in note 4 to the financial statements.

The Trustees of the Schemes follow an investment policy whereby a high proportion of the Schemes' assets is invested in equities. One consequence of this investment policy, and the methodology and assumptions used for determining the Schemes' liabilities under FRS17, is that the difference between the market value of the Schemes' assets and its FRS17 liabilities (i.e. its FRS17 "surplus" or "deficit") is expected to be volatile. Indeed, the amount of any surplus or deficit could change significantly over periods as short as a day (in the event of significant market movements). The results reported should not, therefore, be taken as an indication of the Schemes' financial position in accordance with FRS17 on any date other than 31 March 2004.

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. A valuation will be carried out as at 31 March 2004, however, the result of the valuation will not be concluded until late autumn 2004.

Whilst the final determination of the actuarial valuation will not be complete for some months a deficit is expected in the range of £330m to £440m. The actual level of increase in future employer contributions will only be agreed with the Trustees of the Schemes when the valuation is completed.

During the prior 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 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% with effect from 1 November 2002. The employer's contributions to the British Energy Combined Group Scheme (the smaller UK pension scheme) were increased from 12% to 15.3% with effect from 1 April 2002. In total, cash contributions by the Group were £34m for the period and £31m for the prior year.

There were no changes to the contribution rates in the period.

The Company recognises that the funding of the Pension Schemes is a matter of concern to Scheme members, to shareholders and to other stakeholders. The Company will keep the funding issues under close review in the coming year and will aim to safeguard the interests of scheme members.

The Group balance sheet reported at 31 March 2004 and 31 March 2003 does not include the FRS17 deficits.

Total Recognised Gains and Losses

In addition to the profit after tax of £234m, exchange translation losses on foreign currency net investments arose amounting to £15m. These were all in relation to the investment in the AmerGen joint venture and its subsequent disposal.

Liquidity and Capital Resources

Government Facility

Following the sale of AmerGen, the drawings under the Government Facility were fully repaid. The amount available under the Government Facility reverted back to £200m on 24 December 2003. Further details of the Government Facility are included in the note to the summary financial statement and the following Restructuring section.

Cash Flow

A reconciliation of profit after tax and exceptional items to earnings before interest, tax, depreciation and amortisation (EBITDA) is shown in the following table. EBITDA is a measure commonly reported and widely used by analysts, investors and other interested parties, as well as a measure used internally by the Group. The EBITDA calculations are shown for the total results and also exclude the disposals during the period and exceptional items for the continuing business. The EBITDA calculation for the continuing activities is further reconciled to the operating cash flow from continuing activities and then to the increase in cash.

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Profit/(loss) after tax and exceptional items	**234**	(3,924)
Interest (including exceptional items)	**59**	134
Revalorisation (including exceptional items)	**117**	364
Tax (including exceptional items)	**(2)**	(368)
Depreciation charges	**50**	273
Exceptional depreciation (credits)/charges due to impairment review	**(295)**	3,738
EBITDA	**163**	**217**
(Gain)/loss on sale of businesses	**(47)**	35
AmerGen profit	**(21)**	(43)
Bruce Power contribution	–	(97)
Net exceptional charges other than depreciation, interest, tax and revalorisation	**12**	168
EBITDA – continuing activities	**107**	**280**
Nuclear liabilities charged to operating costs	**130**	105
Nuclear liabilities discharged	**(59)**	(115)
Regular contributions to decommissioning fund	**(19)**	(18)
Other provisions discharged	**(3)**	(45)
Exceptional operating cash costs	**(25)**	(154)
Working capital movements	**25**	191
Operating cash flow from continuing activities	**156**	**244**
Capital expenditure	–	(112)
Taxation (paid)/received	**(12)**	3
Disposal of investments	**171**	262
Net interest paid	**(75)**	(84)
Net cash outflow of discontinued activities	–	(78)
Increase in cash (before equity dividends)	**240**	**235**
Equity Dividend	–	(31)
Increase in total cash (after equity dividends)	**240**	204

The operating cash flow from continuing activities was £156m, £88m lower than the prior year after excluding the cash generated by Bruce Power (see note 28 of the financial statements). Included in the period cash flows are capital investment expenditure amounts totalling £92m that are expensed as part of materials and services costs. Of this, an amount estimated at £70m may have been capitalised in the absence of the impairment review, with the balance of £22m being classified as refurbishment costs. In the prior year capital expenditure of £112m was not deducted in calculating operating cash inflow from continuing activities.

When adjusted for the capital expenditure, the taxation paid or received, the receipts from sale of investments, the net interest paid and discontinued activities, the free cash flow position was £240m in the period compared to £235m (before equity dividends paid of £31m) in the prior year.

Net cash outflows for interest payments reduced by £6m.

Net receipts from disposals of £171m (see note 5 of the financial statements) mainly represented the proceeds from the sale of AmerGen. In the prior year there were net receipts of £262m from the sale of Bruce Power.

Capital Resources

At 31 March 2004, total debt of £883m comprised:

- A project finance loan of £475m secured on the assets of Eggborough Power Limited (EPL), a subsidiary company that operates the Eggborough coal-fired power station. At 31 March 2004 the effect of the Group's interest rate contracts is to classify the borrowings as fixed rate. Amounts owed by EPL are not guaranteed by British Energy but British Energy guarantees the payment of amounts by British Energy Power and Energy Trading Limited (BEPET) to EPL under the Capacity and Tolling Agreement (CTA) between BEPET and EPL. The contractual amounts payable by BEPET under the CTA are calculated so as to cover EPL's borrowing requirements and operating costs. British Energy also provides a subordinated loan facility to EPL. The final instalment of loan principal will be repaid in 2011. The loan currently bears interest at LIBOR plus 1.3%. It is proposed that these arrangements will be restructured as part of the Proposed Restructuring of the Group. For further details of the Proposed Restructuring see note 1 to the financial statements and the Restructuring section on page 25.
- An aggregate principal amount of £408m sterling denominated bonds due between 2003 and 2016. The bonds bear interest at a rate of between 5.9% and 6.2%. An aggregate principal amount of £110m matured in March 2003 but payment has been stoodstill as part of the arrangements in the Proposed Restructuring.

There were no drawings under the Government Facility at 31 March 2004 and 31 May 2004 and the conditions applying to the facility are more fully discussed in the note to the summary financial statement.

Net debt decreased in the year by £240m to £310m. This was mainly as a result of the proceeds from the sale of AmerGen, cash flow benefits from the revised BNFL back end arrangements and improved cash management procedures.

Future Liquidity and Collateral

At 31 March 2004 and 31 May 2004 the Company had cash and liquid resources, including amounts posted as collateral, amounting to £573m and £507m respectively, of which £297m and £304m were deposited as collateral in support of trading activities.

The Group's main source of liquidity is its operating businesses. Cash generation by the operating businesses is dependent upon the reliability of the Company's power stations in producing electricity, the realised selling price for electricity, operational risk and capital investment expenditure (expensed in the profit and loss account since 1 April 2003) and maintenance requirements.

The Group lost its investment grade rating in September 2002. British Energy intends to seek a new credit rating prior to the issuance of new bonds as part of the Proposed Restructuring. The loss of investment grade rating has meant that the Group now has to provide significant levels of collateral to counterparties in order to cover their trading exposures, to maintain trading arrangements, thereby substantially reducing the levels of cash resources available to the Group. Given the financial circumstances of the Group, certain contracts may be capable of being terminated. Such termination may result in termination payments being payable as well as having an adverse effect on cash flows.

The Government Facility will mature on the earliest of (1) 30 September 2004, (2) the date on which the Proposed Restructuring becomes effective and (3) any date notified by the Secretary of State to British Energy on which repayment of amounts outstanding under the Government Facility are required as a result of a Commission decision or an obligation under EU law.

The Company faced short-term pressures on liquidity during the third quarter resulting from the combined effect of seasonality, the major unplanned outage at Heysham 1 and the increased levels of collateral and costs of unplanned outages brought about by the increased level of volatility in electricity prices. During the period collateral peaked at £355m, in January 2004.

The Company's strategy for securing part of its income through fixed price contracts means that in a volatile and rising electricity market the collateral requirements are also volatile.

The Board remains of the opinion that the working capital available to the Group is not sufficient for the present requirements of the Group. The Company is taking steps with a view to improving this situation. The receipt of the proceeds from the disposal of AmerGen significantly increased the Group's financial flexibility. The Board is continuing to explore initiatives to reduce the demand for trading collateral and to achieve sufficient liquid resources to implement the Proposed Restructuring.

