BRITISH ENERGY PLC
Form 20-F
September 23, 2003
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ Annual report pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934 *(Fee required)*

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2003** ***(No Fee required)***

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from N/A to N/A *(No Fee required)*

Commission file number 1-14990

BRITISH ENERGY PLC

(Exact Name of Registrant as Specified in Its Charter)

Scotland

(Jurisdiction of Incorporation or Organization)

3 Redwood Crescent, Peel Park, East Kilbride, G74 5PR

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary shares of 44 28/43p each (ordinary shares)	New York Stock Exchange*
American Depositary Shares (ADSs) each of which represents 75 ordinary shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares of 44 28/43p each	620,362,444 shares
A shares of 60p each	80,908,247 shares
Non voting deferred shares of 60p each	74,752,351 shares
Non-voting special rights redeemable Preference share of £1	1 share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) x (2) x

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 x

* Not for trading but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

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PLEASE NOTE: ITEMS 1, 2, 12, 16 AND 17 ARE NOT APPLICABLE.

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Introduction

In this annual report, except as otherwise specified, British Energy , the British Energy Group , the Company , we , us or our ref British Energy plc and its subsidiaries and any of their respective predecessors in business, as the context may require. We were incorporated under the Companies Act 1985, as amended (the Companies Act) on December 13, 1995.

Our registered office is located at 3 Redwood Crescent, Peel Park, East Kilbride, G74 5PR, Scotland, and our telephone number is 011 44 1355 262000. Our website address is www.british-energy.com. The information on our website is not a part of this annual report.

Exchange Rates

We publish our financial statements in pounds sterling. In this annual report, references to pounds sterling , £ , pence or p are to UK currency, references to US dollars , US$ or $ are to US currency and reference to Canadian dollars , or C$ are to Canadian currency. Amounts in this annual report stated in US dollars, unless otherwise indicated, have been translated from pounds sterling solely for convenience and should not be construed as representations that the pound sterling actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or any other rate. The Noon Buying Rate for pounds sterling on September 5, 2003 was £1.00 = $1.59. For certain information about exchange rates between pounds sterling and US dollars, see Item 3. Key Information Exchange Rates .

Technical Terms

This annual report refers to certain technical terms used to measure output of electricity and the production of electricity over time. The basic unit for the measurement of electricity output is a kilowatt (kW). The basic unit for the measurement of electricity production is a kilowatt-hour (kWh); that is, one hour of electricity production at a constant output of one kilowatt. One thousand kilowatts are a megawatt (MW) or, in terms of production, a megawatt-hour (MWh). One thousand megawatts are a gigawatt (GW) or, in terms of production, a gigawatt-hour (GWh). One thousand gigawatts are a terawatt (TW) or, in terms of production, a terawatt-hour (TWh).

Information Regarding Forward-looking Statements

This annual report contains certain forward-looking statements as defined in Section 21E of the US Securities Exchange Act of 1934. Such forward-looking statements include, among others:

- statements concerning our proposed restructuring and the effect of our proposed restructuring on our business and financial condition or results of operations,

the anticipated development of the UK electricity industry, the future development of regulation of the UK electricity industry, the effect of these developments on our business, financial condition or results of operations, and

other matters that are not historical facts concerning our business operations, financial condition and results of operations.

These forward-looking statements involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results or performance to differ materially from those expressed or implied by such forward-looking statements. For a discussion of some of the risks associated with these forward-looking statements, see the section entitled Item 3. Key Information Risk Factors . Due to the uncertainties and risks associated with these forward-looking statements, which speak only as of the date hereof, we are claiming the benefit of the safe harbor provision referred to above.

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ITEM 3. KEY INFORMATION

Risk Factors

Some of the significant risks that could affect our business are set out below. Additionally, some risks may be unknown to us and other risks, which we currently consider to be immaterial, could in fact be material. All of these risks could adversely affect our business, turnover, profits, assets, liquidity and capital resources. You should consider these factors in connection with the forward-looking statements in this document and the warnings on such forward-looking statements.

Risks Associated with our Restructuring

If our proposed restructuring is not completed, or if the results of our proposed restructuring are insufficient to allow us to meet our financial obligations as they fall due, we may have to initiate appropriate insolvency proceedings.

In September 2002, we announced that, following the review by our board of directors of the long-term prospects for British Energy, we had initiated discussions with the UK Government seeking immediate financial support to enable a longer-term restructuring of our business. On February 14, 2003, we announced that we had entered into a binding standstill agreement and a non-binding agreement on the principles of our proposed restructuring with certain of our most significant creditors. Our proposed restructuring is comprised of the following elements:

- We expect to issue new bonds in an aggregate principal amount of up to £275 million, together with new shares representing substantially all of the ordinary shares of the restructured British Energy Group, to our most significant creditors, in exchange for the extinguishment of existing obligations we owe them;

- We expect to enter into an agreement with the bank syndicate that provided financing for our Eggborough coal-fired power station, or the Eggborough Banks, for a new capacity and tolling agreement, or CTA, under which payments will be made as if they had been issued a further £150m of our New Bonds;

- The existing Nuclear Generation Decommissioning Fund Limited, the Decommissioning Fund, will be enlarged into a new Nuclear Liabilities Fund, the NLF, to address the British Energy Group s uncontracted nuclear liabilities and decommissioning costs. In addition to periodic contributions to the NLF, we will make an initial contribution of up to £275 million of new bonds to the NLF. The UK Government will assume responsibility for liabilities associated with historic spent fuel, as well as the uncontracted nuclear liabilities and decommissioning costs of our nuclear power stations that are not otherwise met by the NLF;

- We have entered into new contracts with BNFL intended to vary the agreements under which BNFL currently provides front- and back-end fuel related services to our AGR stations. We announced on May 16, 2003, that we had exchanged contracts covering front-end and back-end fuel services with BNFL. See Item 4 Proposed Restructuring The BNFL Contracts ; and

We were required to sell our interests in AmerGen in the United States and Bruce Power in Canada. On February 14, 2003, we announced the completion of the sale of our interest in Bruce Power LP. On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen. See Item 4 Proposed Restructuring The Sale of Bruce Power and AmerGen .

We believe that the proposed restructuring will: reduce our exposure to wholesale electricity prices and reduce our fixed and variable costs associated with the front and back-end fuel cycle services for our AGR power stations through our revised contracts with BNFL; reduce our exposure to long-term nuclear liabilities through the proposed NLF and new arrangements with the UK Government; and restructure our indebtedness and certain other contracts through arrangements with our most

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significant creditors and the sale of our interests in AmerGen and Bruce Power. However, we cannot assure you that we will complete the proposed restructuring in the form set out above, or, if we do complete it, that the proposed restructuring will produce the benefits we expect, or that those benefits will be sufficient to allow us to meet our financial obligations as they fall due. As discussed in greater detail in the risk factors set out below, the completion of our proposed restructuring is dependent on a number of factors over which we have little or no control. These factors include the approval of the proposed restructuring by the UK Government, the approval of our proposed restructuring by our most significant creditors, the European Commission and, where required, our shareholders. If the restructuring is not completed we may not be able to meet our financial obligations as they fall due. In that event, we may have to initiate appropriate insolvency proceedings. If we were to commence insolvency proceedings, distributions, if any, to unsecured creditors may represent only a small fraction of our unsecured liabilities, and it is highly unlikely that our current shareholders would receive any return on their investment.

If we complete the proposed restructuring, our shareholders will suffer a very significant dilution of their interests in British Energy plc.

Under the proposed restructuring, we will undertake a court sanctioned scheme or schemes of arrangement, referred to as a Scheme of Arrangement, to restructure our obligations with respect to the holders of our bonds due 2003, 2006 and 2016 (referred to collectively as the Bondholders) and the Royal Bank of Scotland plc, or RBS, as provider of a letter of credit to the bank syndicate that provided financing for our Eggborough coal-fired power station (referred to collectively as the Eggborough Banks). We will also enter into other arrangements with the Eggborough Banks and our significant trade creditors; Teesside Power Limited, Total Gas & Power Limited and Enron Capital & Trade Europe Finance LLC (Teesside Power Limited, Total Gas & Power Limited and Enron Capital & Trade Europe Finance LLC are referred to collectively as the Significant Creditors) to restructure our obligations to them. As a result of these arrangements, the new shares issued to the Bondholders, RBS, the Eggborough Banks and the Significant Creditors will represent substantially all of the share capital of the restructured British Energy Group. We expect that our current shareholders will receive only a very small fraction of the issued share capital of the restructured group, if any. Consequently, if the proposed restructuring is completed, our current shareholders will suffer a very significant dilution of their interests.

Certain elements of our proposed restructuring constitute State Aid under European Union law, and consequently must be approved by the European Commission.

The UK Government has applied to the European Commission for its consent to the proposed restructuring, because the UK Government s proposed role with respect to the NLF upon completion of the restructuring, and the assumption of responsibility for British Energy s liabilities under historic spent fuel contracts with BNFL constitutes State Aid as defined by European Union law. We cannot assure you that the European Commission will consent to the restructuring as proposed, or that the European Commission will not impose conditions to their approval that would affect the financial terms or even the viability of the proposed restructuring.

Furthermore, while a decision by the European Commission to approve our proposed restructuring would allow us to proceed with its implementation, the decision of the European Commission would be subject to appeal to the European Court of First Instance. If the European Court of First Instance were to annul the European Commission s decision, the European Commission would have to revisit the matter and issue another decision (which would be subject to the contents of the European Court of First Instance s judgment). We cannot assure you that an affirmative decision by the European Commission would not be appealed, and if it were appealed, that the Court of First Instance would uphold the European Commission s decision. We also cannot assure you that a Court of First Instance decision would not be appealed to the European Court of Justice. Such an appeal process may take several years.

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The proposed Scheme of Arrangement requires the approval of the relevant UK court; without such approval, our proposed restructuring will not be able to proceed.

To become effective, the Scheme of Arrangement requires the approval of the relevant UK court that supervises the scheme. Before the court gives its approval, the court must satisfy itself that the proposed arrangements are fair to the creditors whose claims are being compromised pursuant to the Scheme of Arrangement. We cannot assure you that the court will determine that the restructuring arrangements contemplated by the Scheme of Arrangement are fair to such creditors, or that the court will not conclude that there are other reasons why it should not approve the Scheme of Arrangement. If the relevant UK court does not approve the Scheme of Arrangement, we may not be able to complete our proposed restructuring as envisaged.

The continued financial support from the UK Government is subject to the approval of the UK Secretary of State for Trade and Industry.

Since September 9, 2002, the UK Government has extended a credit facility, the Credit Facility, to us in order to provide working capital and cash collateral in support of our electricity trading contracts in the United Kingdom and certain contracts for the supply of goods and services. As at September 19, 2003, the aggregate principal amount of the Credit Facility was £200 million, of which we had drawn down approximately £20.8 million, principally to meet trading and other cash collateral requirements. The Credit Facility will mature on the earlier of September 30, 2004, or the date on which our proposed restructuring is completed. However, under the terms of the Credit Facility, the UK Secretary of State for the Department of Trade and Industry, the UK Secretary of State, is entitled to require the immediate repayment of the Credit Facility if, in his or her opinion, we cannot implement the proposed restructuring in the time or manner envisaged. We cannot assure you, therefore, that the UK Government will continue to make the Credit Facility available to us prior to September 30, 2004, or that if the Credit Facility is not available to us at any time, we will have sufficient resources to meet our working capital needs or to provide sufficient cash collateral to allow us to continue to maintain our electricity trading contracts. Furthermore, to the extent the UK Government continues to make the Credit Facility available to us, we cannot assure you that the aggregate principal amount of the Credit Facility will be sufficient to provide the amount of working capital and cash collateral in support of our electricity trading contracts and procurement contracts necessary to allow us to continue our business prior to the completion of the proposed restructuring. For further information, you should also read the risk factor entitled Risks Related to our Business Our bilateral trading contracts and certain of our other contracts may be subject to credit support obligations. If we are unable to provide such credit support where required, our exposure to both fluctuations in wholesale electricity prices and potential disruptions to the business may increase. Furthermore, given the current circumstances of the Company and its subsidiaries, certain contracts entered into by them may be capable of being terminated.

We have reached a non-binding agreement on the principles of our restructuring with the Bondholders, the Eggborough Banks, RBS, and the Significant Creditors. If they withdraw their support for our proposed restructuring, the restructuring may not proceed and it is likely that we will be required to initiate insolvency proceedings.

On February 14, 2003, we announced that we had reached a non-binding agreement on the principles of our restructuring with the Bondholders, the Eggborough Banks, RBS, and the Significant Creditors. Although some of the Bondholders, the Eggborough Banks, RBS, and the Significant Creditors participated in the negotiations that produced the agreement on the principles of our restructuring, neither those creditors nor the UK Government are obligated to support the restructuring process or approve the restructuring, and we cannot assure you that they will do so. In addition, our proposed restructuring requires the support of the UK Government in order to implement the

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arrangements with respect to the NLF, and the assumption of British Energy s liabilities under historic spent fuel contracts with BNFL. If any or all of the Bondholders, the Eggborough Banks, RBS, the Significant Creditors or the UK Government withdraw their support for the restructuring process, it is likely that we would not be able to complete the proposed restructuring. If we do not complete the proposed restructuring, we may not be able to meet our financial obligations as they fall due, in which case, we may have to initiate appropriate insolvency proceedings. If we were to commence insolvency proceedings, distributions, if any, to unsecured creditors may represent only a small fraction of our unsecured liabilities, and it is highly unlikely that our current shareholders would receive any return on their investment.

The non-binding agreement on the principles of our restructuring is conditional upon the sale of our interest in AmerGen. If we do not manage to dispose of our interest in AmerGen in a timely manner, we may not be able to proceed with the proposed restructuring.

The non-binding agreement on the principles of our restructuring is conditional, among other things, on the sale of our 50% interest in AmerGen, our joint venture with Exelon Generation Company LLC, or Exelon, which owns and operates three nuclear power stations in the United States. Pursuant to the terms of the agreement, we must have completed the sale of our interest in AmerGen before the restructuring proposals can become effective.

On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, a wholly-owned subsidiary of FPL Group for approximately US$277 million. The proposed sale of our interest in AmerGen is subject, however, to a number of conditions, including satisfaction of Exelon s right of first refusal as well as approvals and authorisations from various regulatory agencies in the United States including the Nuclear Regulatory Commission, or NRC, the Federal Energy Commission, or FERC, and the Federal Communications Commission.