The Proposed Restructuring and, therefore, the working capital available to the Group, remain subject to a large number of significant uncertainties and important conditions. These include settling certain documents with creditors, approval of the Scottish Court, listing of the new shares and new bonds and receipt by the Secretary of State of notification of a satisfactory decision by the Commission that, insofar as the proposals involve the grant of State aid by the UK Government, such aid is compatible with the common market. The Secretary of State now expects to receive this notification during this autumn. The Proposed Restructuring is also conditional on there being no material adverse change affecting the Group as a whole or Eggborough Power Limited and no material adverse effect on the value of the creditors' entitlements under the Proposed Restructuring. Furthermore, the Secretary of State is entitled not to proceed with the Proposed Restructuring if, in her opinion, the Group will not be viable in all reasonably foreseeable conditions without access to additional financing beyond that which is committed and will continue to be available when required. Also, for listing purposes, the restructured Group will need to have sufficient working capital for its present requirements from listing of the new shares and new bonds. Some uncertainties which may affect the Group's cash flow position, performance or outlook are described in this Review of Operating Performance and Financial Review.

If the conditions to the Proposed Restructuring are not fulfilled, or if the Company's cash generating initiatives are not achieved in each case, within the time scales envisaged or required, or if there is a material deterioration in the Group's cash flow position, performance or outlook, or if the Government Facility ceases to be available or if the restructuring and standstill arrangements which the Group has entered into with certain of its creditors are terminated, British Energy may be unable to meet its financial obligations as they fall due and consequently the Company may have to take appropriate insolvency proceedings, in which case the distributions to unsecured creditors may represent only a small fraction of their unsecured liabilities and there is unlikely to be any return to shareholders. Further details on the Proposed Restructuring are contained in the note to the summary financial statement.

Post Balance Sheet Events

On 25 May 2004 the Group received the sum of C$10m in respect of the restart of Unit 3 of the Bruce power station as disclosed in note 34 to the financial statements.

Contingent Liabilities

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

The claim relating to the condition of the plant is based upon alleged erosion of some of the steam generator support plates, through which boiler tubes pass, which it is alleged resulted in an extended outage of one unit at the plant to carry out repair works and loss of net revenues and costs of approximately C$64.5m. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. British Energy has rejected the claim and expects to defend it if it is pursued further. In accordance with accounting standards, no provision has been made in the financial statements at 31 March 2004.

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

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

As a result of an accounting adjustment made by Exelon to the value of nuclear fuel contained in AmerGen's balance sheet dated 21 December 2003 British Energy may be required to make a payment to Exelon of up to US$13.7m. British Energy served a Dispute Notice on Exelon on 4 June 2004 to preserve its rights. The agreement with Exelon for the sale of AmerGen requires that, prior to instituting any litigation or other dispute resolution procedure, the companies will in good faith seek to resolve any dispute.

Further contingent liabilities of the Group are described in note 32 to the financial statements for the period.

Dividend Policy

The Board intends to distribute to shareholders as much of the Company's available cash flow as prudently possible, but not prior to the completion of restructuring, and not until the operational requirements of the business permit. In addition, under the terms of the Proposed Restructuring, there are certain restrictions on the Board's ability to pay dividends, including:

- British Energy is required to fund a cash reserve out of the Company's post-debt service cash flow in order to support the Group's collateral and liquidity requirements post-restructuring. The initial target amount for the cash reserve is £490m plus the amount by which cash employed as collateral exceeds £200m (Target Amount). It is expected that, when the Proposed Restructuring is completed, the level of the cash reserves will be below the Target Amount and therefore there will be no distributions to shareholders until such times as the cash reserve is at the required level. As a result of the requirements to fund the cash reserves, the Board is not paying a dividend in respect of the financial year ended 31 March 2004 and does not expect to pay a dividend in respect of the financial years ending 31 March 2005 and 2006;
- the terms of the Nuclear Liabilities Agreements to be entered into as part of the Proposed Restructuring also require that once the cash reserve is funded to the Target Amount, British Energy must make Cash Sweep Payments to the Nuclear Liabilities Fund (NLF). The NLF Cash Sweep Payment is initially defined as 65% of the movement in cash, cash equivalents and other liquid assets during the year after adjusting for, among other things, certain payments made to the NLF or dividends paid in the year. The requirement to make the NLF Cash Sweep Payment will greatly reduce the amount of cash that would otherwise be available for distribution to shareholders;

- the terms of the new bonds to be issued as part of the Proposed Restructuring contain certain covenants, including a restriction that allows British Energy to pay a dividend only if no event of default has occurred; and
- the Company must have distributable reserves.

Financial Instruments and Risk Management

Overview

The main financial risks faced are trading risks in England and Wales in respect of both price and volume output on the sale of electricity while in Scotland the risk is all price related during the term of the NEA. There is also an exposure to risks associated with fluctuations in the equity markets through the Decommissioning Fund and Pension Schemes. Policies have been instituted for managing each of these risks, which have been approved by the Board of Directors. Each of these risks is discussed in more detail below with the exception of liquidity and funding risk which is more fully discussed in the Restructuring section on page 25.

The Power and Energy Trading Division manage electricity trading risks. The Power and Energy Trading Division operate within policies and procedures that are approved by the Board and monitored by a sub-committee of the Executive Committee.

Non-trading risks (i.e. cash resources, debt finance and financial risks) are managed by the central treasury function (the Treasury Department). The Treasury Department operates within policies and procedures approved by the Board. The Treasury Department uses appropriate and available instruments, within specified limits, to manage financial risk but is not permitted to take speculative, open positions. Both the Treasury Department and the Power and Energy Trading Division are subject to regular scrutiny from the Internal Audit Department.

Interest Rate Risk Management

The market value of debt varies with fluctuations in prevailing interest rates in the United Kingdom.

Eggborough related derivative agreements (nominal amount of £377m as at 31 March 2004 (2003: £398m)) have been amended in the period as part of the Proposed Restructuring process. The derivatives were originally established to convert the variable rate financing used to purchase the Eggborough coal-fired station to fixed-rate over an agreed profile. The effect has been to fix future interest payments under the swaps from October 2004 onwards.

In addition, the Group had mixed rate derivatives with a nominal amount of £38m (2003: £56m) which were established as an interest rate management tool. As at 31 March 2003 the derivatives were no longer deemed effective because of the Proposed Restructuring and a provision was established for the projected out of the money element.

At 31 March 2004 the total of investments in liquid funds and cash at bank amounted to £573m (2003: £333m), and had maturity dates due within one year. Cash not immediately required for business purposes is invested in fixed-rate term deposits and money market funds. At 31 March 2004 the term deposits and money market funds not used to fund collateral were due to mature or were available within one month and earned interest at an average rate of 3.9%. Term deposits, money market funds and bank balances at 31 March 2004 include £297m of cash that has been deposited in collateral bank accounts and earned interest at an average rate of 3.1%. Availability of this cash is, therefore, restricted over the periods of the collateralised positions.

As the deposit terms are short-term, the carrying value at 31 March 2004 and 31 March 2003 approximates to the fair market value.

Foreign Exchange Risk Management

There are potential future foreign currency receivables in respect of amounts outstanding from the sale of Bruce Power and AmerGen. When these cash flows become more certain in the future the Group will evaluate currency hedging opportunities, balancing the cost and availability of entering into such transactions against the underlying currency risk.

At 31 March 2004 there were no foreign exchange contracts in place.

At 31 March 2003, there were deferred losses of £2m accounted for as part of stock that arose on the rollover of maturing forward contracts used for hedging the future purchase of nuclear fuel prior to and including the year ended 31 March 2003. See note 19 to the financial statements.

Electricity Trading Risk Management

Electricity trading activities relate principally to supporting the generation business. The trading operations, therefore, act principally as wholesale marketers rather than as pure financial traders, with the principal objective of increasing the return on assets while hedging the market risk associated with the output of the power stations.

Under NETA in England and Wales any mismatch between actual metered generation (or demand) and the notified contract position is settled through the balancing mechanism at generally unfavourable prices. British Energy aims to sell all planned nuclear output forward and to minimise exposure to the balancing mechanism.

The risks in the wholesale market are managed through a contracting strategy that builds a portfolio of forward contracts of different lengths.

Whilst operating primarily as a flexible mid-merit plant, Eggborough provides a flexible generation capability that fulfils three purposes designed to enhance profitability. Firstly, it provides a means for compensating for unplanned lost output from British Energy's nuclear units at short notice; secondly it provides the capability to adjust in a cost effective manner the Company's total generation to meet the requirements of both wholesale and Direct Sales Business customers; and thirdly, it provides a capability that can be offered at short notice to the system operator via the balancing mechanism.

Output from the two stations in Scotland will continue to be sold under the terms of the Nuclear Energy Agreement to Scottish Power and Scottish and Southern Energy until April 2006, or the introduction of BETTA, whichever is earlier.

British Energy's policy is to manage credit exposure to trading and financial counterparties within clearly defined limits. A sub-committee of the Executive Committee strictly monitors electricity trading activities which are controlled through delegated authorities and procedures, and which include specific criteria for the management of counterparty credit exposures.

Equity Risk Management

UK Nuclear Generation Decommissioning Fund Limited (the UK decommissioning fund) was established to provide for the eventual decommissioning of the Group's UK nuclear power stations. Cash contributions are made on a quarterly basis to a payment profile set out in a contract between the Group and the UK decommissioning fund and are invested by the Trustees of the UK decommissioning fund in UK marketable fixed income debt, equity securities and property in accordance with its investment policy. The Group may suggest modifications to the policy for the Trustees to consider. British Energy is ultimately responsible for contributions to the UK decommissioning fund. Therefore, the level of future contributions, which are reviewed every five years in conjunction with the review of ultimate decommissioning costs, depend partly on the estimated long-term investment performance of the equity and debt instruments in which the contributions are invested and returns on investments in property. Income from dividends and other returns on the underlying investments are retained by the UK decommissioning fund and then invested in debt and equity securities.

The balance on the UK decommissioning fund was recorded in the balance sheet at £440m at 31 March 2004 (2003: £334m), which approximates to its market value. The UK decommissioning fund included debt and equity securities with market values of £44m and £396m respectively at 31 March 2004 (2003: £43m and £291m).

If the Proposed Restructuring is completed, the Group's liabilities in respect of the decommissioning of its stations will be governed by the terms of certain of the restructuring agreements with Government relating to the establishment and operation of the NLF. As a consequence, the Group's level of obligation for decommissioning liabilities will be predetermined, and will not be subject to fluctuations in the values of assets held by the UK decommissioning fund.

The Group reported a deficit of £352m (2003: £352m) on its employee Pension Schemes, on an FRS17 basis, in its financial statements at 31 March 2004. At that date the Pension Schemes' assets were valued at £1,795m (2003: £1,525m) of which £1,568m (2003: £1,316m) was held in equities and bonds. The level of employer contributions to the Schemes will be re-assessed following the triennial actuarial valuation that will be carried out as at 31 March 2004. The level of re-assessed contributions will depend partly on the estimated long-term investment performance of the equity and debt instruments in which the contributions are invested.

International Accounting Standards

On 29 September 2003 the European Commission formally approved a regulation to adopt international accounting standards for the purpose of financial reporting for publicly traded companies within the European Union (EU). The regulation will directly concern listed EU companies and is aimed at enhancing transparency in annual financial statements, and therefore increasing competition and the free movement of capital within the EU. Along with many UK registered companies, for British Energy the regulation will require the use of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) in preparing its consolidated Group financial statements from 1 April 2005 onwards.

The first annual report and financial statements that British Energy publishes under the international accounting principles will be for the year ended 31 March 2006. However, at that time, the comparative period will be restated to show the adjustments resulting from the change from UK accounting practice, which the Group currently uses, to the application of IASs and IFRSs. Details of all adjustments that have been necessary to shareholders' equity and results for the restated periods will be provided at the appropriate time.

In preparation for the implementation of IASs and IFRSs British Energy has initiated a project to review their impact on its business. The first phase of the project has been completed that involved the identification of key accounting and disclosure issues. However, a number of areas require further work as the IFRS requirements are not as yet clearly defined in a number of key areas. Significant differences were identified that will affect reported profits and net asset values particularly in the treatment of pension costs, derivative financial instruments, deferred taxes and the accounting treatment of certain aspects of the Proposed Restructuring. There will also be differences in the presentation of both the primary statements and notes to the annual report and financial statements.

The second phase of the project has commenced to identify and implement the changes required to the Group's accounting policies, information systems, management processes and financial reporting activities.

M R Alexander

Mike Alexander
Chief Executive

Environment

The environment has received considerable political attention over the last year with a number of significant new EU and UK initiatives. Foremost amongst these is the EU Emissions Trading Scheme (ETS) which is designed to promote a reduction in emissions of carbon dioxide and other greenhouse gas emissions. The Company has been supportive of the initiative because it provides a cost-effective approach to carbon reductions and allows the market to start to reflect the value of nuclear generation which emits only negligible levels of greenhouse gases.

The UK implementation of the ETS involved considerable stakeholder consultation by Government resulting in a draft National Allocation Plan (NAP) in which each installation, including the Group's Eggborough coal-fired power plant, was given its carbon dioxide allocation for the period 2005-07. There are still a number of significant milestones, and there will be further developments, before the formal start of the ETS in January 2005. British Energy is developing its facilities and capacity to trade in what is potentially a large, exciting new market.

The Group's nuclear facilities continue to make a major contribution to the UK's Climate Change Programme and to dilute the emissions from fossil generation. In 2003/04 the output from British Energy's nuclear stations once again avoided the emission of over 39 million tonnes of carbon dioxide that would otherwise have been emitted by fossil generation (even including the carbon dioxide emissions from Eggborough this would be 32 million tonnes). To put this in context, the emissions avoided from one of the Group's nuclear plants is approximately the same as the proposed annual reductions from the entire UK Emissions Trading Scheme in 2010.

British Energy's nuclear plant also avoided the emission of about 250,000 tonnes of sulphur and nitrogen oxides that would once again have been emitted by fossil generation. The Large Combustion Plant Directive is an initiative which aims to reduce sulphur and nitrogen oxide emissions and will affect Eggborough's future output. The Directive will not come into force until January 2008 but Eggborough (and all other coal plant) will be given lower emission limits than at present for the period 2005-2007.

A further European Union initiative has been a Green Paper on Liberalisation of electricity markets and the resulting Directive concerning rules for EU electricity markets. The Directive includes a requirement on electricity suppliers to provide fuel mix information (sometimes also known as energy labelling). This is intended to help consumers make informed choices about the environmental impact of the electricity they buy. The Directive will come into force in July 2004, although British Energy has disclosed its fuel mix and environmental information to customers since September 2003.

The Government has reaffirmed its commitment to develop new technologies by extending the 10% renewables target for 2010 to a 15% target by 2015. It is against this backdrop that the Company continues to develop a small number of renewables projects, primarily in Scotland.

The Government provided an important stimulus to the biomass renewable sector by including co-firing (i.e. the burning of biomass with traditional fossil-fuels) at existing fossil stations as part of the Renewables Obligation. The Company has successfully undertaken trials at its Eggborough power station. Co-firing will generate certificates helping us to meet our commitment under the Renewables Obligation.

All radioactive waste produced by our nuclear power stations is tightly regulated and controlled so as to minimise discharges and ensure they remain within authorised limits. During the course of the year none of our stations exceeded any of its Radioactive Substances Act limits and doses to members of the public remained low (estimated to be less than 0.03mSv compared to natural background of over 2mSv). During the year an independent body (the Committee on Radioactive Waste Management) has been set up by the Government to review the UK's nuclear waste management options. It is due to report its findings in 2006.

In 2003/04 British Energy Generation Limited (the subsidiary which operates our English nuclear power stations) applied to the Scottish Environment Protection Agency (SEPA) for new authorisations under the Radioactive Substances Act 1993 (RSA93) to dispose of radioactive wastes from Hunterston B and Torness. This was both to assist SEPA in its policy of regular review of such authorisations and to facilitate the relicensing of these stations to British Energy Generation Limited from British Energy Generation (UK) Limited – in time allowing the Group to move to a single nuclear licensee. Within England the Environment Agency (EA) has announced its intention to review the RSA93 authorisations for the English stations, and the Company is beginning the process of assembling its submissions to the EA.

All of British Energy's power stations and its two support offices continue to retain certification to the international environmental management standard, ISO14001. There has been increased training during the year to improve awareness of environmental legislation at various levels within the British Energy Group and some of its main contractors. Staff are encouraged to target reductions in water, paper and energy consumption by incorporation in business unit targets, where appropriate.

Regrettably, British Energy Generation Limited was subject to a prosecution by the EA at Folkestone Magistrates Court in March 2004 for failure to obtain the correct authorisation relating to installed diesel capacity at our Dungeness B power station. This omission, which was reported by the Company to the EA led to a fine of £10,000. The Company is committed to high environmental standards and is reinforcing its efforts to ensure regulatory compliance.

Social Responsibility

British Energy employs around 5,000 people in the UK, and is committed to ensuring equal opportunities in recruitment, promotion, career development and reward for all employees.

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

The Company continues to believe that recruiting talented people is vital to its future and remains committed to recruiting young people onto its apprentice and graduate training programmes. Despite the Company's difficulties, 33 apprentices and 21 graduates joined British Energy in 2003/04 – in line with previous years.

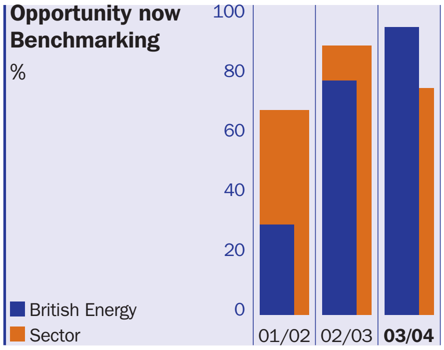
British Energy recognises the importance of sharing best practice and success, and is an active member of a number of organisations including Race for Opportunity, Opportunity Now, Employers' Forum on Disability and Age Positive as well as a number of local networking organisations. These organisations consider ways to promote gender, race, disability and age equality within the work place. In addition, the Company has a voluntary Equal Opportunities Focus Group, which plays a significant part in improving diversity, and continues to deliver improvements via its Positive Action Plan.