We cannot assure you, however, that we will be able to complete the sale of our interest in AmerGen within the timescales envisaged, or that, if we do not complete the sale of our interest by that date, all or any of the Bondholders, RBS, the Eggborough Banks, the Significant Creditors or the UK Government will continue to support our proposed restructuring or that the UK Government will continue to make the credit facility available to us. For further information regarding the proposal to dispose of our 50% interest in AmerGen, see Item 4. Information on the Company Proposed Restructuring The Sale of Bruce Power and AmerGen.

Our standstill agreements are subject to a number of conditions precedent. If we do not meet these conditions, the restructuring may not proceed and we may have to initiate insolvency proceedings.

On February 14, 2003, we announced that we had entered into a binding standstill agreement among the Bondholders, the Eggborough Banks, RBS, the Significant Creditors and BNFL. Under the terms of the standstill agreements, these creditors agreed they would not take any steps to initiate any administration proceedings or demand or accelerate any amounts due and payable to them by us during the period commencing February 14, 2003 and ending at the earlier of September 30, 2004 (subject to a termination event (as described below)) or the successful completion of our proposed restructuring prior to that date. Termination events include:

Certain insolvency events with respect to British Energy plc, our operating subsidiaries, British Energy Generation Limited (or BEG), British Energy Generation (UK) Limited (or BEG UK), British Energy Power & Energy Trading Limited (or BET)

or Eggborough Power Limited;

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Acceleration of payment by the UK Secretary of State of amounts borrowed under the Credit Facility;

The failure to achieve certain targets, including the execution of definitive documentation regarding our proposed restructuring, on or before September 30, 2003.

We cannot assure you that one or all of the events described above will or will not occur in the time specified or at all. If the standstill agreement is terminated for any reason, the creditors who are parties thereto may accelerate and demand payment of our obligations to them. Furthermore, termination of the standstill agreement will entitle the UK Secretary of State to demand the immediate repayment of the Credit Facility in accordance with its terms. In that event, we may be unable to meet our financial obligations as they fall due and we may have to initiate appropriate insolvency proceedings. If we 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 our current shareholders would receive any return on their investment.

Our financial statements have been prepared on the basis that British Energy is a going concern. If British Energy ceases to be a going concern, we may be required to adjust the monetary value of assets, reassess our provisions for future liabilities and reclassify fixed assets and long-term liabilities as current assets and liabilities.

Our financial statements have been prepared on the basis that British Energy is a going concern. The going concern basis assumes that we will continue in operational existence for the foreseeable future. The validity of this assumption depends upon a number of factors that are beyond our control, including those discussed above. If for any reason we are unable to complete our proposed restructuring and cease to be a going concern, we may be required to adjust the monetary value of assets, reassess our provisions for future liabilities and reclassify fixed assets and long-term liabilities as current assets and liabilities. Such adjustments, reassessments and reclassifications may result in a material adverse change to the statement of our financial condition from that currently set forth in our financial statements.

Risks Related to our Business

We currently do not and may not, in the future, comply with the minimum listing criteria of the New York Stock Exchange Inc., and we may, therefore, lose our listing on the New York Stock Exchange.

On August 28, 2003 we announced that we had been notified by the New York Stock Exchange, Inc., or NYSE, that we did not currently comply with the NYSE s continued listing standard relating to minimum market capitalisation and shareholders equity. The NYSE has also said it will consider our continuing suitability for listing in the light of any allocations of value between the existing creditors and the equity holders. We are currently in discussions with the NYSE with respect to our ability to meet the minimum market capitalisation and shareholders equity listing standard going forward and we are reviewing our options with respect to our listing on the New York Stock Exchange. We expect to supply materials to the NYSE for its evaluation demonstrating our ability to meet the minimum continued listing standards. There can be no assurance however, that we will meet the NYSE s listing standard or that we will do so in a time period that is acceptable to the NYSE. If we do not meet the NYSE s listing standards in time or at all, the NYSE may decide to de-list our American Depository Shares, or ADSs, representing beneficial interests in our ordinary shares, from the New York Stock Exchange. If our ADSs are not listed on the New York Stock Exchange, there may not be sufficient liquidity to allow our ADSs to trade efficiently which may, in turn, cause the price of our ADSs to fall.

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Assuming that our proposed restructuring is completed, our future profitability is dependent upon several factors outside our control.

Assuming our proposed restructuring is completed, our future profitability is subject to our ability to reduce and maintain our operating costs at levels that are lower than the price we achieve for our output of electricity. However our ability to reduce and maintain our operating costs at that level and to maximize output is limited by several factors outside our control, including:

- The level of future electricity prices depends upon a number of factors, including the price of fossil fuels, the margin between available capacity and demand, the level of demand and demand growth and the amount of new electricity generating capacity that becomes available. Demand and available capacity are uncertain and, in the short term, electricity prices can be highly volatile. To the extent that our output is not covered by fixed price sales contracts, a substantial decline in the wholesale market price for electricity can have a serious adverse effect on our ability to trade profitability; and

- We may be subject to increased costs that result from changes in our industry or operations, including new or enhanced safety or regulatory requirements.

Therefore, we cannot assure you that, even if our proposed restructuring is completed, we will be able to trade profitably, or to meet our financial obligations as they fall due.

A significant engineering fault or a design flaw at one of our power stations or which is generic to a class of nuclear plants could decrease our revenues and increase our costs.

A major engineering fault at one of our power stations could result in the closure of that station ahead of its expected closure date for either commercial or safety reasons. Furthermore, engineering faults or safety risks arising from a design problem that is generic to a particular type of nuclear plant could result in the closure of all our nuclear power stations using that nuclear plant design ahead of their expected closure dates. The early closure of one or all of any one type of our nuclear power stations would result in a loss of planned future output and result in additional costs associated with the closure of the affected power station or stations.

We have comprehensive inspection and testing programs in place in order to evaluate the physical condition of our nuclear power stations. These programs periodically identify certain technical issues. We cannot assure you that the identification of technical issues with respect to our power stations will not require us to incur significant expenditure for repairs or replacements as well as lost output as a result of outages necessary to effect such repairs.

A change in the extensive regulation to which we are subject could adversely affect our profitability.

We are subject to extensive regulation by, among others, the European Union, the United Kingdom and the United States in relation to, among other things, the electricity market and nuclear safety. Decisions by regulators in each jurisdiction could adversely affect our financial condition and results of operations. Changes in the regulations governing the electricity markets in the

United Kingdom, may affect electricity sales prices or the competitive market. For example, following the introduction of the New Electricity Trading Arrangements, or NETA, in 2001, there has been a substantial decrease in wholesale electricity prices in England and Wales. Further changes to the regulatory environment in the UK market, and the proposed extension of NETA to the Scottish electricity market, could also result in lower wholesale electricity prices. The UK Government has proposed to establish a unified Great Britain electricity market by April 2005. However, if this unified market is not implemented by April 2006, when the current sales contract for British Energy s

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generation from its two Scottish nuclear power stations expires, we may be unable to find sufficient willing buyers for our Scottish output at an acceptable price. Changes in regulations governing nuclear safety in each of the United Kingdom and the United States may result in the modification, suspension or revocation of our licenses to operate nuclear power stations, or require us to incur substantial additional cost for capital expenditure and/or services and labor. In the United Kingdom, we must obtain the approval of the nuclear safety regulator at specified intervals for the continued operation of our nuclear power stations, including their approval to restart a power station after any statutory, refueling or other outage. The refusal of the relevant regulator to approve, or any delay in gaining approval from the relevant regulator to continue or restart operation of any of our nuclear power stations, would adversely affect future revenues and reduce our ability to trade profitably.

A failure to comply with, or the incurrence of liabilities under, environmental, health and safety laws and regulations to which we are subject, or a failure to obtain or maintain required environmental, health and safety regulatory approvals, could adversely affect our business or our ability to trade profitably.

We are subject to various environmental protection, health and safety laws and regulations governing, among other things, (i) the generation, storage, handling, release, use, disposal and transportation of hazardous and radioactive materials; (ii) the emission and discharge of hazardous materials into the ground, air or water and (iii) decommissioning and decontamination of our facilities and the health and safety of the public and our employees. Regulators in the United Kingdom and the United States, including in the UK, the Nuclear Installations Inspectorate, Environment Agency and the Scottish Environment Protection Agency, and, in the US, the Environmental Protection Agency, administer these laws and regulations. In the United Kingdom, we are also subject to European Community law, and some international treaties are relevant to us. In the United States, we are additionally subject to extensive state and local regulation. See Item 4. Information on the Company Business Overview Safety and Environmental Standards and Item 4. Information on the Company Regulation Safety and the Environment for more information.

We are also required to obtain environmental and safety permits from various governmental authorities for our operations. Certain permits require periodic renewal or review of their conditions; we cannot predict whether we will be able to renew such permits or whether material changes in permit conditions will be imposed. We cannot assure you that we have been, or will at all times in the future be, in complete compliance with such laws, regulations and permits. Violations of these laws, regulations or permits could result in plant shutdowns, fines or other sanctions. Other liabilities under environmental laws, including clean-up of radioactive or hazardous substances, can be costly to discharge. Environmental liabilities or failure to comply with environmental laws could also lead to negative publicity and significant reputational damage.

While we cannot predict with any certainty the nature of developments in environmental regulation and control, we anticipate that the direction of future changes will be toward stricter controls. In view of the age and history of many sites we own or operate, we may incur liability in respect of sites that are found to be contaminated, together with increased costs of managing or cleaning up such sites. Site values could be affected and potential liabilities and clean-up costs may make disposal of potentially contaminated sites more difficult. We cannot assure you that any clean-up costs will not have an adverse effect on our business or our financial condition or results of operations.

Environmental, health and safety laws are complex, change frequently and have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to comply with current environmental, health and safety laws, we cannot assure you that environmental, health and safety laws will not change or become more stringent in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and

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health and safety laws, and our liabilities arising from past or future releases of, or exposure to, radioactive or hazardous substances, will not adversely affect our business, result of operations or financial condition.

The potential hazards of nuclear operations could expose us to the risk of material liabilities, lost revenues, increased expenses or reputational damage.

Our operations use and generate radioactive and hazardous substances that have the potential for serious impact on human health and the environment. There are particular risks associated with the operation of nuclear power stations. These include accidents, the breakdown or failure of equipment or processes or human performance, including our safety controls, and other catastrophic events that could result in the dispersal of radioactive material over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Certain of these events, including those arising as a result of third party acts such as acts of terrorism or war, are not wholly within our control. Liabilities we may incur, and interruptions in the operation of a facility caused by these events or associated with any of the radioactive or hazardous materials involved, could significantly reduce our revenues and increase our expenses and result in negative publicity and significant reputational damage. Insurance proceeds may not be adequate to cover all liabilities incurred, lost revenue or increased expenses.

Plant reliability at our UK nuclear power stations has fallen significantly behind world performance standards. Any further deterioration in reliability will adversely affect our operations and consequently, our results of operations. Plant unreliability also reduces our revenues as making good shortfalls in electricity which has been pre-sold can require us to buy electricity at times of very high prices.

Our future profitability is subject to our ability to maintain output at levels sufficient to ensure that our operating costs are lower than the price we achieve for our electricity. During the year ended March 31, 2003 our UK nuclear output was 63.8TWh as compared to 67.6TWh in the previous year. We believe that a proportion of the generation losses resulting from these unplanned outages was caused by deficiencies in equipment reliability, human performance and organisational effectiveness.

We are implementing a major performance improvement programme to enhance human performance, equipment reliability and organisational effectiveness, based on the experience of leading US nuclear operators. Nevertheless, there can be no assurance that we will achieve the necessary operational improvements to reduce generating losses and thereby improve output and reliability. A failure to improve output and reliability would have an adverse effect on our results of operation and future profitability.

Unreliability of plant can lead to the Company incurring significant system imbalance charges. Most of the Company s output is pre-sold and it is committed to supply contracted volumes. If the plants fail to produce predicted volumes, we may have to enter the imbalance market to make good any shortfall. Prices in the imbalance market may be very high particularly in periods of tight capacity margins for generating plant in the UK and the unplanned outages of our stations may raise demand and therefore prices in the imbalance markets. We cannot therefore assure you that we will not, in addition to lost revenue and output from plant, incur significant imbalance costs if there are unplanned outages to plant.

Proposed arrangements governing the cost of electricity transmission in the United Kingdom could reduce our ability to trade profitably in the future.

In May 2001, the Gas and Electricity Markets Authority, or GEMA, proposed a number of possible reforms to the market arrangements governing electricity transmission system access and losses in

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England and Wales. Transmission losses occur from the electricity that is lost to the network in the form of heat as it is transmitted. If GEMA were to implement the proposals in their present form, they would result in a significant redistribution of transmission costs between electricity market participants. Under the proposals, some generators would pay for a proportion of transmission losses for which they were not previously responsible. The proposals would be unfavorable to generating plants located in the North of England and Scotland, which make up a significant portion of our generating capacity. On January 17, 2003, GEMA directed that a modification should be implemented to the Balancing and Settlement Code, to introduce zonal marginal transmission losses, with effect from April 2004. On January 30, 2003, the Government issued a consultation paper on whether these changes were appropriate for Great Britain as a whole, and concluded on June 27, 2003 that they were not. It is now uncertain whether the changes will still be introduced only in England and Wales, or whether they will subsequently be considered again for Great Britain as a whole once the British Electricity Transmission and Trading Arrangements (BETTA) are introduced.

GEMA has also required National Grid Transco, as operator of the transmission system, to review the charging arrangements for access to and use of the transmission network. This review is not yet complete, but could result in changes which would adversely affect the amount of charges payable by British Energy from April 2004, given the disparate geographical distribution of our plant.

If the NLF does not become effective, we may be required to make substantial payments to meet the long-term post-closure costs of decommissioning our existing nuclear power stations in the United Kingdom. Separately, and in addition, we may be required to make substantial payments to meet revised projected costs of decommissioning of the AmerGen stations.

In the United Kingdom we established the Decommissioning Fund to accumulate funds to meet certain long-term post-closure costs of decommissioning our UK nuclear assets. We made, and until the NLF is operational, will continue to make, quarterly contributions to the Decommissioning Fund that are subject to adjustment for inflation. However, there is no certainty that the Decommissioning Fund will be sufficient to cover all the liabilities to which it relates. In addition, other substantial decommissioning liabilities are currently unfunded. As part of the proposed restructuring, the Decommissioning Fund will be enlarged into a new NLF to which we will make fixed contributions as well as an initial contribution of up to £275 million aggregate principal amount by way of new bonds. Additionally we will contribute £150,000 (indexed to RPI) for every tonne of uranium loaded into Sizewell B our Pressurised Water Reactor nuclear power station, or PWR, after completion of the proposed restructuring, and payments amounting (initially and subject to adjustment) to 65% of our consolidated annual cash flow net of tax, financing costs, cash reserves and a forecast expenditure reserve. However, we expect that as part of the establishment of the NLF, the UK Government will assume responsibility for liabilities associated with our historic spent fuel as well as the uncontracted nuclear liabilities and decommissioning costs of our nuclear power stations to the extent that the assets of the NLF, funded by our historic contributions to the Decommissioning Fund and our future contributions to the NLF are insufficient to meet those liabilities as they fall due. Furthermore, as a condition of the NLF, we will be required to continue to operate our nuclear power stations in compliance with applicable law and the practices and the procedures acceptable to the safety and environmental regulatory authorities. If we fail to do so, we may in certain circumstances incur additional liabilities over and above those which we currently expect to bear under the NLF.

If the NLF does not become effective, we will be required to continue to make contributions to the Decommissioning Fund pursuant to our obligations under our nuclear site licenses, and will be required to meet other historic unfunded liabilities and certain decommissioning liabilities, which may in turn significantly reduce our ability to trade profitably.

In the United States, the US Nuclear Regulatory Commission, or NRC, requires nuclear site operators, such as AmerGen, to establish a segregated decommissioning fund to meet the costs of a plant s decommissioning. The NRC requires an annual review of both the forecast cost of decommissioning and the adequacy of the fund to accumulate the required money. Thus, the required

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size of a plant s decommissioning fund is adjusted periodically to take account of changes in the cost of labor, energy, waste disposal and the impact of technological advances. Each of the decommissioning funds for AmerGen s three nuclear stations is currently deemed to be fully funded. However, we cannot assure you that a future review of the cost of decommissioning will not result in AmerGen being required to invest substantial additional amounts in the decommissioning funds to meet the revised projected future cost of decommissioning its plants. Under the terms of the AmerGen joint venture agreement, we would be required to contribute 50% of that additional amount.

On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, a wholly-owned subsidiary of FPL Group for approximately US$277 million. The proposed sale of our interest in AmerGen is subject, however, to a number of conditions, including satisfaction of Exelon s right of first refusal as well as approvals and authorisations from various regulatory agencies in the United States including the Nuclear Regulatory Commission, the Federal Energy Commission, and the Federal Communications Commission. See Item 4 Information on the Company Proposed Restructuring The Sale of Bruce Power and AmerGen.

Our revised contracts with BNFL are contingent upon completion of the restructuring, and our reliance on BNFL as our single supplier for AGR fuel and spent fuel management services could lead to increased costs and decreased profitability upon termination of the revised contracts if the restructuring is not completed.

We currently rely on BNFL (a company wholly owned by the UK Government), to supply fuel fabrication and spent fuel management services for our Advanced Gas Cooled Reactor, or AGR, stations. BNFL is currently the sole supplier of AGR fuel worldwide. On May 16, 2003, we announced that we had entered into a series of contracts with BNFL, replacing our then current contracts covering the fabrication of fuel for our AGR power stations, known as front-end fuel cycle services, and the disposal of AGR fuel used by our AGR power stations, known as back-end fuel cycle services. The front-end fuel cycle contracts became effective as of April 1, 2003, but, with the exception of the new arrangements for the supply of uranics, may be terminated if, among other things, the proposed restructuring is not completed. The back-end fuel cycle contracts are conditional upon completion of the restructuring, although, in accordance with the terms of the standstill agreement, our payments to BNFL for back-end fuel cycle services are made as if the back-end contracts had become effective on April 1, 2003.

Under these new contracts, prices for a certain proportion of front-end and back-end fuel cycle services are linked to the prevailing market price for electricity, thereby reducing our exposure to downward fluctuations in market price, conversely if market prices rise above certain levels, a proportion of our costs under the revised BNFL contracts will also increase.

If we do not complete the proposed restructuring, and our revised contracts with BNFL are terminated (or do not take effect), we would be required to rely upon our prior front-end and back-end fuel cycle contracts with BNFL. Consequently, we would be unable to realise the operating cost benefits associated with our revised contracts with BNFL. Furthermore, our current contract with BNFL for the supply of front-end fuel cycle services for the majority of our AGR stations expires in 2006. If the revised contracts with BNFL are terminated (or do not take effect) and if BNFL is unable or unwilling to continue to supply fuel to our AGR stations, we would need to seek a new source of supply for AGR fuel. A new supplier of fuel for our AGR stations would need to retool its production systems in order to be able to produce AGR fuel. The costs of such a retooling would probably be passed on to us resulting in significantly increased operating costs.

Our bilateral trading contracts and certain of our other contracts may be subject to credit support obligations. If we are unable to provide such credit support where required, our exposure to both fluctuations in wholesale electricity prices and potential disruptions to the

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business may increase. Furthermore, given the current circumstances of the Company and its subsidiaries, certain contracts entered into by them may be capable of being terminated.

We sell a substantial percentage of our output pursuant to fixed price bilateral trading contracts and are party to various other contractual arrangements. However, as our credit rating is currently below investment grade, we are required to establish alternative credit support to a parent company guarantee in respect of our obligations under certain of those contracts. In the case of bilateral trading contracts the financial obligations to be covered by the alternative credit support are related to the prevailing wholesale price of electricity. Our ability to provide alternative credit support for our trading operations is, and will, until the completion of our proposed restructuring, be subject to our continued access to funds under the Credit Facility. We have retained a trading relationship with a high proportion of our existing contracted counterparties during the period since our announcement of September 5, 2002, although in most cases we have been required to provide alternative credit support to a parent company guarantee. Given the current circumstances of the Company and its subsidiaries, certain contracts may be capable of being terminated, and such termination may result in termination payments being payable as well as having an adverse effect on our cash flows. We cannot assure you that the Credit Facility will continue to be available to us, or that if the Credit Facility is available to us, the sums available thereunder will be sufficient to provide alternative credit support for all of our bilateral trading contracts or other contractual arrangements that require such security. Following completion of our restructuring, we anticipate that we will be required to obtain access to alternative credit facilities or use our own cash reserves to meet these alternative credit support requirements.

We have entered into a hedging strategy that reduces the price risk associated with our electricity generation. However, this has reduced our ability to benefit from increasing market prices in the medium term and may also result in an increase in collateral requirements as market prices rise. In addition, should various other unforeseen events occur which place demands on cash flow, our financial resources may prove to be insufficient.

We have entered into short-term and medium-term power-sale contracts with market counterparties and with other industrial and commercial customers to hedge a significant proportion of our output against downward movements in market price. However, as a result of this strategy, the cash flow benefits to British Energy of market price increases are reduced while the level of collateral calls made by trading counterparties increases to cover their mark to market exposure. The potential combination of these factors and the possible effects of the market price linkage on the costs incurred by us for fuel services under the new BNFL contracts (as described in Item 3 Risk Factors Our revised contracts with BNFL are contingent upon completion of the restructuring, and our reliance upon BNFL as our single supplier of AGR fuel could lead to increased costs and decreased profitability upon termination of the revised contracts if the restructuring is not completed) may, and has recently, resulted in a need to drawdown on the Credit Facility to support our ongoing working capital requirements. The amount of any future drawdowns will fluctuate depending on requirements to fund working capital and collateral needs and, as at September 19, 2003, we had drawn down £20.8 million from the Credit Facility.

We are reviewing our trading strategy to attempt to maintain an appropriate balance between the importance to us at the time of maintaining a high degree of certainty of our revenues and collateral requirements, as well as continuing to take steps to identify and manage cash flow risks and manage cash resources. We cannot therefore assure you that the level of funding available to us will be sufficient to meet our future needs.

A substantial portion of the further proceeds we expect to receive as a result of the Bruce Power disposal are contingent upon the occurrence of certain events.

On January 17, 2003 we entered into a master purchase agreement to dispose of our 82.4% interest in Bruce Power and our 50% interest in Huron Wind to a consortium made up of Cameco

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Corporation, BPC Generation Infrastructure Trust and TransCanada PipeLines Limited. Under the terms of the master purchase agreement, approximately C$120 million is deferred compensation, of which C$20 million relates to warranty claims (if any).

The remaining deferred amount of approximately C$100 million is contingent upon the successful restart of two of the Bruce A reactors. The master purchase agreement provided that if the restart of the two reactors were to be delayed beyond June 15, 2003 and August 1, 2003, respectively, the consideration of C$50 million per reactor will be reduced on a sliding scale falling to zero after nine months. Bruce Power did not succeed in restarting the two reactors by the dates specified, consequently, while work continues to restart the reactors as soon as possible, we cannot assure you that the amount of deferred compensation we receive will not be further reduced owing to any further delays in restarting the reactors.

In addition, it was agreed that a further C$80 million of compensation from the sale of Bruce Power would be held in an escrow account to cover estimated outstanding tax liabilities of Bruce Power. In the event that the sums held in the escrow account are not sufficient to cover the outstanding tax liabilities, we would be required to repay the amount of such excess tax liabilities to the purchasers. To date, some C$3 million has been released to British Energy from these funds. These amounts, however, remain subject to further adjustment.

The cost of providing pensions benefits to eligible former employees is subject to changes in pension fund values and changing demographics, and might have a material adverse effect on our financial results.

We operate two pension schemes that provide defined benefits to eligible recipients. The cost of providing these benefits is subject to changes in pension fund values and changing demographics, including longer life expectancy of the schemes beneficiaries. Recent sustained declines in equity markets and reductions in bond yields have and may continue to have a material adverse effect on the value of our pension funds. We may be required to recognize a charge to our profit and loss account to the extent that the pension fund values are less than the total anticipated liability under the plan. In addition, we may be required to contribute additional amounts to our pension funds to address any difference between pension fund values and accrued liabilities. We cannot assure you that such charges or payments will not have an adverse effect on our financial condition.

Selected Financial Data

The following summary consolidated financial information for British Energy, insofar as it relates to profit and loss and cash flow for the fiscal years ended March 31, 2003, 2002 and 2001, and balance sheets as of March 31, 2003 and 2002 is derived from the audited financial statements appearing elsewhere in this annual report. On November 28, 2002, we announced proposals for the restructuring of British Energy. See Item 4. Information on the Company Our Proposed Restructuring . Our financial statements have been prepared on the basis that British Energy is a going concern. See Item 3 Risk Factors Risks Related to our Restructuring Our Financial Statements Have Been Prepared on the Basis that British Energy is a Going Concern .

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom, or UK GAAP, which differs in certain significant respects from generally accepted accounting principles in the United States, or US GAAP. In particular, the treatment under US GAAP of future liabilities associated with back-end fuel cycle costs and the estimated costs of decommissioning that are not covered by contractual arrangements result in significant differences between our reported financial condition and results of operations under US GAAP as compared with UK GAAP. A full description of the significant differences between UK GAAP and US GAAP as they apply to us and a reconciliation of (loss)/profit after tax (or

net (loss)/income) and equity shareholders funds (or deficit on equity shareholders funds) under UK GAAP to those under US GAAP

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are set out in Note 37 to our consolidated financial statements and in Item 5. Operating and Financial Review and Prospects Critical Accounting Policies .

You should read the following summary consolidated financial information in conjunction with our audited consolidated financial statements and the notes thereto appearing elsewhere in this annual report as well as the section entitled Item 4. Information on the Company Our Proposed Restructuring and the section entitled Item 5. Operating and Financial Review and Prospects .

	Year ended March 31,					
	2003[1]	2003	2002	2001	2000	1999
		(restated)[2]				
	(in millions, except earnings and dividends per share and per ADS and weighted average shares)					
Profit and Loss Account Information:						
UK GAAP						
Turnover	$ 3,026	£ 1,903	£ 2,049	£ 2,124	£ 2,058	£ 2,067
Turnover continuing operations	2,430	1,528	1,701	2,124	2,058	2,067
Turnover discontinued operations	596	375	348			
Operating (loss)/profit	(6,045)	(3,802)	(281)	280	412	481
Operating (loss)/profit continuing operations	(6,199)	(3,899)	(333)	280	412	481
Operating (loss)/profit discontinued operations	154	97	52			
(Loss)/profit before taxation	(6,824)	(4,292)	(493)	57	225	276
Taxation	585	368	(25)	(48)	(118)	(68)
(Loss)/profit after taxation	(6,239)	(3,924)	(518)	9	107	208
Dividends[3][4]			(48)	(48)	(48)	(110)
Basic (loss)/earnings per ordinary share(s)	(1,040)	(654.7)p	(88.5)p	1.2p	16.4p	30.3p
Basic (loss)/earnings per ordinary share(s) continuing operations	(1,066)	(670.8)p	(97.2)p	1.2p	16.4p	30.3p
Basic (loss)/earnings per ordinary share(s) discontinued operations	26.0	16.1p	8.7p			
Basic (loss)/earnings per ADS[5]	(78,074)	(49,103)p	(6,638)p	90p	1,230p	2,272p
Basic (loss)/earnings per ADS[5] continuing operations	(79,993)	(50,310)p	(7,290)p	90p	1,230p	2,272p
Basic (loss)/earnings per ADS[5] discontinued operations	1,921	1,208p	652.5p			
Diluted (loss)/earnings per ordinary share(s)	(1,040)	(654.7)p	(88.5)p	1.2p	16.1p	29.2p
Diluted (loss)/earnings per ordinary share(s) continuing operations	(1,066)	(670.8)p	(97.2)p	1.2p	16.1p	29.2p
Diluted (loss)/earnings per ordinary share(s) discontinued operations	26.0	16.1p	8.7p			
Diluted (loss)/earnings per ADS[5]	(78,074)	(49,103)p	(6,638)p	90p	1,208p	2,190p
Diluted (loss)/earnings per ADS[5] continuing operations	(79,993)	(50,310)p	(7,290)p	90p	1,208p	2,190p
	1,921	1,208p	652.5p			