A very encouraging trend is the dramatic improvement in British Energy's score in the Opportunity Now annual survey. The UK's largest benchmarking exercise on equality and diversity, this recognises the significant progress the Company has made over the last two years in its ability, and determination, to integrate diversity into day-to-day activities. The Company has moved from a score of 29% in 2002 to 93% in 2004, qualifying for a gold award.

Opportunity Now is the business-led campaign group that works with employers to realise the business benefits of gender equality. Although focused on gender equality, the survey gives a good indication of the Company's commitment to equal treatment for all staff.

All British Energy's power stations are located in areas of high environmental value and the Company works to manage its landholdings in a sustainable manner. The Company's Integrated Land Management Plans for each site aim to protect and enhance biodiversity, conserving the local landscape, character and historical heritage.

British Energy works closely with local authorities, Non Governmental Organisations, communities and volunteer groups. The Company has 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. A good example of this is the use of landfill tax credits to fund a major refurbishment of the nature reserve at Sizewell thanks to the partnership between the Suffolk Wildlife Trust and British Energy. The refurbishment was made possible thanks to a tax credit available through the Company's administration of the Landfill Tax Credit Scheme. The tax credit was also used to support other environmental projects across the UK.



British Energy continues to work with a number of charities on a local basis, and, in the course of the year, made sponsorships and donations totalling £93,535. In addition, our stations and corporate offices enjoy close links with the local community and are active fundraisers for local 'good causes'. During the year the Company nominated The Royal Association for Disability and Rehabilitation (RADAR) as the British Energy Employee Charity of the Year for the current year. Within this partnership the Company has promised to match funds raised by staff up to £100,000.

Restructuring

Work to implement the restructuring of British Energy continued throughout the year and a number of significant milestones were achieved. In particular, formal agreement on the terms of the restructuring was reached with Government and certain creditors (the Proposed Restructuring), and the sale of the Company's 50% interest in AmerGen was completed.

Terms of the Proposed Restructuring

There follows a summary of the terms of the Proposed Restructuring. In due course shareholders will be sent full details of the proposals and will be asked to vote on them.

On 1 October 2003 the Company announced that it had agreed the terms of the Proposed Restructuring of the British Energy Group with certain of its creditors and the Secretary of State for Trade and Industry (the Secretary of State). The terms of the Proposed Restructuring are based on the heads of terms signed by various parties on 14 February 2003, and are set out in:

(a) the Creditor Restructuring Agreement dated as of 30 September 2003 and entered into by the Company, certain other Group companies, the bank syndicate that provided financing for the Eggborough coal-fired power station (the Eggborough Banks), The Royal Bank of Scotland plc (RBS), Teesside Power Limited (TPL), Total Gas & Power Limited (Total) and Enron Capital & Trade Europe Finance LLC (Enron) (TPL, Total (which has subsequently transferred its interest to Deutsche Bank) and Enron (which has also subsequently transferred its interest to Deutsche Bank) being collectively referred to as the Significant Creditors), the members of the ad hoc committee of British Energy's Bondholders and British Nuclear Fuels plc (BNFL) (as amended by a side letter entered into on 31 October 2003) (the Creditor Restructuring Agreement); and

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

The Creditor Restructuring Agreement required certain further creditor approvals and sign ups. By 31 October 2003 all these requirements had been satisfied. Bondholders and RBS, together with all the Eggborough Banks had signed up to the Creditor Restructuring Agreement, and approval for the Proposed Restructuring had been obtained from the credit committee of RBS.

The key points of these agreements are:

- the Bondholders, RBS, the Significant Creditors and the Eggborough Banks have agreed (subject to certain conditions) to extinguish their existing unsecured claims against the Group in exchange for £275m of new bonds and at least 97.5% of the issued ordinary shares of the restructured Group (the claims of the Bondholders and RBS will be exchanged pursuant to a scheme of arrangement to be proposed to these creditors by the Company (the Creditors' Scheme). In the case of the Significant Creditors and the Eggborough Banks, claims will be exchanged pursuant to the terms of the Creditor Restructuring Agreement itself);
- the NLF will assume financial responsibility for discharging certain of the Group's uncontracted nuclear liabilities and costs of decommissioning the Group's nuclear power stations and the Secretary of State will assume financial responsibility for certain of the Group's liabilities to BNFL relating to historic spent fuel and any shortfall in the NLF;
- in consideration for this assumption of financial responsibility, the restructured Group will issue £275m in new bonds to the NLF. In addition, members of the Group will make the following payments to the NLF: (i) fixed decommissioning contributions of £20m per annum (indexed to RPI and tapering as stations are scheduled to close); (ii) £150,000 (indexed to RPI) for every tonne of fuel loaded into the Sizewell B reactor after completion of the Proposed Restructuring; and (iii) an annual contribution equal to a percentage of the Group's adjusted cash flow (initially 65% subject to adjustment, but not to exceed 65%) (the NLF Cash Sweep Payment);
- the entitlement of the NLF to the NLF Cash Sweep Payment is convertible into an equity shareholding in the new parent company of the Group (Newco 1) equal to the same percentage of the thereby enlarged issued share capital. The terms of the convertible ordinary shares into which such entitlement will convert will limit the general voting rights attaching to such shares to a maximum of 29.9%;
- the Eggborough Banks, as creditors with security over Eggborough Power Limited (EPL), have agreed (subject to certain conditions) to replace their secured claims with a right to payments under an Amended and Restated Credit Agreement (the Amended Credit Agreement) having a payment profile equivalent to £150m of new bonds (the CTA Bonds). In addition, the Eggborough Banks will have an option to acquire the Eggborough power station either through a share or asset purchase in 2010 upon payment of a £104m break fee and the extinguishment of the then £83m of outstanding CTA Bonds. This option may be accelerated in the event of a default under the Amended Credit Agreement. The security over EPL under the Amended Credit Agreement will secure both the £150m bond-equivalent payments and, through an indemnity for non-performance, the option acceleration;
- the standstill arrangements entered into by British Energy and certain of its creditors on 14 February 2003 have been extended and will continue while the Proposed Restructuring is being implemented (subject to the occurrence of certain termination events).

The credit facility provided to British Energy by the Secretary of State (the Government Facility) was granted on 9 September 2002 for 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 Government had agreed to extend a revised Government Facility for up to £650m until 29 November 2002 to give the Company sufficient opportunity to develop a restructuring plan. On 28 November 2002 British Energy announced that the Government Facility had been further extended until 9 March 2003, and on 7 March 2003 the Company announced that the Government had agreed to extend the

Government Facility in the reduced amount of £200m, such that it would mature on the earliest of the dates described below. On 27 November 2003 British Energy announced that it had agreed a temporary increase in the amount of the Government Facility to £275m with the Secretary of State. The Government Facility reverted to £200m upon receipt of the proceeds of the disposal of our interest in AmerGen (see below) and is undrawn at 15 June 2004.

The Government Facility will mature on the earliest of (i) 30 September 2004, (ii) the date on which the Proposed Restructuring becomes effective and (iii) any date notified by the Secretary of State to British Energy on which repayment of amounts outstanding under the Government Facility are required as a result of a European Commission (the Commission) decision or an obligation under EU law.

Impact of the Proposed Restructuring on Existing Shareholders

As part of the Proposed Restructuring, the Company proposes to cancel its existing ordinary shares of $44\frac{28}{43}$ pence each and A shares of 60 pence each under a scheme of arrangement with its shareholders (the Members' Scheme), and issue to shareholders: (i) new ordinary shares in Newco 1 equal to 2.5% of the issued share capital of Newco 1 immediately following implementation of the Proposed Restructuring, and (ii) warrants to subscribe for a maximum of 5% of the thereby diluted ordinary issued share capital of Newco 1 (excluding, amongst others, the impact of conversion of the NLF Cash Sweep Payment described above) immediately following implementation of the Proposed Restructuring. If the shareholders do not approve the Members' Scheme or for any other reason the Members' Scheme is not implemented, but shareholders instead vote in favour of the Company selling all its business and assets to a directly wholly-owned subsidiary of Newco 1, they will receive only the warrants. If the shareholders do not vote in favour of either proposal, they will receive no shares or warrants.

The subscription price for the warrants which shareholders would receive in the circumstances detailed above is £28.95m in aggregate, equivalent to an equity market capitalisation of the Group of £550m following implementation of the Proposed Restructuring.