Diluted (loss)/earnings per ADS[5] discontinued operations				
Dividends per ordinary share, net[3][4]	8.0p	8.0p	8.0p	16.0p
Dividends per ADS, net[3][4][5]	600.0p	600.0p	600.0p	1,200p

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	Year ended March 31,					
	2003[1]	2003	2002	2001	2000	1999
		(restated)[2]				
	(in millions, except earnings and dividends per share and per ADS and weighted average shares)					
US GAAP						
Turnover	$ 3,026	£ 1,903	£ 2,049	£ 2,124	£ 2,058	£ 2,067
Turnover continuing operations	2,430	1,528	1,701	2,124	2,058	2,067
Turnover discontinued operations	596	375	348			
(Loss)/profit after taxation	(12,294)	(7,732)	(426)	(124)	40	67
Basic (loss)/earnings per ordinary share(s)	(2,042)	(1,284)p	(71.2)p	(21.0)p	6.3p	9.8p
Basic (loss)/earnings per ordinary share(s) continuing operations	(2,056)	(1,293)p	(74.0)p	(21.0)p	6.3p	9.8p
Basic (loss)/earnings per ordinary share(s) discontinued operations	14.0	8.8p	2.8p			
Basic (loss)/earnings per ADS[5]	(153,177)	(96,300)p	(5,340)p	(1,575)p	472.5p	735.0p
Basic (loss)/earnings per ADS[5] continuing operations	(154,190)	(96,975)p	(5,550)p	(1,575)p	472.5p	735.0p
Basic (loss)/earnings per ADS[5] discontinued operations	1,049	660p	210p			
Diluted (loss)/earnings per ordinary share(s)	(2,042)	(1,284)p	(71.2)p	(21.0)p	6.1p	9.4p
Diluted (loss)/earnings per ordinary share(s) continuing operations	(2,056)	(1,293)p	(74.0)p	(21.0)p	6.1p	9.4p
Diluted (loss)/earnings per ordinary share(s) continuing operations	14.0	8.8p	2.8p			
Diluted (loss)/earnings per ADS[5]	(153,177)	(96,300)p	(5,340)p	(1,575)p	457.5p	705.0p
Diluted (loss)/earnings per ADS[5] continuing operations	(154,190)	(96,975)p	(5,550)p	(1,575)p	475.5p	705.0p
Diluted (loss)/earnings per ADS[5] discontinued operations	1,049	660p	210p			
Weighted average ordinary shares(millions)	602	602	598	597	651	712

	As at March 31,					
	2003[1]	2003	2002	2001	2000	1999
		(restated)[2]				
	(in millions)					
Balance sheet information						
UK GAAP						
Fixed assets	$ 1,213	£ 763	£ 4,909	£ 5,245	£ 5,620	£ 4,882
Total assets	3,461	2,177	6,775	6,784	7,051	6,561
Provisions and long term liabilities	(6,956)	(4,375)	(5,173)	(4,931)	(4,490)	(4,308)
Equity shareholders (deficit)/funds	(5,527)	(3,476)	490	1,075	1,110	1,616

	As at March 31,					
	2003[1]	2003	2002	2001	2000	1999

			(restated)[2] (in millions)			
US GAAP						
Fixed assets	$ 1,175	£ 739	£ 8,259	£ 8,082	£ 8,517	£ 7,612
Total assets	3,309	2,081	10,250	9,766	11,823	11,155
Provisions and long term liabilities	(15,848)	(9,967)	(10,367)	(9,756)	(11,024)	(10,523)
Equity shareholders (deficit)/funds	(14,700)	(9,245)	(1,228)	(736)	(545)	103

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	Year ended March 31,					
	2003[1]	2003	2002	2001	2000	1999
			(restated)[2] (in millions)			
Cash Flow Information						
UK GAAP						
Operating (loss)/profit including exceptional items	$ (6,045)	£ (3,802)	£ (281)	£ 280	£ 412	£ 481
Exceptional items	6,211	3,906	512	(54)	16	(8)
Cash generated by operations:						
operating profit excluding exceptional items	165	104	231	226	428	473
Depreciation charges	456	287	285	277	260	278
Nuclear liabilities charged to operating costs	167	105	156	132	141	166
Nuclear liabilities and other provisions discharged:						
Nuclear liabilities	(183)	(115)	(332)	(319)	(310)	(332)
Other provisions discharged	(72)	(45)	(43)	(39)	(34)	(28)
Regular contributions to UK decommissioning fund	(29)	(18)	(18)	(17)	(17)	(17)
Working capital:						
Decrease in stocks	95	60	66	27	4	8
(Increase)/decrease in debtors	(29)	(18)	(117)	97	(54)	13
(Decreased/increase in creditors	(38)	(24)	152	(107)	32	(4)
Net cash inflow from operating activities	534	336	380	277	450	557
Payments to acquire tangible fixed assets	(448)	(282)	(225)	(133)	(137)	(78)
Net cash inflow from operating activities net of capital expenditure	86	54	155	144	313	479

(1) Translated, solely for the convenience of the reader, at $1.59 to £1.00, the Noon Buying Rate in effect on September 5, 2003

(2) Our consolidated financial statements were restated in 2002 to reflect the retroactive application of the UK Accounting Standards Board s Financial Reporting Standard No. 19 Deferred Tax, FRS 19. FRS 19 came into effect with respect to all accounting periods ending after January 23, 2002 and requires that, when calculating the amount of taxation, full provisions be made for all timing differences for deferred taxes.

(3) Dividends per share exclude any associated UK tax credit available to certain holders of ordinary shares.

(4) In July 1999, our shareholders approved a return of value of approximately £432 million.

(5) Calculated based on a ratio of 75 ordinary shares for one ADS. On March 18, 2003, we increased the ratio of four ordinary shares for one ADS to the current ratio of 75 ordinary shares for one ADS.

(6) The turnover for discontinued operations which related to Bruce Power (our interest in which was sold on February 14, 2003) are set out on a 100% holding basis. British Energy s share in Bruce Power was 82.4% prior to the disposal.

Dividends

Our board of directors did not declare any dividend payment for the year ended March 31, 2003. In prior fiscal years, we have paid interim and final dividends in January and July respectively. Future dividends will be dependent upon our earnings, financial condition and other factors, including completion of our proposed restructuring. Nevertheless, our board of directors does not expect to declare or propose any dividend on our ordinary shares or our A shares prior to the completion of our proposed restructuring (See Item 5. Information about the Company Proposed Restructuring). The following table sets out the dividends paid on ordinary shares and ADSs in respect of the past five fiscal years, excluding any associated UK tax credit in respect of such dividends.

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	Year ended March 31				
	2003	2002	2001	2000	1999
			(in pence)		
Pence per ordinary share[1]					
Interim		2.7	2.7	5.7	5.3
Final		5.3	5.3	2.3	10.7
Total		8.0	8.0	8.0	16.0

	Year ended March 31				
	2003	2002	2001	2000	1999
			(in dollars)		
US dollar per ADS:[1][2][3]					
Interim		3.00	3.00	6.75	6.38
Final		5.63	5.63	2.81	12.94
Total		8.63	8.63	9.56	19.32

(1) Dividends per share and per ADS exclude any associated UK tax credit available to certain holders of ordinary shares and ADSs. Dividends paid by the Depositary in respect of ADSs are paid in US dollars based on a market rate of exchange that differs from the Noon Buying Rate.

(2) Calculated on a ratio of 75 ordinary shares for one ADS.

(3) Dividends have been translated from pounds sterling into US dollars, solely for the convenience of the reader at the Noon Buying Rate in effect at the date of payment. As our dividends are paid in pounds sterling, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of such cash dividends.

Exchange Rates

Dividends have been paid in pounds sterling. Exchange rate fluctuations have affected the US dollar amounts received by owners of the ADSs on conversion by the Depositary of such cash dividends. In addition, fluctuations in the exchange rate between pounds sterling and US dollars have affected the US equivalent of the quoted pounds sterling price of ordinary shares on the Daily Official List of the London Stock Exchange, and as a result, will likely affect the market price of ADSs in the United States.

The following table sets forth, for the periods and dates indicated, the noon buying rate in The City of New York as certified for customs purposes by the Federal Reserve Bank of New York, which we refer to as the Noon Buying Rate, for cable transfers in British pounds sterling, expressed in US dollars per British pound sterling. We provide these rates for your convenience only, and they are not the rates of exchange we used to prepare our consolidated financial statements included elsewhere in this annual report. We are not representing that British pounds sterling amounts have been or could be converted into US dollars at any of the exchange rates indicated.

Year ended December 31,	High	Low	Average(1)	Period end
1998	$ 1.72	$ 1.61	$ 1.66	$ 1.66
1999	$ 1.68	$ 1.55	$ 1.62	$ 1.60
2000	$ 1.65	$ 1.40	$ 1.50	$ 1.50
2001	$ 1.50	$ 1.37	$ 1.44	$ 1.45
2002	$ 1.61	$ 1.41	$ 1.45	$ 1.61
2003 (through September 5)	$ 1.68	$ 1.55	$ 1.61	$ 1.59

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

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The following table sets forth, for the six months prior to the date of this annual report, the high and low Noon Buying Rates.

Month 2003	High	Low
March	$ 1.61	$ 1.56
April	$ 1.60	$ 1.55
May	$ 1.65	$ 1.59
June	$ 1.68	$ 1.63
July	$ 1.65	$ 1.59
August	$ 1.62	$ 1.57
September (through September 5)	$ 1.61	$ 1.57

Except as we specify otherwise, we converted exchange rate translations in this annual report at the rates in effect on March 31, 2003, which correspond to the rates we used to prepare our consolidated financial statements.

ITEM 4. INFORMATION ON THE COMPANY

Business Overview

We are an electricity generator, with interests in a total of 15 nuclear reactors and one coal-fired plant in the United Kingdom. We operate the eight most modern nuclear power stations in England and Scotland, with a combined capacity of 9,600 MW, and a coal-fired power station in England with a capacity of 2,000 MW. In the year ended March 31, 2003, we had an aggregate output from our nine power stations in the UK of 69.5 TWh.

In the United States, we have a 50% interest in AmerGen. Exelon Generation Company LLC, or Exelon, owns the remaining 50% interest. AmerGen owns and operates three nuclear power stations in Clinton, Illinois, Oyster Creek, New Jersey and Three Mile Island, Pennsylvania with a combined capacity of 2,500 MW. The operation of these nuclear power stations is integrated with the operation of Exelon s nuclear power stations.

On September 11, 2003 we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, a wholly-owned subsidiary of FPL Group for approximately US$277m. See Item 4 Information on the Company Proposed Restructuring The sale of Bruce Power and AmerGen.

We use a variety of routes to market in the United Kingdom, including trading electricity in the wholesale over-the-counter markets and selling electricity directly to large industrial and commercial customers through our direct sales business. Our direct sales business is continuing to grow, and accounted for 22.5 TWh during the year ended March 31, 2003, an increase of 20% on the previous year. We have placed particular emphasis on securing renewals and extensions of existing business to reduce our exposure to future wholesale market prices. In the United States, the American stations have fixed arrangements in place with the former owners of the stations or with Exelon for the sale of all of their output at agreed prices over the currently licensed lives of the stations. As a result, AmerGen has limited exposure to electricity price movements in the United States.

In the year ended March 31, 2003, our total turnover was £2,115 million. Our net loss before tax, including exceptional items, was £4,292 million, and our loss after tax was £3,924 million. Our net loss before tax, excluding exceptional items was £130 million. For a description of these exceptional items, please see Item 5. Operating and Financial Review and Prospects Factors Affecting Results of Operations Exceptional Operating and Financing Items .

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Recent Developments

On September 5, 2002, our board of directors announced that it had initiated discussions with the UK Government with a view to seeking immediate financial support to implement a longer-term financial restructuring. The board of directors decided to initiate discussions with the UK Government based on several factors including: (i) its review of our revised forecast for UK nuclear generation for the fiscal year ending March 31, 2003 (which indicated output of approximately 63 TWh as compared with the original target output of 67.5 TWh, due to unplanned outages particularly those at our Torness and Dungeness B nuclear power stations), (ii) the failure of our negotiations with British Nuclear Fuels plc, or BNFL, to reach agreement on the terms of revisals to our fuel contracts, and (iii) its review of the long-term prospects of the British Energy Group.

On September 9, 2002, the UK Government granted us the Credit Facility in order to provide working capital and cash collateral in support of our electricity trading contracts in the United Kingdom and certain procurement contracts. The Credit Facility currently provides for an aggregate principal amount of £200 million and will mature, subject to certain conditions, at the earlier of the completion of our proposed restructuring or September 30, 2004.

On November 28, 2002, we announced that we had concluded a non-binding agreement on the principles for the financial restructuring of British Energy, referred to as the Proposed Restructuring. The Proposed Restructuring had been negotiated among British Energy, the Bondholders, the steering committee of the Eggborough Banks, RBS as provider of a letter of credit to the Eggborough Banks, and our significant trade creditors, Teesside Power Limited, Total Gas & Power Ltd. and Enron Capital & Trade Europe Finance LLC (Teesside Power Limited, Total Gas & Power Ltd. and Enron Capital & Trade Europe Finance LLC are collectively referred to as the Significant Creditors).

On February 14, 2003, we announced we had entered into binding standstill agreements with our Bondholders, the Eggborough Banks, RBS, the Significant Creditors and BNFL based upon a non-binding agreement on the principles for the financial restructuring of British Energy plc, referred to as the Proposed Restructuring.

On March 7, 2003, it was announced that the UK Government had agreed to extend the Credit Facility in order to provide financial stability and security while British Energy sought to achieve the restructuring. The extended facility will mature on the earlier of September 30, 2004, or the date on which the restructuring plan becomes effective, and has been reduced from up to £650m to up to £200m.

On March 24, 2003, we announced that the necessary approvals required by that date had been obtained and the standstill agreement had become effective between the Company, British Nuclear Fuels plc, the Eggborough Banks, RBS, Teesside Power Limited and Total Gas & Power Limited. The Enron board approvals had been obtained and that required US Bankruptcy Court approvals were expected to be obtained and the the standstill was expected to become binding on Enron Capital & Trade Europe Finance LLC by May 14, 2003.

On May 16, 2003, we announced that we had exchanged the last of the suite of contracts covering front-end and back-end fuel services, required to give effect to the non-binding heads of terms entered into with BNFL on November 28, 2002.

The front-end contracts became effective on April 1, 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 announced on February 14, 2003, pending formal implementation of the new back-end contracts, payments from British Energy to BNFL

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will be made as if the new back-end contracts had become effective on April 1, 2003. These arrangements reflect the heads of terms announced on November 28, 2002.

We also announced that new contracts had been entered into by British Energy for the sale of all of our enriched and natural uranium stocks to BNFL and their on-going supply and procurement by BNFL.

Further to the announcement of May 16, 2003, on July 9, 2003, we announced that we had completed the sale of the majority of our remaining uranics stocks to BNFL for a cash consideration of £7.8 million.

We do not currently anticipate that our material day-to-day operations, in particular electricity generation and the payment of suppliers and employees, will be disrupted by the restructuring process or affected by the Proposed Restructuring.

On August 28, 2003, the Board of British Energy was notified by the New York Stock Exchange that British Energy did not at that time comply with the NYSE s continued listing standard relating to minimum market capitalisation and shareholders equity. The NYSE requires that the average global market capitalisation of a listed company during any 30 day consecutive trading period shall not fall below $50 million and that the total shareholders equity shall not be below $50 million. In the 30 day consecutive trading period ended August 8, 2003, British Energy s average global market capitalisation was $49.2 million.

We are currently in discussions with the NYSE with respect to our ability to meet the minimum market capitalisation criteria and we are reviewing the options available to the Company going forward. See Item 3. Risk Factors Risks Related to our Business We might not, in the future, comply with the minimum listing criteria of the New York Stock Exchange Inc., and we may, therefore, lose our listing on the New York Stock Exchange.

On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, a wholly-owned subsidiary of FPL Group for approximately US$277 million. See Item 4 Information on the Company Proposed Restructuring The sale of Bruce Power and AmerGen.

Proposed Restructuring

The Proposed Restructuring is comprised of the following principal elements:

New Bonds and New Equity. We will issue New Bonds, with an aggregate principal amount of up to £275 million, referred to as the New Bonds, together with substantially all of the ordinary shares of the restructured British Energy Group, referred to as the New Equity, to our Bondholders, the Eggborough Banks, RBS, and the Significant Creditors, in exchange for the extinguishment of certain existing obligations owed to them;

Eggborough CTA. We expect to enter into an agreement with the Eggborough Banks, for a new capacity and tolling agreement, or CTA, under which payments will be made as if they had been issued a further £150 million of our New Bonds;

The Nuclear Liabilities Fund. The existing Decommissioning Fund will be enlarged into the NLF to address our uncontracted nuclear liabilities and decommissioning costs. In addition to periodic contributions to the NLF, we will make an initial contribution of up to £275 million of New Bonds to the NLF making a total issue of no more than £550m of New Bonds. We will also contribute 65% (subject to adjustment) of our consolidated net annual cash flow after tax,

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financing costs and the funding of cash reserves. Under the proposals the UK Government will assume responsibility for the liabilities associated with historic spent fuel, as well as for uncontracted nuclear liabilities and decommissioning costs of our nuclear power stations, to the extent such liabilities and costs are not otherwise met by the NLF;

New BNFL Contracts. We have entered into new contracts with BNFL intended to vary the agreements under which BNFL currently provides front- and back-end fuel related services to our AGR stations. We announced on May 16, 2003, that we had exchanged contracts covering front-end and back-end fuel services with BNFL. See Item 4. Proposed Restructuring The BNFL Contracts ; and

Sale of Bruce Power and AmerGen. We were required to sell our interests in AmerGen in the United States and Bruce Power in Canada. On February 14, 2003, we announced the completion of the sale of our interest in Bruce Power LP. On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen. See Item 4. Proposed Restructuring The Sale of Bruce Power and AmerGen .

New Bonds and New Equity

The Proposed Restructuring involves the Bondholders, the Eggborough Banks, RBS and the Significant Creditors compromising their claims against us in exchange for the New Bonds and New Equity. The Proposed Restructuring contemplates that the Bondholders and RBS will compromise their claims through a scheme of arrangement under the UK Companies Act 1985. A scheme of arrangement is a procedure under UK law through which a company may enter into a voluntary compromise or arrangement with one or more classes of its creditors to effect a restructuring of its financial obligations. To become effective, a scheme of arrangement must be approved by 75% of the relevant creditors. The scheme of arrangement must then receive the sanction of the appropriate UK court. See Item 3. Risk Factors Risks Associated with our Restructuring The proposed scheme of Arrangement requires the approval of the relevant UK court; without such approval, our proposed restructuring will not be able to proceed.

Under the Proposed Restructuring, the amounts of the unsecured claims of each of the Bondholders, RBS and the Significant Creditors, or the claim amounts, are as follows:

Creditor	Claim Amount
Bondholders	£ 408 million
RBS	£ 37.5 million
The Significant Creditors:	
Teesside Power Limited	£ 159 million
Total Gas & Power Limited	£ 85 million
Enron Capital & Trade Europe Finance LLC (an affiliate of Enron Corp.)	£ 72 million

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The following table summarizes the allocation of New Bonds and New Equity to the Bondholders, RBS, the Significant Creditors and the Eggborough Banks, as agreed in principle under the Proposed Restructuring:

Creditors	New Bonds	Proportion of New Equity issued to Creditors
	(£ in millions)	
Bondholders	154.1	52.3%
RBS	14.2	4.8%
The Significant Creditors:		
Teesside Power Limited	43.5	14.4%
Total Gas & Power Limited	23.3	7.7%
Enron Capital & Trade Europe Finance LLC (an affiliate of Enron Corp.)	20.0	6.8%
Eggborough Banks	20.0	14.0%
Total	275.0	100%

(1) We expect that our current shareholders will receive only a very small fraction of the New Equity, if any. See Item 3. Risk Factors Risks Associated with our Restructuring If we complete the restructuring, our shareholders will suffer a very significant dilution of their interests in British Energy plc.

The Eggborough Banks

The Eggborough Banks have security over our Eggborough coal-fired power station and the assets of Eggborough Power Limited, our subsidiary that owns the Eggborough power station. Under the Proposed Restructuring, the Eggborough Banks will receive £20 million of New Bonds and 14% of the New Equity in respect of their unsecured claims. In addition, we will enter into a new capacity and tolling agreement with the Eggborough Banks, referred to as the CTA, under which we will make payments to the Eggborough Banks as if we had issued to them a further £150 million of New Bonds.

Decommissioning Fund and the NLF

The Proposed Restructuring provides that the Decommissioning Fund will be enlarged into a new Nuclear Liabilities Fund, or the NLF, to address our uncontracted back-end liabilities and the costs of decommissioning. We will contribute to the NLF:

£275 million of New Bonds;

fixed decommissioning contributions of £20 million per annum (indexed to the UK Retail Price Index (RPI)) but tapering off as our nuclear power stations close;

£150,000 (indexed to RPI) for every tonne of uranium loaded into Sizewell B our Pressurized Water Reactor nuclear power station, referred to as a PWR, after completion of the Proposed Restructuring; and

payments amounting (initially and subject to adjustment) to 65% of our consolidated annual cash flow net of tax, financing costs, cash reserves and a forecast expenditure reserve. The initial maximum cash reserve will be £490 million plus the amount by which our cash used as collateral exceeds £200 million.

Under the Proposed Restructuring the UK Government will meet the costs of historic spent fuel liabilities and will assume responsibility for uncontracted liabilities and decommissioning costs of our nuclear power stations to the extent that the accrued value of the NLF is insufficient to meet those costs and liabilities as they fall due.

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The BNFL Contracts

On May 16, 2003, we announced that we had exchanged contracts covering front-end and back-end fuel services, required to give effect to the Proposed Restructuring. The front-end contracts became effective on April 1, 2003, but, with the exception of the new arrangements for the supply of uranics, may be terminated if, amongst other things, the Proposed Restructuring is not completed. The back-end contracts are conditional on, amongst other things, completion of the restructuring. However, under the terms of the standstill agreements (discussed below), pending formal implementation of the new back-end contracts, our payments to BNFL will be made as if the new back-end contracts had become effective on April 1, 2003.

At the same time, we announced that we had entered into new contracts to sell all of our enriched and natural uranium stocks to BNFL and for BNFL to procure and supply uranics stocks to British Energy. Under the new lifetime arrangements, which are terminable after an initial period of seven years, BNFL will supply the uranics required for our AGR stations in England and enriched uranium for PWR fuel fabrication. BNFL will continue to supply uranics for our AGR stations in Scotland under existing arrangements until 2006, when similar arrangements to those applicable in England will take effect.

The Sale of Bruce Power and AmerGen

Bruce Power

On February 14, 2003, we completed the sale of our entire 82.4% interest in Bruce Power and 50% interest in Huron Wind to a consortium made up of Cameco Corporation, BPC Generation Infrastructure Trust and TransCanada PipeLines Limited. As part of these arrangements, 2.6% of our interest in Bruce Power was transferred to the two unions representing employees at Bruce Power.

At completion we received initial consideration of C$627 million (£250 million) after minor closing adjustments and a payment of C$51 million (£20 million) in recognition of the capital contribution paid by us to Bruce Power on December 30, 2002. On April 28, 2003, we received a further C$20 million (£8.7 million), 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. A further C$120 million of deferred consideration remains outstanding, comprised of:

- C$100 million, contingent on the restart of the two Bruce A units*;* plus
- C$20 million, retained to cover any successful claims in respect of representations and warranties given by us in the agreement to dispose of Bruce Power until any claims raised against us or certain of our subsidiaries within two years from the date of closing are resolved.

The deferred amount of approximately C$100 million is contingent upon the successful restart of two of the Bruce A reactors. The master purchase agreement provided that if the restart of these two reactors were to be delayed beyond June 15, 2003 and August 1, 2003, respectively, the consideration of C$50 million per reactor will be reduced on a sliding scale falling to zero after nine months. Bruce Power did not succeed in restarting the two reactors by the dates specified, consequently, while work continues to

restart the reactors as soon as possible, we cannot assure you that the amount of deferred compensation we receive will not be further reduced owing to any further delays in restarting the remaining reactors. See Item 3. Key Information Risk Factors. A substantial portion of the further proceeds we expect to receive as a result of the Bruce Power disposal are contingent upon the occurrence of certain events .

In addition, C$80m was retained to cover the estimated outstanding tax liabilities of BECL and its subsidiaries. We subsequently received an interim refund of some C$3 million which may be subject to

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further adjustment and we are continuing to pursue the refund of further amounts with the purchasers of our interest in Bruce Power and the Canadian tax authorities.

AmerGen

In September 2002, British Energy and Exelon announced their intention to sell AmerGen but, as we subsequently announced on March 7, 2003, these plans did not attract suitable offers. Independently from Exelon, we sought to realize the value of our investment.

On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, FPL Energy, a wholly-owned subsidiary of FPL Group for approximately US$277 million. The disposal of British Energy s interest in AmerGen will be effected through the sale of its subsidiary, British Energy US Holdings Inc., to an affiliate of FPL Energy. The proposed sale of our interest in AmerGen is subject to a right of first refusal, or ROFR, held by Exelon pursuant to the terms of the limited liability company agreement, the LLC Agreement, between Exelon and us with respect to AmerGen. Pursuant to the terms of the LLC Agreement, Exelon has the right to purchase our interest in AmerGen upon the same terms offered to a third party, by giving notice of its intention to do so within 30 days of receiving notice of FPL Energy s agreement to purchase our interest in AmerGen. Exelon s ROFR will terminate on October 11, 2003. In certain circumstances, break fees of up to US$8.295 million will be payable by us to FPL Energy in the event that the transaction with FPL Energy is not completed including as a result of Exelon exercising its ROFR to acquire AmerGen. Notwithstanding Exelon s ROFR the sale of our interest in AmerGen will also require various regulatory approvals and authorisations in the United States.

Under the LLC Agreement, in lieu of exercising its ROFR, Exelon has the right to elect to participate in the sale of our interest in AmerGen (the Tag-along Right) on the same timetable as the ROFR. If Exelon were to exercise its Tag-along Right, the consideration offered by FPL Energy for a 50% interest in AmerGen would be applied pro rata to the interests of British Energy and Exelon, leaving each with a 25% interest in AmerGen.

The Credit Facility

On September 9, 2002 the UK Government granted us a credit facility in an aggregate principal amount of up to £410 million to meet our immediate requirements for working capital and cash collateral to support our trading contracts in the United Kingdom and North America and certain procurement contracts. Subsequently, on September 26, 2002, the UK Government agreed to provide a revised facility for an amount up to £650 million.

Although the proceeds of the disposal of Bruce Power and standstill agreements were used to repay sums borrowed under the Credit Facility, the UK Government announced on March 7, 2003 that it had agreed to extend the maturity of the Credit Facility to the earlier of September 30, 2004 or the date on which the Proposed Restructuring becomes effective. The aggregate principal amount available under the Credit Facility was reduced from £650 million to £200 million. The UK Government is entitled to require immediate repayment of the Credit Facility if, in the opinion of the UK Secretary of State the restructuring cannot be implemented in the manner or timescale envisaged. See Item 3. Key Information Risk Factors. The continued financial support from the UK Government is subject to the approval of the UK Secretary of State for Trade and Industry. As at September 19, 2003 we had drawn down £20.8 million, principally to meet trading and other cash collateral requirements.

Standstill Agreements

On February 14, 2003, we announced that we had entered into binding standstill agreements, referred to as the Standstill Agreements, with the Bondholders, the Eggborough Banks, RBS, the

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Significant Creditors and BNFL. The Standstill Agreements were subsequently approved by a meeting of all holders of our sterling denominated bonds on March 24, 2003, at which time resolutions approving the standstill were passed, authorizing amendments to the trust deed constituting the bonds rendering the standstill binding on all bondholders. The Enron US bankruptcy court approvals were obtained and the standstill agreement became binding on Enron Capital & Trade Europe Finance LLC on May 8, 2003.

Under the terms of the Standstill Agreements, the Bondholders, the Eggborough Banks, RBS, the Significant Creditors and BNFL each agreed with us that they would not take any steps to initiate any administration proceedings or demand or accelerate any amounts due and payable by us during the period commencing on February 14, 2003 and ending on the earliest of (i) September 30, 2004, (ii) a termination event, or (iii) the completion of the Proposed Restructuring.