Bruce Power

British Energy completed the sale of its entire 82.4% interest in Bruce Power and 50% interest in Huron Wind on 14 February 2003.

On 28 April 2003, British Energy announced that it had received C$20m 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.

In addition to the consideration received at the time of the disposal of its interest in Bruce Power, British Energy was entitled to receive up to C$100m, contingent on the restart of two of the Bruce A Units (Units 3 and 4). On 22 March 2004 the Company received the sum of C$20m in respect of the restart of Unit 4 and on 25 May 2004 we received a further C$10m in respect of the Unit 3 restart. Discussions are ongoing with the Ontario Provincial Government regarding the release of further sums (if any). The total amount that will be released will be significantly less than C$100m.

On 12 February 2004 British Energy received a notice of warranty claims from the consortium which purchased the Group's interest in Bruce Power alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce power station. Further details of these claims can be found on page 20.

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

New Contracts with BNFL

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 non-binding heads of terms which it entered into with BNFL on 28 November 2002. The revised front end and back end fuel contracts that have been agreed with BNFL provide an important partial hedge against market price movement on approximately 50% of the Company's total nuclear output.

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 revised back end contracts, payment from British Energy to BNFL will be made as if the revised back end contracts had become effective on 1 April 2003.

At the same time, British Energy announced that new contracts had also been entered into for the sale of all of its natural and enriched uranium stocks to BNFL and their ongoing supply and procurement by BNFL. BNFL purchased the majority of British Energy's existing uranics stocks for some £50m and now provides British Energy with a full uranics supply service (including an obligation to use all reasonable endeavours to achieve the lowest possible price for uranium to be supplied to British Energy). The remaining stocks were subsequently purchased by BNFL later in the year. Under the new lifetime arrangements (which are terminable however after an initial period of seven years) BNFL will supply the uranics required for British Energy's AGR stations in England, and will also supply enriched uranium for PWR fuel fabrication. BNFL will continue to supply uranics 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. This project is expected to be completed by 31 March 2005.

Disposal of Interest in AmerGen

In September 2002, British Energy and Exelon, equal joint venture partners in AmerGen announced their intention jointly to sell their investment. The disposal process did not attract suitable offers and on 7 March 2003 British Energy announced that it had decided, jointly with Exelon, to terminate the sale process as both parties together concluded that none of the proposals received adequately reflected AmerGen's intrinsic value. At that time British Energy stated that it was continuing to take steps to realise its 50% interest in AmerGen.

On 11 September 2003, the Company announced that it and certain of its subsidiaries had entered into a conditional agreement to dispose of their interest in AmerGen to the FPL Group Inc. (FPL) for approximately US$277m, subject to various potential adjustments. FPL had been selected by the Company to purchase its interest following a competitive bidding process.

This announcement highlighted the fact that Exelon had a right of first refusal to purchase British Energy's interest on the same terms and conditions and at the same price as those offered by FPL. Subsequently, on 3 October 2003, Exelon exercised its right of first refusal. The terms and conditions of the disposal were formally agreed on 10 October 2003.

As a result of Exelon's exercise of its right of first refusal, the original agreement with FPL terminated on 13 October 2003 following the service of formal notice to that effect by British Energy. As a consequence, a break fee of US$8.3m became payable by British Energy to FPL.

On 23 December 2003 the Company announced the completion of the disposal of its interest in AmerGen. At closing initial consideration of approximately US$277m was received prior to adjustments relating to working capital levels, unspent nuclear fuel, inventory, capital expenditures and low-level waste disposal costs which were to be determined as at the time of closing. Finalisation of these adjustments is still outstanding.

Approximately £94m of the consideration was used to pay down outstanding amounts under the Government Facility and the balance was retained for corporate purposes.

Further steps

The Company is continuing to work hard with its advisers to achieve the Proposed Restructuring. This requires, amongst others:

- preparation and publication of scheme documentation and a prospectus in relation to the new shares, new bonds and warrants to be issued under the Proposed Restructuring;
- settling certain documents with creditors;
- the holding of creditors' and members' meetings;
- approval of the Scottish Court in relation to the creditors' scheme; and
- implementation and listing of the new shares and new bonds.

British Energy's ordinary shares are currently listed on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts (ADRs) and it has agreed to make efforts to obtain a new or continuing listing of the restructured Group's ordinary shares in the form of ADRs on the NYSE. British Energy has also agreed to report its quarterly and annual financial results in compliance with US Generally Accepted Accounting Principles, generally to comply with the requirements of the Sarbanes Oxley Act, and to file reports as if it were a US domestic reporting company.

The Proposed Restructuring remains subject to a large number of important conditions, including:

- receipt by the Secretary of State of notification of a satisfactory decision by the Commission that in so far as the proposals involve the grant of State aid by the Government, such aid is compatible with the common market. The Secretary of State now expects to receive this notification during this autumn;
- the Secretary of State's entitlement not to proceed with the Proposed Restructuring if, in her opinion, the Group will not be viable in all reasonably foreseeable conditions without access to additional financing beyond that which is committed and will continue to be available when required;
- the restructured Group having sufficient working capital for its present requirements from the listing of the new shares and new bonds;
- there being no material adverse change in the current or future business or operations, the financial or trading position, profits or prospects of the Group as a whole or of EPL or which is likely to have a material adverse effect on the value of the new bonds, the new ordinary shares, the CTA Bonds or the new Eggborough arrangements;
- continuation of the standstill arrangements described above; and
- agreement on presently unsettled documents with creditors, Scottish Court approval and listing of the new shares and new bonds referred to above.

There are also a large number of significant uncertainties which may affect the Group's cash flow position, performance or outlook.

If for any reason British Energy is unable to implement the Proposed 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 Proposed 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, 14 February 2003 and 1 October 2003, are available on the Company's website http://www.british-energy.com. The Company will make further announcements about the Proposed Restructuring in due course.

Board of Directors

Adrian Montague (56)[ŷ]
Joined British Energy as Chairman in November 2002 and also held an executive role until the appointment of Mike Alexander as Chief Executive in March 2003. He is currently also Chairman of Michael Page plc, Deputy Chairman of Network Rail and a senior international adviser to Société General. A law graduate of Cambridge University, he was a partner with Linklaters & Paines, before joining Kleinwort Benson as Head of the Project and Export Finance Department in 1993, and subsequently became Global Head of Project Finance in 1997. Then he undertook a number of senior roles in the implementation of the Government's private finance policies, serving as the Chief Executive of the Treasury Taskforce from 1997-2000, and as Deputy Chairman of Partnerships UK plc, and a Private Finance Advisor to the Department of the Environment, Transport and The Regions between 2000 and 2001. In September 2002 he was appointed to head the review team monitoring London's Crossrail project. He was awarded a CBE in 2001. He is Chairman of the Nominations Committee.

Mike Alexander (56)[uo]
Appointed as Chief Executive in March 2003. Prior to joining British Energy he was Chief Operating Officer and Executive Board Member of Centrica plc, and before that Managing Director of British Gas Trading. After graduating from Manchester University with a BSc in Chemical Engineering and an MSc in Computer Engineering he joined BP, undertaking a number of operational plant improvement, engineering, corporate planning and business development projects throughout the world. He joined British Gas in 1991 as Commercial Director of BG Exploration & Production Limited and was a Director of several overseas exploration and production subsidiaries, becoming Managing Director of British Gas Supply Limited. Whilst at British Gas he directed their move into the deregulated electricity market and oversaw the launch of the Goldfish credit card. He is a Non-Executive Director of Associated British Foods plc and was previously Chairman of AG Solutions Limited, Hydrocarbons Offshore Limited and a Non-Executive Director of The Energy Saving Trust.

Martin Gatto (54)[o]
Appointed Interim Finance Director in December 2003. He is a Fellow of the Chartered Institute of Management Accountants. Prior to joining British Energy he was Interim Chief Financial Officer at Midlands Electricity plc and was Group Finance Director at Somerfield plc between 1993 and 2002. He holds a degree in Polymer Technology from Brunel University and started as a graduate trainee with 3M UK. Subsequently he was Deputy Group Controller of Lex Service plc, and Financial Controller, Brewing, and Pubs and Leisure for Grand Metropolitan plc. He joined Hilton International in 1983, becoming Chief Financial Officer and Development and Property Director before becoming Chief Financial Officer of Sun International in 1991. In January 2004 he joined the board of Luminar plc as a Non-Executive Director and he is also a Non-Executive Director of Cox & Kings Travel Limited. He will stand for election to the Board at the forthcoming AGM.