Under the Standstill Agreements, the Significant Creditors and RBS are paid interest, but not principal, in respect of any claims against the British Energy Group. Interest continues to be paid to Bondholders and the Eggborough Banks in accordance with existing arrangements, except that following the payment of the normal annual coupon to Bondholders on March 25, 2003, subsequent interest payments will be made on a semi-annual rather than an annual basis. Interest on outstanding principal amounts was paid to the Significant Creditors and RBS on March 25, 2003 and will be paid semi-annually thereafter based on the claim amounts. In the case of RBS, interest will be paid on the present value of the relevant claim amounts. In accordance with the terms of the Standstill Agreements, we amended our existing power purchase agreement with Teesside Power Limited so that during the standstill period, we will continue to purchase power from them at fixed prices set at levels based on the current forward curve for electricity. On completion of the Proposed Restructuring, this power purchase agreement with Teesside Power Limited will terminate.

The Standstill Agreements contain certain covenants, including covenants that prohibit us from making any acquisition or disposal in an amount greater than £5 million (other than the disposal of Bruce Power and AmerGen) without the unanimous consent of our creditors who are party to the Standstill Agreements. Furthermore, we may not issue equity or pay any dividends. The Standstill Agreements may be terminated following the occurrence of a termination event. The termination events include (i) certain insolvency events affecting British Energy plc, British Energy Generation Limited, British Energy Generation (UK) Limited, British Energy Power and Energy Trading Limited or Eggborough Power Limited, (ii) acceleration of the Credit Facility, (iii) the required approvals under the Standstill Agreements not being obtained within the timescales envisaged, (iv) any of the British Energy companies failing to discharge certain continuing obligations and (v) definitive documentation having not been executed by September 30, 2003.

Operations in the United Kingdom

Approximately 72% of our turnover during the year ended March 31, 2003 was derived from the generation and sale of electricity from our eight UK nuclear power stations and our coal-fired power station at Eggborough. Seven of our nuclear power stations, Dungeness B, Hartlepool, Heysham 1, Heysham 2, Hinkley Point B, Hunterston B and Torness, are each powered by two AGRs. The eighth nuclear power station, Sizewell B, is powered by a single Pressurized Water Reactor, or PWR. Six of our UK nuclear power stations (including Sizewell B) and our coal-fired power station are located in England. Our other two UK nuclear power stations are located in Scotland.

Advanced Gas-cooled Reactors

In the year ended March 31, 2003, total AGR output was 54.6 TWh, a decrease of 6.5% as compared with the previous year and the average load factor of our AGRs was 74.3%, a decrease of

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5.2% as compared with the previous year. The average load factor represents the amount of electricity produced by a power station expressed as a percentage of the total electricity it could have produced if operating at full capacity for the same period of time. For example, if a power station could have produced a total of 100 MWh operating at full capacity over the relevant period and actually produced 50 MWh over the relevant period, its average load factor would be 50%. The highest achievable load factor for an AGR power station ranges between 97% (for an AGR using on-load refueling with no statutory outages during the relevant period) and approximately 85% (for an AGR that does not utilize on-load refueling and has a statutory outage during the relevant period).

The performance of our AGR stations, in order of the date in which they entered commercial operation, for the five years to March 31, 2003 is shown below.

	Year ended March 31,				
Power Station	**2003**	**2002**	**2001**	**2000**	**1999**
	(TWh except average load factor)				
Hinkley Point B	8.3	9.0	8.2	7.7	9.6
Hunterston B	8.9	9.9	6.4	8.9	9.2
Dungeness B	5.2	5.2	3.7	2.2	5.1
Heysham 1	7.8	8.1	8.9	8.5	7.8
Hartlepool	9.3	8.8	9.1	9.3	8.3
Torness	5.7	8.3	7.7	10.2	9.5
Heysham 2	9.3	9.0	10.1	6.4	9.3
Total	54.6	58.3	54.1	53.1	58.8
Average load factor[1]	74%	79%	74%	72%	80%

(1) The average load factor represents the amount of electricity produced by a power station expressed as a percentage of the total electricity it could have produced if operating at full capacity for the same period of time.

Since the AGRs commenced operation, a number of technical, operational and engineering issues have arisen. We aim to resolve each of these issues by formulating solutions which either eliminate the issue or contain it in a manner sufficient to allow continued safe operation of the affected AGR. Each of these solutions requires the approval of the Nuclear Installations Inspectorate, or NII, for a revised safety case. In May 2002, a fault developed in a gas circulator at one of the reactors at Torness, resulting in plant shutdown. Subsequently, in August 2002, a similar fault also developed in the gas circulator on the other unit at Torness, which also resulted in plant shutdown. Both units had returned to service by December 2002. For further information about the technical risks associated with our operations, see Item 3. Key Information Risk Factors A significant engineering fault or a design flaw at one of our power stations or which is generic to a class of nuclear plants could decrease our revenues and increase our costs .

Refueling Operations

Improvements in the design and operation of refueling equipment have increased reliability, reducing output losses associated with refueling. In addition, better fuel utilization has reduced the amount of refueling required. In particular, we have developed more

efficient fuel management techniques, such as increasing fuel enrichment to increase the output extracted per tonne of fuel loaded, and radial shuffling, which involves moving partially burnt fuel assemblies from the edge of the reactor to the center so that we can extract more of the energy from the fuel.

We have also reduced output losses associated with refueling through on-load refueling (when power stations refuel without shutting down) after extensive programs of work to enhance our AGRs

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refueling equipment. Currently, we conduct low power on-load refueling (refueling at approximately 30% to 40% of reactor power) at four of our power stations, Hinkley Point B, Heysham 2, Hunterston B and Torness. We believe that the further enhancement of AGR refueling equipment necessary to allow on-load refueling at greater than 40% of reactor power would not be cost effective. At Heysham 1 and Hartlepool, we have developed a technique of large batch off-load refueling to minimize the duration of refueling outages. However, we believe that the extensive programs of work necessary to enhance the refueling equipment at these two power stations and at Dungeness B in order to commence on-load refueling would not be cost effective.

The table below sets out the aggregate duration of all outages during which any one of our AGR reactors was shut down as a result of statutory, refueling or other outages during the periods indicated.

	Year ended March 31,		
Outages	**2003**	**2002**	**2001**
	(reactor days)[2]		
Statutory	382	183	307
Refueling	106	122	71
Other[1]	571	383	578
Duration of all outages	1,059	688	956

(1) Other outages during the year ended March 31, 2003 include outages that arose in connection with failures to gas circulators which resulted in outages of 69 reactor days and 203 reactor days, respectively, on each of the two reactors at Torness. Other outages during the year ended March 31, 2001 include outages that arose in connection with superheater weld cracking at Dungeness B, which resulted in outages of 347 reactor days, on the two reactors. During the year ended March 31, 2001 an unplanned outage arose in connection with boiler tube corrosion at Hunterston B which resulted in an unplanned outage of 156 reactor days. For further discussion of outages, see Operations in the United Kingdom Advanced Gas-cooled Reactors .

(2) A reactor day is any calendar day on which a reactor is shut down. If two reactors at the same station (where applicable) are shut down on the same day, this is recorded as two reactor days.

Statutory Outages. The interval between statutory outages is confirmed by license instrument given by the NII and made pursuant to the site licenses and are as agreed between the licensee for that site and the NII. Currently, each of our AGR reactors must initiate a statutory outage within a three-year period, with the exception of Dungeness B, which is required to initiate a statutory outage within a two-year period. We are currently working towards increasing this to a three-year period. After a statutory outage, the NII must consent to a reactor s return to operation. We seek to manage the effect of statutory outages on output by timing such statutory outages to occur during periods of lower demand for electricity when prices are lower (generally between the months of March and October). We also seek to reduce the duration of any statutory outages by improving the efficiency with which we conduct the required program of work during a statutory outage and the speed with which we can refuel a reactor. During the year ended March 31, 2003, our completed AGR statutory outages had an average duration of 55 days. Furthermore, statutory outages are limited to one reactor within each AGR power station at any one time.

In 2002, based on recommendations by the World Association of Nuclear Operators, or WANO, we commenced a two year program of plant investment to improve nuclear safety, enhance reliability and raise output at our UK nuclear power stations at an estimated cost of £30 million over that period.

Unplanned Outages. Other outages arise due to emergent and therefore unplanned plant problems that result in the temporary shutdown of generating units.

During year ended March 31, 2003, unplanned outages rose to 571 reactor days as compared to the previous improved performance of 383 reactor days in 2002. The prime causes for this increase

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were the extended unplanned outages of 69 and 203 reactor days respectively on each of the two generating units at Torness to inspect and repair faults with the gas circulators.

AGR Station Lifetimes

The primary factor in determining the lifetime of an AGR power station is the ability to support a secure safety case over the operating life of the power station. Although the safe operation of the entire power station is reviewed, a key element in support of the station safety case is the ability to prove the continuing viability of the AGR power station s graphite moderator cores. A decision to extend the accounting life of an AGR power station is based, in large measure, on these engineering judgments. While we are not required to obtain the consent of the NII to extend the accounting lifetime of a power station, each power station is subject to a NII Periodic Safety Review, or PSR, every ten years.

Our AGR stations all became operational in the period between 1976 and 1988. The table below shows the year in which each reactor at our AGR power stations became fully operational, the AGR station lifetimes we have adopted for accounting purposes, and the expected closure date of each station. These accounting lifetimes reflect our current assessment of potential life limiting technical factors and independent engineering assessments.

Power Station	Date of commencement of operation of reactor	Station accounting lifetime in years	Station accounting closure date
Hinkley Point B		35	2011
Reactor 1	1976		
Reactor 2	1976		
Hunterston B		35	2011
Reactor 1	1976		
Reactor 2	1977		
Dungeness B		25	2008
Reactor 1	1982		
Reactor 2	1985		
Heysham 1		30	2014
Reactor 1	1983		
Reactor 2	1984		
Hartlepool		30	2014
Reactor 1	1983		
Reactor 2	1984		

Torness		35	2023
Reactor 1			
	1988		
Reactor 2	1988		
Heysham 2		35	2023
Reactor 1			
	1988		
Reactor 2	1988		

Pressurized Water Reactors

Our pressurized water reactor, or PWR, station, Sizewell B, commenced operation in February 1995 and achieved full power generation in June 1995. Since June 1995, Sizewell B has operated at or close to its full commercial load. In the year ended March 31, 2003, Sizewell B achieved an average load factor of 88.4%. PWRs can operate for periods in excess of twelve months without being shut down for refueling and, consequently, the highest achievable average load factor is 100%.

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The performance of the Sizewell B PWR power station over the past five years is shown below:

	Year ended March 31,				
	2003	2002	2001	2000	1999
	(TWh (except load factor))				
Sizewell B					
Output	9.2	9.2	8.4	9.1	9.4
Average load factor	88%	89%	81%	87%	90%

Refueling

In contrast to AGRs, PWRs cannot refuel on-load and must be shut down for refueling. Accordingly, we seek to time statutory outages at Sizewell B to coincide with refueling outages.

Outages

Sizewell B has only one reactor. That reactor has a performance capacity comparable to the combined reactor capacity of both reactors at an AGR power station and the impact of each outage is substantially greater than that associated with a single AGR reactor. Consequently, increases in the duration between statutory outages at Sizewell B have a significant effect on its performance. Sizewell B currently operates for a period of up to 18 months between statutory/refueling outages. Sizewell B was shut down for a total of 31 days as a result of the most recent statutory/refueling outage commencing in April 2002. The next statutory outage is scheduled for October 2003.

PWR Station Lifetimes

Sizewell B has an accounting lifetime of 40 years and an assumed closure date of 2035. The operating lifetime of a PWR station is limited principally by the lifetime of the reactor pressure vessel because it would most likely be uneconomical to replace it. The current safety case for Sizewell B assumes a reactor pressure vessel life of 40 years.

UK Coal-Fired Power Station

We acquired the Eggborough coal-fired power station, which is located in North Yorkshire, from National Power in March 2000. The plant consists of four 500 MW generating units. Eggborough is operated at output levels necessary to meet customer demand, rather than simply at baseload levels in the manner of our nuclear stations. Because Eggborough provides a flexible generating capability, it fulfils a variety of functions. Firstly, by maintaining a level of reserve capacity, it provides a means for compensating for unplanned lost output from nuclear units at short notice; secondly, it provides the capability to profile the generation shape of output

to better meet the requirements of both wholesale and directly-supplied customers; and thirdly, it provides a flexible capability that is offered to the system operator via the balancing mechanism. We are in the process of fitting two of the four units with flue gas desulphurization equipment, or FGD, at a cost of approximately £70 million, to limit sulphur emissions, by the end of 2004. Eggborough generated 7.1 TWh in the year ended March 31, 2002 and 5.7 TWh in the year ended March 31, 2003.

Under the restructuring proposals, we have agreed in principle with the syndicate of banks which provided project financing for Eggborough to enter into a new Capacity and Tolling Agreement (CTA). For further details see Item 4. Information on the Company Restructuring Standstill Agreements .

Electricity Sales in the United Kingdom

A key feature of the New Electricity Trading Arrangements, or NETA, is that buyers and sellers agree contracts at bilaterally negotiated prices rather than offer into a mandatory power pool and

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receive a single wholesale price. NETA provides a balancing mechanism for the adjustment of demand and supply in real time and the settlement, in half-hourly blocks, of differences between the contractual and physical positions of those buying, selling, generating and consuming electricity. Because our ability to vary the output of our nuclear power stations is limited by design and safety considerations, we seek to actively build a portfolio of contracts with buyers of electricity to approximately match our planned output. These buyers include suppliers, other generators, wholesale electricity traders and large industrial consumers.

Along with other generators, we are effectively required to pay the cost of alternative generation in the event that we are unable to meet our contractual obligations as a result of unplanned outages. We may enter into contracts with other generators to help ensure our ability to meet contractual obligations. Our 2000 MW Eggborough power station adds further flexibility by allowing us to tailor contracts to meet varying customer demand as well as providing back-up in the event of unplanned outages at our nuclear power stations.