David Gilchrist (51)[#uo]
Managing Director of British Energy Generation. He will assume the new role of Technical Director with effect from 5 July 2004. Formerly Executive Vice President, Finance of Bruce Power LP between 1999 and 2001, having previously been Financial & Commercial Director, British Energy North America. He was Executive Director, Finance of Nuclear Electric Limited from 1996 to 1998. After graduating from Cambridge University with a degree in engineering he worked in the UK and US at Caterpillar and Ford of Europe as well as a period with PA Management Consultants. A Chartered Engineer and member of the Institution of Mechanical Engineers, he was Business Development Director, Automotive at GKN plc from 1988 before joining Nuclear Electric in 1991. He was elected as the UK Representative on the Governing Board of the WANO Paris Centre in 2003.

William Coley (61)[+uŷ]
Appointed as an independent Non-Executive Director in 2003. He joined Duke Power, a major US utility company as an engineer in 1966 and spent his career there, becoming Group President between 1997 and 2003. During his time at Duke Power he held a variety of management and executive roles including Vice-President, Central Division and Senior Vice-President, Power Delivery. He was elected to Duke Power's Board of Directors in 1990, becoming Senior Vice-President, Customer Group and was President of the Associated Enterprises Group between 1994 and 1997. A Non-Executive Director of CT Communications Inc., SouthTrust Corporation and Peabody Energy, he holds a BSc in Electrical Engineering from the Georgia Institute of Technology. He is a registered Professional Engineer in North and South Carolina. He is Chairman of the Nuclear Performance Review Committee.

Pascal Colombani (58)[u]
Appointed as an independent Non-Executive Director in 2003. A nuclear physicist, he is a graduate of the Ecole Normale Supérieure, St. Cloud, and holds a Doctorate in Nuclear Physics. Presently Associate Director with ATKearney, he was, until 2003, a member of the Electricité de France Supervisory Board and the Non-Executive Chairman of the Supervisory Board of Areva, the international nuclear services group. He was Chairman and CEO of the French Atomic Energy Commission between 2000 and 2002. Following a period working in academic research both at the CNRS Nuclear Physics Institute in France and in the USA, he joined Schlumberger, the oilfield services group, in 1978, becoming Director of European Technical Co-operation and subsequently President of Schlumberger Japan in 1995. He was Director of Technology at the Ministry of Education, Research and Technology in Paris between 1998 and 1999. He is a member of the French Academy of Technology, and is a Knight of the Legion of Honour and an Officer of the Order of Merit.

John Delucca (61)[+]
Appointed as an independent Non-Executive Director in 2004 and Deputy Chairman of the Audit Committee. He holds an MBA in Finance from Fairleigh-Dickinson University School of graduate study and a BA from Bloomfield College and has held a variety of senior roles in US business. Most recently, from 2003 until March of this year he was Executive Vice-President and Chief Financial Officer of the REL Consultancy Group. Prior to that from 1998 to 2002 he was Executive Vice-President, Finance and Administration and Chief Financial Officer of Coty Inc and a member of their Executive Committee. Between 1993 and 1998 he was Senior Vice-President and Treasurer of RJR Nabisco Inc., having previously held executive positions with Hasco Associates, a private investment group, the Lexington Group, providing financial consulting to distressed companies, the Trump Group and the International Controls Corporation, where he was Executive Vice-President and CFO as well as Chairman and CEO of a subsidiary, Transway Finance Company. He is a Non-Executive Director, and chairs the audit committees of, ITC Deltacom, Enzo Biochem and Elliott Company. He has been a lecturer at Forham University's Graduate School of Business Administration and Adjunct Assistant Professor at Seton Hall University School of Business Administration. He will stand for election to the Board at the forthcoming AGM.

Ian Harley (54)[+*Ÿ]
Appointed as an independent Non-Executive Director in 2002 and Chairman of the Audit Committee. He joined Abbey National in 1977 where he held a variety of posts in the Finance, Retail Banking and Wholesale Banking Divisions before joining the Board in 1993. He spent nine years on the Board as first Finance Director, then Chief Executive, before retiring in 2002. An Economics graduate of Edinburgh University, he is a Fellow of the Institute of Chartered Accountants and a Fellow and Past President of the Institute of Bankers. He is currently a Non-Executive Director of Rentokil Initial plc, a Governor of the Whitgift Foundation and a Vice-President of the National Deaf Children's Society. Previously Chairman of the Association for Payment Clearing Services, a member of the Deposit Protection Board, appointed by the Bank of England, and a member of the Financial Services Authority's Practitioner Panel.

Clare Spottiswoode (51)[+*Ÿ]
Appointed as an independent Non-Executive Director in 2001 and Deputy Chairman and senior Non-Executive Director since June 2002. Chair of the Remuneration Committee. Her career started as an economist with the Treasury before establishing her own software company. Between 1993 and 1998 she was Director General of Ofgas and has also served as a member of the Government's Deregulation Task Force (1993) and the Public Services Productivity Panel (1998). Mrs Spottiswoode currently chairs Busy Bees Group Limited and Economatters Limited and was previously a Non-Executive Director of Booker plc. She is also currently a Non-Executive Director of Advanced Technology (UK) plc, Tullow Oil plc and Petroleum Geo-Services ASA. Awarded a CBE for services to industry in 1999, she holds degrees from Cambridge and Yale Universities. She will stand for re-election to the Board at the forthcoming AGM.

Sir Robert Walmsley (63)[+*Ÿ#υ]
Appointed as an independent Non-Executive Director in 2003. Previously he served in the Royal Navy where his final appointment was as Vice Admiral Controller of the Navy and member of the Navy Board as a Vice Admiral, starting in 1994. He was knighted in 1995. During his earlier naval career he held a number of nuclear related posts including service as the Chief Engineer of a nuclear submarine, Project Manager of a Nuclear Submarine Refit and Refuel, and Chairman of the Naval Nuclear Technical Safety Panel; he was Director General, Submarines between 1993 and 1994. He held roles in Procurement at the Ministry of Defence and was Executive Aide to the Chief of Defence Procurement between 1986 and 1987. After retiring from the Navy, he was appointed as Chief of Defence Procurement (a Permanent Secretary grade post in the Civil Service), occupying that position from 1996 until 2003. Holding an MA from Cambridge University and a postgraduate diploma in control engineering he also was awarded an MSc in Nuclear Science and Technology from the Royal Naval College. Earlier this year he was appointed as a Senior Adviser at bankers Morgan Stanley and was elected as an independent director of General Dynamics in the United States. He is Chairman of the Safety Health and Environment Committee and a Non-Executive director of the Group's licensed nuclear generator subsidiaries. He will stand for election to the board at the forthcoming AGM.

Robert Armour (44)[o]
Company Secretary since 1995 and General Counsel since 2000. A solicitor, he was a partner in Wright Johnston & Mackenzie, solicitors, between 1986 and 1990 before joining Scottish Nuclear as Company Secretary in 1990. He was Director of Performance Development for Scottish Nuclear between 1993 and 1995. From 1997 to 2003 he was Director of Corporate Affairs. He holds a law degree and MBA from Edinburgh University and has also attended INSEAD's Advanced Management Programme.

- + denotes member of the Audit Committee
- * denotes member of the Remuneration Committee
- Ÿ denotes member of the Nominations Committee
- # denotes member of the Safety, Health and Environment Committee
- υ denotes member of the Nuclear Performance Review Committee
- o denotes member of Executive Committee

Summary Remuneration Committee Report

for the year ended 31 March 2004

This is a summary of the information in the Remuneration Committee 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.

The Remuneration Committee's prime concern is the pay, benefits and other employment conditions of the Executive Directors and the members of the Executive Committee. In this context, full consideration has been given to the Combined Code. The Committee is made up of the Non-Executive Directors and is chaired by Clare Spottiswoode, Deputy Chairman.

Executive Remuneration Policy

It is the Committee's policy that base salaries are positioned broadly around the market median with an incentive opportunity which will reflect British Energy's business strategy and the challenges it faces in particular parts of the business.

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 should be mindful of safety and environmental issues;
- There should be a strong and clear link between reward and performance against agreed stretch targets.

The Committee remains concerned at the absence of any suitable long-term incentives in place for Executive Directors and senior staff and is considering how this can be addressed for the future.

The Committee has no intention to grant equity incentives prior to completion of restructuring.

Service Contracts

The policy of the Remuneration Committee is 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 who are externally recruited, it is policy to reduce these as soon as possible after the initial period.

All Executive Directors (with the exception of Martin Gatto) have a 12 month rolling contract. Martin Gatto has a fixed-term contract which terminates on 31 December 2004.

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 and retained by the Executive Director.

Termination Provisions

The Company's policy is that service contracts should not have express termination provisions other than the contractual notice periods outlined above.

Keith Lough resigned from the Board on 8 December 2003. The payment to him disclosed under 'Compensation for Loss of Office' in the table entitled 'Directors' Emoluments' on page 32 represents the balance of his contractural benefits plus a payment in respect of loss of bonus entitlement.

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 provisions from the Company.

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

Name	Expiry Date
W Coley	31/05/2006
P Colombani	31/05/2006
J Delucca	31/01/2007
I Harley	01/06/2005
A Montague	01/12/2005
C Spottiswoode	01/12/2004
R Walmsley	31/07/2006

During the year the Board reviewed the fees paid to Non-Executive Directors. On the basis of external advice, fees were reviewed effective from 1 January 2004 as follows:

Independent/Non-Executive Director	£27,000
Additional fee for Deputy Chairman/Senior Independent Director	£25,000
Additional fee for Chairing Committees (per Committee)	£10,000

In addition, with effect from 1 April 2004, those Non-Executive Directors who travel from the USA receive £1,000 per board meeting subject to a maximum of £10,000 per annum. Those who reside elsewhere outside the UK are paid £500 per meeting to a maximum of £5,000 per annum.

The levels of fees paid during the year are given on page 32.

Adrian Montague's base fee is £150,000 per annum but, because of the additional time commitment, his fees will be £300,000 per annum until restructuring is effective and binding on all interested parties, or until negotiations for a solvent restructuring are terminated. His service agreement also provides for additional lump sum fees to be paid when certain restructuring milestones are achieved.

Summary Remuneration Committee Report

for the year ended 31 March 2004

Directors' Emoluments

Name	Basic Salary and Fees (£) 2004	Basic Salary and Fees (£) 2003	Bonus (£) 2004	Bonus (£) 2003	Contingent Fees (£) 2004	Contingent Fees (£) 2003	Compensation for Loss of Office (£) 2004	Compensation for Loss of Office (£) 2003
A Montague	**300,000**	100,000	–	–	–	300,000	–	–
M Alexander	**400,000**	33,333	**190,004**	–	–	–	–	–
W Coley (1)	**25,000**	–	–	–	–	–	–	–
P Colombani (2)	**22,500**	–	–	–	–	–	–	–
J Delucca (3)	**4,500**	–	–	–	–	–	–	–
M Gatto (4)	**130,000**	–	**36,013**	–	–	–	–	–
D Gilchrist	**199,013**	183,563	**106,105**	–	–	–	–	–
I Harley	**36,500**	25,833	–	–	–	–	–	–
C Spottiswoode	**59,000**	53,333	–	–	–	–	–	–
R Walmsley (5)	**24,667**	–	–	–	–	–	–	–
Total Emoluments for serving Directors at 31 March 2004	**1,201,180**	396,062	**332,122**	–	–	300,000	–	–
R Biggam	–	11,167	–	–	–	–	–	–
D Hawthorne (6)	**25,228**	152,978	–	–	–	–	–	–
R Hill (7)	**19,167**	57,500	–	–	–	–	–	–
R Jeffrey	–	309,188	–	–	–	–	–	98,000
M Kirwan	–	45,042	–	–	–	–	–	–
K Lough (8)	**151,975**	211,250	**73,679**	–	–	–	**145,625**	–
P Stevenson	–	25,893	–	–	–	–	–	–
J Walsh	–	7,325	–	–	–	–	–	–
Total Emoluments (all Directors)	**1,397,550**	1,216,405	**405,801**	–	–	300,000	**145,625**	98,000

Name	Other Benefits (£) 2004	Other Benefits (£) 2003	Total Emoluments Excluding Pension (£) 2004	Total Emoluments Excluding Pension (£) 2003	Pension Contributions (£) 2004	Pension Contributions (£) 2003
A Montague	–	209	**300,000**	400,209	–	–
M Alexander	**32,864**	2,202	**622,868**	35,535	**16,929**	1,385
W Coley (1)	–	–	**25,000**	–	–	–
P Colombani (2)	–	–	**22,500**	–	–	–
J Delucca (3)	–	–	**4,500**	–	–	–
M Gatto (4)	–	–	**166,013**	–	–	–
D Gilchrist	**15,247**	20,067	**320,365**	203,630	**16,929**	12,020
I Harley	–	–	**36,500**	25,833	–	–
C Spottiswoode	–	–	**59,000**	53,333	–	–
R Walmsley (5)	–	–	**24,667**	–	–	–
Total Emoluments for serving Directors at 31 March 2004	**48,111**	22,478	**1,581,413**	718,540	**33,858**	13,405
R Biggam	–	–	–	11,167	–	–
D Hawthorne (6)	–	8,046	**25,228**	161,024	–	21,749
R Hill (7)	–	–	**19,167**	57,500	–	–
R Jeffrey	–	17,349	–	424,537	–	–
M Kirwan	–	4,007	–	49,049	–	4,453
K Lough (8)	**11,309**	12,886	**382,588**	224,136	**11,657**	12,020
P Stevenson	–	–	–	25,893	–	–
J Walsh	–	–	–	7,325	–	–
Total Emoluments (all Directors)	**59,420**	64,766	**2,008,396**	1,679,171	**45,515**	51,627

Notes:
(1) Appointed as Non-Executive Director on 1 June 2003
(2) Appointed as Non-Executive Director on 1 June 2003
(3) Appointed as Non-Executive Director on 1 February 2004
(4) Appointed as Executive Director on 1 December 2003
(5) Appointed as Non-Executive Director on 1 August 2003
(6) Resigned as Executive Director on 14 February 2003. Appointed as Non-Executive Director on 15 February 2003 and resigned on 12 March 2004
(7) Resigned as Non-Executive Director on 31 July 2003
(8) Resigned as Executive Director on 8 December 2003

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

Shares

Ordinary Shares

	31/3/2004	31/3/2003
A Montague	**2,188**	2,188
M Alexander	**–**	–
W Coley	**–**	–
P Colombani	**–**	–
J Delucca	**–**	–
M Gatto	**–**	–
D Gilchrist	**6,024**	6,024
I Harley	**2,000**	2,000
C Spottiswoode	**–**	–
R Walmsley	**–**	–

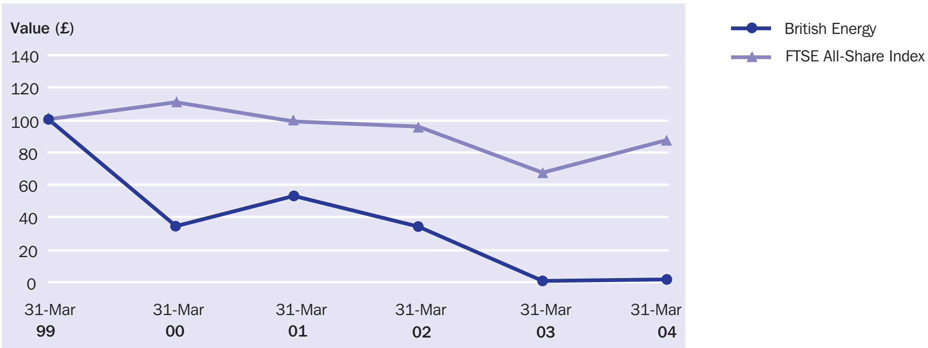
There has been no change in Directors' Shareholdings since 31 March 2004.
None of the Directors has a non-beneficial interest in any shares of the Company.
Any ordinary shares required to fulfil entitlements under current option schemes may be provided by the British Energy Employee Share Trust (BEEST) 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 2004, amounted to 27,026,922 ordinary shares and 19,165,471 'A' shares.

The market price of the ordinary shares at 31 March 2004 was 6.9p each and the range during the year was 3.5p to 10.25p each.

Keith Lough ceased to be an Executive Director in December 2003. All share options granted to him lapsed on 31 March 2004, the date he left the Company.

Performance Graph

Total shareholder return *Source: Thomson Financial*



This graph shows the value, by 31 March 2004, of £100 invested in British Energy on 31 March 1999 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.

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 for a significant part of 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).

Signed by and approved on behalf of the Board on 17 June 2004.

Clare Spottiswoode, CBE
Chair, Remuneration Committee

Summary Financial Statement

for the year ended 31 March 2004

Introduction

The Directors present the summary financial statement for the year ended 31 March 2004.

The summary financial statement is only a summary of the information in the Company's Annual Report and Accounts and the Directors' Report. This summary information does not contain sufficient information to allow a full understanding of the results and state of affairs of the Company. For further information the full Annual Report and Accounts, Independent 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 43. Shareholders may also elect in writing to receive the full Annual Report and Accounts in place of the summary financial statement 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 to 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").

The Directors' full Corporate Governance Statement is set out on pages 30 to 35 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 2004.

Principal activities and review of business

The Group's principal activities are the generation and sale of electricity. A detailed review of the Group's activities is set out on pages 4 to 22.

Results

The consolidated results for the Group are set out in the Summary Group Profit and Loss Account on page 36.