One of our most important routes to market is direct sales to large industrial and commercial customers. This direct sales business has increased by 20% in volume terms in the year to March 31, 2003 to 22.5 TWh while continuing to maintain a number one ranking in terms of customer satisfaction, based on data compiled by the Energy Information Centre. This follows an increase of around 60% in volume terms in the year to March 31, 2002. Particular emphasis has been placed on securing renewals and extensions of existing business to reduce exposure to wholesale market prices.

We currently sell all the output from our Scottish nuclear power stations to Scottish Power and Scottish and Southern Energy under the terms of the Nuclear Energy Agreement or NEA. On July 15, 2002, we agreed revised terms to the NEA with both of the other parties. The revised terms subsequently obtained regulatory approval. The revision to the terms of the NEA followed the commencement of legal proceedings by Scottish Power on April 30, 2001 seeking clarification of the legal status of the contract and how price should be determined following the introduction of NETA in England and Wales. Following the introduction of the NETA on March 27, 2001, electricity pool reference prices required to calculate prices under NEA ceased to exist.

Under the revised terms, Scottish Power and Scottish and Southern Energy now purchase electricity from us under arrangements much more closely linked to market prices and terms for base load energy in England and Wales. The amended NEA will continue in operation until the introduction of the proposed British Electricity Transmission and Trading Arrangements, or BETTA or, if earlier, April 1, 2006. Extension of the amended NEA, beyond its original date of April 1, 2005, will require regulatory approval.

Beyond that date, Scottish Power and Scottish and Southern Energy have an option for follow-on contracts up to 2011 at reduced volumes.

Operations in the United States

AmerGen Energy Company LLC, or AmerGen, our 50% owned joint venture with Exelon Generation Company LLC, or Exelon, was established in 1997 to pursue opportunities in the nuclear electricity generation industry in the United States. The United States Nuclear Regulatory Commission, or NRC, which regulates the operation of nuclear power stations in the United States, permits only US companies to hold a license to operate a nuclear power station in the United States. Accordingly, our interest in AmerGen is limited to 50%.

AmerGen owns the Clinton, Oyster Creek and Three Mile Island-1, or TMI-1, nuclear power stations with a total capacity of 2,500 MW. TMI-1 is a PWR while both Clinton and Oyster Creek are Boiling Water Reactors, or BWRs. Operations at AmerGen s nuclear power stations are integrated with operations at Exelon s fleet of nuclear power stations. We are entitled to 50% of AmerGen s profits.

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By summer 2002, despite the successful performance of the AmerGen business, British Energy and Exelon concluded that there was limited scope to grow AmerGen due to the changes in the overall market for nuclear plant. In September 2002, British Energy and Exelon announced their intentions to sell AmerGen but, as we announced on March 7, 2003, these plans did not attract suitable offers. Independently from Exelon, we subsequently focused our efforts on realizing the value of our investment as soon as was practicable.

On September 11, 2003 we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy Nuclear Mid-Atlantic LLC, a wholly-owned subsidiary of FPL Group for approximately US$277m. See Item 4 Information on the Company Proposed Restructuring The Sale of Bruce Power and AmerGen.

Electricity Sales in the United States

The AmerGen stations have fixed arrangements in place with the former owners of the stations or with Exelon for the sale of all of their output at agreed prices over the currently licensed lives of the stations. As a result, we have limited exposure to market price movements in the United States.

Safety and Environmental Standards

The following is information regarding our safety and environmental performance. For a discussion of the safety and environmental regulatory scheme to which we and our operations are subject, please see Regulation Safety and the Environment .

Safe operation is our first priority. We strive to ensure our continued compliance with all health and safety legislation and the continued improvement of safe working conditions for our employees, contractors, visitors and the general public. Operational management are responsible for safety and are supervised by the Safety and Regulation Division. A Board committee, the Safety, Health and Environment Committee, or SHEC, oversees our performance in this area and provides strategic guidance. The SHEC is chaired by an independent director with considerable experience in the nuclear industry and has three independent members. In addition, a Nuclear Safety Committee established pursuant to the requirements of the nuclear site license for each UK nuclear power station advises that power station on matters related to nuclear safety. Each Nuclear Safety Committee comprises station staff and independent members who are not our employees but who have the relevant technical expertise in nuclear safety. We also regularly consult with the NII on matters of nuclear safety.

In the year ended March 31, 2003 we had no events registered level 2 or higher on the 7 point International Nuclear Event Scale, or INES, as all events registered at or below level 1. Level 1 events represent minor operating anomalies with no impact on staff or the general public.

An INES level 2 incident (signficant failure in safety provisions but with sufficient defence in depth remaining to cope with additional failures) occurred at Dungeness B power station on July 11, 2003. The causes of the incident are being addressed and the station returned to service on July 29, 2003.

In January 2000, the NII published a report on its audit of our central technical support functions. The report followed an inspection carried out early in 1999 which focused on central technical and safety support to our eight nuclear power stations. A series of key recommendations identified areas for improvement relating to retention of skills, use of contractors and overall workload. The report also identified a number of good practices. We firmly believe that excellent safety performance is essential

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to good operating performance. By the close of financial year 2002/3, we had responded to all recommendations, and the NII confirmed that they considered the vast majority of such issues to be either closed or subject to long-term monitoring.

We exercise strict control over our operations to ensure compliance with environmental regulations. We have also implemented international standards of best practice, as described below. All radioactive waste is subject to strict control and, with the exception of the gaseous and liquid waste which are authorized to be discharged under a variety of environmental licenses, is stored at our power stations prior to disposal in approved facilities.

Last year, five of our plants maintained a level 8, or higher, rating on the ten point International Safety Rating System (ISRS), a widely adopted standard for monitoring industrial safety. Each of our power stations has been externally audited and certified to the ISO 14001 international standard for environmental management systems. All our UK power stations operate to quality systems consistent with the United Kingdom s BS 5882 (Specification for a Total Quality Assurance Programme for Nuclear Installations) standard. In 1997 Sizewell B was accredited to the European Union s eco-management and audit scheme, or EMAS. Sizewell B was the first nuclear power station in the world to achieve EMAS accreditation.

The Fuel Cycle

The fuel cycle consists of the front-end fuel cycle, the preparation of fuel before it enters the reactor, and the back-end fuel cycle being the handling, storage, reprocessing and ultimate disposal of spent fuel and waste. With respect to AGRs and PWRs, the front-end fuel cycle consists of procuring uranium in the form of uranium ore concentrate, which is available on the world market, and converting the uranium into uranium hexafluoride, which is itself a tradable commodity available on a spot or long term basis. The back-end fuel cycle consists of the removal, storage, possible reprocessing and the eventual disposal of the spent fuel (fuel which is removed from a reactor) or waste products arising from its reprocessing. Spent fuel elements may be stored for long periods prior to final disposal, or can be reprocessed after a period of at least three years for AGR spent fuel and five years for PWR spent fuel. Reprocessing of spent fuel separates uranium and plutonium from nuclear waste products. Nuclear waste products are categorized by their radioactivity into low level radioactive waste, or LLW, intermediate level radioactive waste or ILW, and high level radioactive waste, or HLW.

Fuel Cycle in the United Kingdom

Fuel cycle costs represent a significant proportion of our operating costs in the United Kingdom. We rely to a significant extent on BNFL in supplying our fuel cycle requirements, and rely on them exclusively for our AGR fuel. As at March 31, 2003, our contracts for front end and back-end fuel cycle services for the AGR stations required payments in the future totaling £5.7 billion (subject to contractual indexation for inflation). The provision by BNFL of front and back-end fuel cycle services is subject to our revised contracts with BNFL. The continued implementation of our revised contracts with BNFL is contingent on the completion of our proposed restructuring. For a detailed summary of the revised contracts with BNFL, see Item 10. Additional Information Material Contracts . Also see Item 4 Proposed Restructuring The BNFL Contracts.

UK Front-End Fuel Cycle. Up to the fabrication stage, AGRs and PWRs use identical fuel cycle processes. At the fabrication stage, enriched uranium hexafluoride is converted into either AGR or PWR fuel elements. BNFL is currently the sole provider of AGR fuel fabrication services in the world. The up-front costs associated with AGR fuel fabrication services (for which we are the only customer in the world) present significant barriers to new market entrants. Consequently, we depend upon BNFL for AGR fuel

fabrication services. Under the existing contracts we have the option to extend the contracts until the closure of our existing power stations. We have revised contracts with BNFL, which are contingent on our implementation of the proposed restructuring and run until the end of the life of both our English and Scottish AGR stations.

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A competitive world market exists for PWR fuel fabrication services. Until 1998, we purchased PWR fuel fabrication services from BNFL. In March 1998, following a competitive international tender, we entered into a contract with Siemens AG for three PWR fuel reloads for delivery between 2000 and 2003 with an option for up to a further four reloads. In accordance with the terms of this agreement, as with the previous agreement with BNFL, we must deliver the required quantities of enriched uranium to Siemens and they will return any unused enriched uranium to us. We satisfy our obligation to provide enriched uranium through our normal uranics procurement sources.

UK Back-End Fuel Cycle. In relation to the English AGRs, we entered into a contract with BNFL in 1995 to reprocess the first 3,060 metric tonnes of spent AGR fuel arising from the operation of those power stations until 2005. In 1997, we entered into a further contract with BNFL to manage all remaining spent AGR fuel arising over the lifetime of the English AGRs. This contract provides that BNFL may reprocess or store that AGR spent fuel at its discretion. Our contract with BNFL with respect to the Scottish AGRs, also entered into in 1995, provides for the reprocessing of the first 1,698 metric tonnes and storage of all remaining spent AGR fuel arising from the operation of those power stations over their lifetime. In 1997, we entered into a contract with BNFL to store reprocessing derivatives (primarily plutonium, uranium and HLW) until 2086 and any ILW to which we retain title until at least 2020. We either incinerate our LLW on site or, where appropriate, compact and send it with any ash from incineration to BNFL s disposal facility at Drigg in Cumbria. BNFL s charges for reprocessing and spent fuel management services are based on an annual fixed price (subject to indexation for inflation).

After typically three to six months storage in cooling ponds at AGR stations, we send spent AGR fuel in flasks to BNFL s Sellafield facility by rail. The rail transport is provided under contract by Direct Rail Services Limited, a wholly owned subsidiary of BNFL. Road transport is used between the power stations and the railheads where necessary. The costs associated with the transport of spent fuel by Direct Rail Services Limited are included within the terms of our contracts with BNFL for reprocessing and spent fuel management services over the lifetime of our AGRs. Although the specific transportation costs have not been reduced, we believe that the transfer of this contract to BNFL will result in increased operational efficiency. Spent PWR fuel is stored at Sizewell B pending final disposal. Our storage facilities at Sizewell B can accommodate approximately 30 years of spent PWR fuel, subject to obtaining satisfactory consents from the NII.

Our revised back-end fuel contracts with BNFL are conditional on, amongst other things, completion of the restructuring. However, pending formal implementation of the new back-end contracts, our payments to BNFL will be made as if these new back-end contracts had become effective on April 1, 2003.

UK Long-Term Waste Disposal. We currently retain ultimate responsibility for all AGR spent fuel that has not been reprocessed as well as all uranium, plutonium, ILW and HLW stored by BNFL. We, along with other UK nuclear entities, established United Kingdom Nirex Limited, or Nirex, to pursue the development of an underground repository for ILW and certain LLW. As at March 31, 2003, we had invested a total of £37 million in Nirex. Although Nirex commenced detailed investigations with a view to the construction of a long term waste repository at Sellafield it was denied planning permission in 1997 and the UK Government announced that it would not pursue further development of the site. Nirex s activities have been reduced pending selection of an appropriate site for a long term waste repository. However, Nirex remains the expert body in the United Kingdom on ILW disposal and provides advice to the United Kingdom s nuclear industry on waste repackaging requirements.

In September 2001, the UK Government published a report containing proposals for developing a policy for managing solid radioactive waste in the United Kingdom. The aim was to initiate a national public debate. An outline program to 2007 has been announced, which is expected to culminate in an option being selected.

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Subject to successful completion of the Restructuring, responsibility for AGR spent fuel (and other back-end fuel liabilities) in relation to fuel loaded into the reactors prior to the restructuring effective date will transfer to the NLF and HMG as described in Item 3. Proposed Restructuring Decommissioning Fund and the NLF.

On July 16, 2003, the UK Government announced plans for Nirex to be made independent of the UK nuclear industry. This proposal is intended to increase Nirex s accountability.

Fuel Cycle in the United States

Under the terms of its joint venture agreement, Exelon is responsible for purchasing fuel on behalf of AmerGen. AmerGen does not have responsibility for disposing of spent fuel but pays a levy of US$1 per MWh generated to the US Government to fund its disposal.

Decommissioning in the United Kingdom

Decommissioning of a nuclear power station is the process whereby it is shut down at the end of its operating life, eventually dismantled, and the site made available for other purposes. There are generally three stages in the decommissioning of a nuclear power station. In the United Kingdom these stages are:

(i) Stage 1 defueling the reactor shortly after station closure and removing the fuel from the power station;

(ii) Stage 2 dismantling redundant ancillary buildings and making the reactor complex secure and weather proof, following which it is maintained and monitored, usually over long periods (estimated to be up to 135 years after station closure for AGRs and up to 50 years after closure for PWRs); and

(iii) Stage 3 dismantling the reactor to allow the site to be reused.

The decommissioning of the first of our power stations is not expected to commence before 2008. The estimated cost of decommissioning the stations is based on technical engineering assessments and other detailed studies in light of the current regulatory regime. In accordance with UK GAAP, we provide in full for these costs at the time that a power station is commissioned. This provision is expressed at its current value as of the balance sheet date, discounted by 3% per year to reflect the long time period before the costs occur. As at March 31, 2003 we estimated the total discounted cost of decommissioning our AGR power stations and the PWR power station to be £1.0 billion.

Decommissioning Fund

In connection with our privatization we established the Nuclear Generation Decommissioning Fund Limited, or the Decommissioning Fund, in March 1996. The Decommissioning Fund is owned by the trustees of an independent trust, the Nuclear Trust. The Decommissioning Fund was established to accumulate funds to meet our Stage 2 and Stage 3 decommissioning costs, including on-site waste management. We made an initial endowment of £228 million to the Decommissioning Fund in July 1996. We make quarterly contributions to the Decommissioning Fund, which are subject to an adjustment for inflation. During the year ended March 31, 2003, these contributions totalled £18 million.