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 Remuneration Committee 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 Remuneration Committee Report of British Energy plc for the year ended 31 March 2004 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 17 June 2004

Notes: (a) The maintenance and integrity of the British Energy plc website 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 website. (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 2004

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

Summary Group Balance Sheet

as at 31 March 2004

	2004 £m	2003 £m
Fixed assets	**937**	763
Current assets	**1,737**	1,414
Creditors: amounts falling due within one year	**(1,447)**	(1,185)
Net current assets	**290**	229
Total assets less current liabilities	**1,227**	992
Creditors: amounts falling due after more than one year	**(4,391)**	(4,375)
Net liabilities	**(3,164)**	(3,383)
Capital and reserves		
Called up equity share capital	**277**	277
Share premium	**76**	76
Capital redemption reserve	**350**	350
Profit and loss account	**(3,960)**	(4,179)
Equity shareholders' funds	**(3,257)**	(3,476)
Non-equity shareholders' interests	**93**	93
	(3,164)	(3,383)

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

Mike Alexander
Chief Executive

Martin Gatto
Interim Finance Director

Summary Group Cash Flow Statement

for the year ended 31 March 2004

	2004 £m	2003 £m
Net cash inflow from operating activities	**156**	336
Returns on investments and servicing of finance	**(75)**	(84)
Taxation (paid)/received	**(12)**	3
Capital expenditure and financial investment	–	(282)
Acquisitions and disposals	**171**	262
Equity dividends paid	–	(31)
Increase in term deposits/bank balances	**(65)**	(37)
Financing	–	(80)
Increase in cash	**175**	87

Note to the Summary Financial Statement

for the year ended 31 March 2004

Basis of Preparation

(i) Introduction

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

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

(ii) Background to Proposed Restructuring

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

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

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

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

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

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

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

Basis of Preparation continued

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

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

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

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

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

(iii) Terms of the Proposed Restructuring

The terms of the Proposed Restructuring are set out in:

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

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

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

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

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

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

The principal features of the Proposed Restructuring include:

- compromising the existing claims of Bondholders, RBS, Significant Creditors and the Eggborough Banks in exchange for new bonds and new ordinary shares and settling new arrangements for Eggborough (the claims of the Bondholders and RBS will be exchanged pursuant to a scheme of arrangement to be proposed to these creditors by the Company (the Creditors' Scheme). In the case of the Significant Creditors and the Eggborough Banks, claims will be exchanged pursuant to the terms of the Creditor Restructuring Agreement itself);
- the amendment and extension of the BNFL contracts for front end and back end related fuel services for the Group's AGR stations announced on 16 May 2003 and the implementation of a new trading strategy;
- establishing the NLF which will assume financial responsibility for certain uncontracted nuclear liabilities and decommissioning costs in return for initial and ongoing contributions from British Energy; and
- the Government funding liabilities relating to historic spent fuel and any shortfall in the NLF.

Note to the Summary Financial Statement

for the year ended 31 March 2004

Basis of Preparation continued

Creditor Restructuring Agreement

Conditions

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

- the receipt by the Secretary of State of notification of a satisfactory decision by the Commission that insofar as the proposals involve the grant of State aid by the UK Government, such aid is compatible with the common market. The Secretary of State now expects to receive this notification this autumn;
- there being no material adverse change (see below);
- the Government Restructuring Agreement becoming unconditional;
- agreement of presently unsettled documents with creditors;
- the approval of the Scottish Court; and
- the listing of the new shares and bonds.

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

Creditor allocations

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

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

Standstill arrangements

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

(a) 12 noon on the earlier of 31 January 2005 and the date falling 120 days after the satisfaction of the initial conditions to the Proposed Restructuring (the Restructuring Longstop Date);
(b) termination of the Creditor Restructuring Agreement or the standstill arrangements in accordance with their terms; or
(c) the completion of the Proposed Restructuring.

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

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

Basis of Preparation continued

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

Mechanics for implementation and shareholder allocation

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

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

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

Government Restructuring Agreement

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

Conditions

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

- the Creditor Restructuring Agreement becoming unconditional in all respects by the Restructuring Longstop Date;
- the Secretary of State not having determined and notified British Energy in writing that, in her opinion, the Group (including Newco 1 and Newco 2) will not be viable in all reasonably foreseeable conditions without access to additional financing (other than financing which the Secretary of State is satisfied has been committed and will continue to be available when required);
- there being no continuing event of default under the Government Facility;
- receipt by the Secretary of State of copies of letters giving the confirmations relating to working capital referred to in the terms of Rule 2.18 of the UKLA Listing Rules without qualification (whether or not Newco 1 is to be listed on the Official List of the UKLA);
- the representations and warranties given by the members of the Group being true, accurate and not misleading when given and if repeated at the effective date of the Proposed Restructuring; and
- there being no breach of any undertaking given by any member of the Group pursuant to the Government Restructuring Agreement which, in the opinion of the Secretary of State, is or is likely to be material in the context of the Proposed Restructuring.

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

Note to the Summary Financial Statement

for the year ended 31 March 2004

Basis of Preparation continued

Nuclear Liabilities Agreements

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

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

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

(iv) Principles Underlying Going Concern Assumption

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

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

Shareholder Information

Band Analysis of Ordinary Shares as at 31 March 2004

Ordinary Shares

Range	Number of Holdings	%	Balance as at 31-Mar-04	%
1-999	214,793	92.51	82,958,220	13.37
1,000-9,999	14,435	6.22	39,134,409	6.31
10,000-49,999	2,363	1.02	42,604,853	6.87
50,000-99,999	220	0.09	13,901,023	2.24
100,000-999,999	299	0.13	78,752,968	12.69
1,000,000+	60	0.03	363,010,971	58.52
	232,170	**100.00**	**620,362,444**	**100.00**

Directors

Adrian Montague* (Chairman)
Mike Alexander (Chief Executive)
William Coley*
Pascal Colombani*
John Delucca*
Martin Gatto
David Gilchrist
Ian Harley*
Clare Spottiswoode*
Sir Robert Walmsley*

* Non-Executive Directors

Company Secretary

Robert Armour

Registered Office

3 Redwood Crescent
Peel Park
East Kilbride
G74 5PR

Financial Advisor

Citigroup
Citigroup Centre
Canada Square
London
E14 5LB

Brokers

HSBC Bank PLC
8 Canada Square
London
E14 5HQ

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

MacRoberts
152 Bath Street
Glasgow
G2 4TB

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
Tel: 0870 600 3994

ADR Administration

JPMorgan Service Centre
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 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 such 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.

Share Dealing Service

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

Share Price Information

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

CREST

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

ADR

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

Glossary

AGR (advanced gas-cooled reactor)
The second generation of gas-cooled nuclear reactor built in the UK.

AmerGen
AmerGen Energy Company LLC. Our former 50/50 joint venture with Exelon.

BEPET
British Energy Power & Energy Trading Limited.

BETTA
British Electricity Transmission and Trading Arrangements.

Baseload 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.

Cash Reserve
Under the terms of the proposed retructuring, British Energy is required to establish and maintain a cash reserve to provide collateral for trading and operations, cover lost revenue and costs resulting from plant outages and to meet our working capital requirements. The initial target amount for the cash reserve is £490m plus the amount by which cash employed as collateral exceeds £200m.

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 Sales Business.

DTI
The United Kingdom Department of Trade and Industry.

Energy Supply Costs
These mainly comprise the costs incurred for the use of the distribution and transmission systems, recovered through turnover, and for the first time this year, includes Renewables Obligation Certificates (ROCs).

EPL
Eggborough Power Limited.

Exelon
Exelon Generation Company LLC. An American utility and our former 50/50 joint venture partner in AmerGen.

FGD (Flue Gas Desulphurisation)
Equipment fitted to coal-fired power stations to reduce sulphur dioxide emissions.

Government Facility
The revolving credit facility made available by UK Government to British Energy.

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.

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 wrapped 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 its full load capability over a fixed time period, usually one year.

Market Price
The price for annual forward baseload contracts.

Materiel Condition
A term used by nuclear operators, particularly in the United States, in relation to nuclear power stations, and used to describe the physical condition of plant and equipment and the condition of operating procedures, engineering drawings, specifications and manuals (taking safety, maintenance and plant reliability into consideration).

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.

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.

OFGEM
The Office of Gas and Electricity Markets.

On-load refuelling
Refuelling operations conducted while the reactor is operating and pressurised.

Outage (planned and unplanned)
A period during which a reactor is shut down. The periodic shutdown of a reactor including 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.

PSEG
Public Service Enterprise Group. An American energy services company.

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.

Realised Price
Previously described as 'achieved price'. This is the average price of electricity sold during the relevant period. It is calculated by dividing UK turnover, net of energy supply costs and miscellaneous income, by total output during the period.

Renewables Obligation Certificates (ROCs)
Eligible renewal generators receive Renewables Obligation Certificates (ROCs) for each MWh of electricity generated. These certificates can then be sold to suppliers, in order to fulfil their Renewables Obligation.

Revalorisation
Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per annum 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.

Unit Operating Cost
Calculated by dividing the total UK operating costs, net of exceptional items and energy supply costs, by total output. This excludes revalorisation charges.

UKLA
United Kingdom Listing Authority.

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