The value of the Decommissioning Fund asset in our balance sheet represents these contributions and the income accrued to date based on the estimated actuarially determined long-term rate of return on the Decommissioning Fund and the annual effect of inflation. The estimated actuarially determined long-term rate of return, which has been applied consistently for the last three years, is 3.5% per annum. The rate represents the independent actuaries assessment of the long-term return from the Decommissioning Fund that will be earned from the accumulation in the Decommissioning Fund. See also Note 15 to our consolidated financial statements.

On September 25, 2002 the Decommissioning Fund served a default notice relating to the solvency of the Company, British Energy Generation Limited and British Energy Generation (UK) Limited. Unless the default is cured to the satisfaction of the Decommissioning Fund, or waived, the

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Decommissioning Fund has the right to require accelerated payment of all of the contributions due to the Decommissioning Fund prior to the next quinquennial review in Autumn 2005. The Decommissioning Fund has agreed not to take enforcement action without further notice while the British Energy Group continues to make progress toward completing its proposed restructuring. If the proposed restructuring is effective, the NLF will replace the Decommissioning Fund. For a detailed description, see Item 3. Risk Factors Risks Related to our Business If the NLF does not become effective, we may be required to make substantial payments to meet the long-term post-closure costs of decommissioning our existing nuclear power stations in the United Kingdom. Separately, and in addition, we may be required to make substantial payments to meet revised projected costs of decommissioning of the AmerGen stations and Item 4. Information on the Company Proposed Restructuring Decommissioning Fund and the NLF.

If our proposed restructuring is completed, the Decommissioning Fund will be enlarged into the NLF. As with the Decommissioning Fund, we will make an initial contribution to the NLF of £275 million of New Bonds. In addition we will pay:

- fixed decommissioning contributions of £20 million per annum (indexed to the UK RPI) but tapering off as our nuclear power stations close;
- £150,000 (indexed to the UK RPI) for every tonne of uranium loaded into our PWR nuclear power station Sizewell B; and
- payments amounting (initially and subject to adjustment) to 65% of our consolidated annual cash flow net of tax, financing costs, cash reserves and a forecast expenditure reserve. The initial maximum cash reserve will be £490 million plus the amount by which our cash used as collateral exceeds £200 million.

In connection with the establishment of the NLF, the UK Government has agreed to meet the cost of historic spent fuel liabilities and will assume responsibility for uncontracted nuclear liabilities and decommissioning costs of our nuclear power stations to the extent that the accrued value of the NLF is insufficient to meet those liabilities and costs as they fall due.

Principal Subsidiaries

Details of our principal subsidiaries and other holdings of more than 10% are as follows:

	Country of Registration and operation	Class of Share	Group Shareholding	Company shareholding	Principal Activity
			%	%	
Subsidiary					
British Energy Generation (UK) Limited[1][3]	UK	Ordinary	100	100	Generation and sale of electricity
British Energy Generation Limited[2][4]	UK	Ordinary	100		Generation and sale of electricity
British Energy Power and Energy Trading Limited[3]	UK	Ordinary	100	100	Energy trading

Eggborough Power Limited	UK	Ordinary	100		Generation and sale of electricity
Lochside Insurance Limited	Guernsey	Ordinary	100	100	Insurance
British Energy US Holdings Inc[5]	US	Ordinary	100		Holding Company
British Energy Holdings Limited	Canada	Ordinary	100		Holding Company

(1) One Special Rights Redeemable Preference Share is held by Her Majesty s Secretary of State for Scotland.

(2) One Special Rights Redeemable Preference Share is held by Her Majesty s Secretary of State for Trade and Industry.

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(3) On September 26, 2002, British Energy plc granted a pledge over all of the shares held by it in (amongst others) British Energy Generation (UK) Limited and British Energy Power and Energy Trading Limited in favor of the Secretary of State for Trade and Industry.
(4) On September 26, 2002, British Energy Generation (UK) Limited granted a mortgage over all of the shares held by it in British Energy Generation Limited in favor of the Secretary of State for Trade and Industry.
(5) On September 26, 2002, British Energy Investment Limited granted a pledge over all of the shares held by it in British Energy US Holdings Inc in favor of the Secretary of State for Trade and Industry.

Other holdings of more than 10%

AmerGen Energy LLC	US	Ordinary	50	Generation and sale of electricity
United Kingdom Nirex Limited	UK	Ordinary	10.8	Disposal of nuclear waste

Property, Plant and Equipment

Our properties consist of power stations, administrative offices and certain other properties, including training facilities, all of which are fully utilized (subject to normal production outages). We own the freehold to each of our eight UK nuclear power stations and one coal fired power station as well as the administrative centers, our corporate headquarters at Peel Park near East Kilbride in Scotland and at Barnwood, near Gloucester in England. In addition, we currently lease offices in London and Slough, near London and in Brussels, Belgium. The nuclear power stations are operated under license and subject to strict regulation (as detailed above and in Regulation). We believe that all of our properties are in a condition adequate for their purpose and utilization according to their individual natures and requirements. As previously noted, we are in the process of fitting FGD, units to two of the four units at Eggborough power station. The project is expected to be completed by the end of 2004 and is expected to cost approximately £70 million.

Details of our power stations and offices are set out below:

	Type	Capacity (MW)	Location
United Kingdom			
Nuclear Power Stations:			
Dungeness B	AGR	1120	England
Hartlepool	AGR	1205	England
Heysham 1	AGR	1060	England
Heysham 2	AGR	1340	England
Hinkley Point B	AGR	1270	England
Hunterston B	AGR	1195	Scotland
Sizewell B	PWR	1200	England
Torness	AGR	1210	Scotland
Coal Fired Power Stations:			
Eggborough		2000	England
Principal Offices:			
Peel Park, East Kilbride			Scotland
Barnwood, Gloucester			England
Jermyn Street, London			England
Herschel Street, Slough			England

United States AmerGen

50% share in nuclear power stations:			
Clinton	BWR	1017[(1)]	Illinois, United States
Oyster Creek	BWR	627	New Jersey, United States
Three Mile Island Unit 1	PWR	835	Pennsylvania, United States

(1) Net of station load.

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In connection with our privatization in July 1996, we entered into a Property Clawback Deed with the UK Government s Secretary of State for Trade and Industry. The Property Clawback Deed provides that in the event of the disposal, or an event deemed to be a disposal, of any property in which we had an interest as at March 31, 1996 (other than our power stations), the UK Government is entitled to 50% of any post tax gain realized on the disposal in excess of £400,000. The Property Clawback Deed will cease to have effect from March 31, 2006.

Under the terms of the extended loan facility agreement provided by the UK Government on November 28, 2002, we granted a first ranking security to the Secretary of State for Trade and Industry over each of our UK nuclear stations.

On July 2, 2003, we announced proposals to close our current corporate headquarters at Peel Park in East Kilbride. Under these proposals, certain operational posts will be relocated to our Barnwood office, and our headquarters will be transferred to a new location in Scotland in smaller offices which are yet to be identified. We are currently in the process of consulting with those employees directly affected by these proposals.

Employees

United Kingdom Employees

The average number of employees in the United Kingdom during the year ended March 31, 2003 was 5,054. The average number of employees in the United Kingdom was 5,224 in the year ended March 31, 2001 and 4,920 in the year ended March 31, 2002.

In addition to full time employees, at any one time, we engage a significant number of contract staff. In particular, during outages, resources at the stations are supplemented by a significant number of contract staff who provide maintenance and other specialist services.

The terms and conditions of employment for the majority of our staff are subject to agreements with the following trade unions: Prospect, Amicus AEEU, GMB, UNISON and the Transport and General Workers Union. These agreements, introduced in 1994 cover most full time, part time and temporary employees and include provision for performance related salary progression for some employees. Management believes we have good relations with both employees and its trade unions.

For a breakdown of our employees by category of activity, see Note 7 to our consolidated financial statements.

Competition

We compete in the market for electricity supply with other power stations, including other nuclear power stations, and a number of coal-, oil- and gas-fired power stations. As compared to nuclear power stations, coal-, oil- and gas-fired power stations are able to more easily adjust their output to take advantage of changes in market price, which in some situations may put us at a competitive disadvantage.

Legal Proceedings

We are currently pursuing two separate claims against Siemens that are the subject of an arbitration proceeding that commenced in May 2000. We are seeking to recover losses of approximately £85 million plus interest related to the failure of two turbines at Heysham 2 refurbished by Siemens in 1997 and 1998. Disclosure commenced in October 2002 and the trial is due to commence in December 2003.

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We understand that AES and Greenpeace have filed an appeal in the European Court of First Instance seeking judicial review of the European Commission s approval of the UK Government s decision to grant rescue aid to us in September 2002.

In March 2003, FLS Miljø a/s, or FLS Miljø, the main contractor for the FGD plant works at Eggborough Power Station issued a notice of default under the contract between them and Eggborough Power Limited, or EPL. This notice of default alleged that EPL was in breach of the provisions of that contract following the announcement of the restructuring proposals on February 14, 2003 primarily, but not exclusively, on the basis that EPL had agreed or would shortly enter into, a composition or voluntary arrangement with its creditors, by virtue of the standstill arrangements and non-binding agreement on the principles of our proposed restructuring agreed on February 14, 2003. EPL obtained a letter of advice from external counsel to the effect that no event of default had occurred under the contract between EPL and FLS Miljø on this basis. On July 25, 2003 FLS Miljø served a further notice of default alleging that EPL was insolvent, and/or that it had entered into a voluntary arrangement with its creditors in breach of the terms of its contract with FLS Miljø.

Other than as described above, we are not aware of any material legal proceedings, other than ordinary routine litigation incidental to our business, to which British Energy or its subsidiaries is a party or of which any of their property is subject. Similarly, we are not aware of any proceedings concerning British Energy or its subsidiaries contemplated by any governmental authority in the United Kingdom, the United States or elsewhere.

Regulation

Our business is subject to extensive regulation by governmental agencies in each of the jurisdictions in which we operate. Regulation that applies specifically to our business generally covers three areas: electricity regulation; nuclear regulation; and regulation of safety and the environment. In the countries where we operate, the United Kingdom and the United States, regulation is carried out and enforced by national regulatory authorities. In the United States, there are various additional layers of regulation at the international, state, regional and/or local level.

We are subject to a varied and complex body of laws and regulations that both public bodies and private parties may seek to enforce.

An overview of the regulatory framework in each of the countries in which we operate is set out below.

Electricity Regulation

These regulations govern the development, ownership and operation of power generation plants and the transactions between producers and consumers of electrical power and related products, such as ancillary services. The degree of energy market regulation in the countries in which we operate generally depends upon the structure of the energy market in that country and the level of private versus state ownership of the energy sector. In the markets in which we operate, there is a well-established regulatory framework.

Electricity Regulation in the United Kingdom

The electricity industry in Great Britain is regulated by the Electricity Act 1989, or the Electricity Act, as amended by the Utilities Act 2000. The primary responsibility for regulating the electricity industry rests with the Gas and Electricity Markets Authority, or GEMA, the members of which are appointed by Her Majesty s Secretary of State for Trade and Industry. GEMA is responsible for the

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enforcement of the licensing regime under the Electricity Act and carries out these functions via the Office of Gas and Electricity Markets, OFGEM. GEMA also has various other responsibilities including the power to refer matters in certain circumstances to the Competition Commission.

Unless covered by an exemption, all electricity generators operating a power station in Great Britain must have a generation license issued by GEMA. We currently hold generation licenses covering our activities throughout Great Britain.

Unless covered by exemption, a supplier of electricity to premises in Great Britain must also be licensed. Restrictions on the customers rights to choose their licensed supplier were removed in 1999, resulting in a competitive supply market of approximately 330 TWh per annum. We currently hold a license entitling us to supply all non-domestic customers in Great Britain.

Failure to comply with any of the generation or supply license conditions may subject the licensee to a variety of sanctions, including enforcement orders by GEMA, the imposition of financial penalties, or license revocation if the licensee does not comply with an enforcement order.

Certain aspects of British Energy s electricity trading activities in Great Britain are regulated by the Financial Services Authority in accordance with the Financial Services and Markets Act 2000.

Electricity Regulation in the United States

AmerGen operates in three states. AmerGen sells power at wholesale and is therefore subject to the jurisdiction of the Federal Energy Regulatory Commission, or the FERC, which regulates the transmission and wholesale sales of electricity in interstate commerce. Because AmerGen is not selling directly in the retail market, it is not subject to rate regulation by the state regulatory bodies in the states in which it operates. As an exempt wholesale generator, AmerGen is prohibited from participating directly in their retail markets.

Nuclear Regulation

Nuclear Regulation in the United Kingdom

Under the Nuclear Installations Act 1965 as amended, or NIA, the licensee of a nuclear site has a duty to secure that no occurrence involving nuclear material and that no ionizing radiation causes personal injury or damage to property other than property of the licensee. The licensee is normally exclusively liable for a breach of this duty irrespective of fault. We hold licenses issued by the Health and Safety Executive, or HSE, for each of our UK nuclear power stations.

Under the NIA the liability of the licensee to pay compensation for a breach of this duty is currently limited to £140 million per occurrence, apart from interest or costs. The NIA requires the licensee to make such provisions, by insurance or other means, as the UK Government may approve, for sufficient funds to be available at all times to ensure that duly established claims against the licensee as licensee of that nuclear site (excluding claims for interest or costs) are satisfied up to £140 million in respect of each of the cover periods specified in the NIA. The Secretary of State may direct the licensee to begin a new cover period in the light of previous occurrences or claims. The NIA implements the United Kingdom s obligations under the Paris Convention of 1960 (as supplemented by the Brussels Convention of 1963), on third-party liability in the field of nuclear energy. The UK Government participated in discussions with members of the Organisation for Economic Co-operation and Development to update the Paris Convention, primarily to increase the limits of liability of nuclear operators to a minimum of 700 million euros in the light of developments in available insurance capacity. The European Commission gave approval for the Euratom Community to allow member states to sign the protocol amending the Paris Convention in July 2003. The European Commission has set a deadline of 2008 for member states to sign and ratify the amending protocol.

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Subject to this, the NIA would be amended thereafter to incorporate any agreed amendments to the Paris Convention.

The NIA also provides that the UK Government shall make available such sums as, when aggregated with the funds required to be available through insurance or other means, may be necessary to ensure that all duly established claims (excluding claims for interest or costs) in respect of any occurrence are satisfied up to the amount (at current exchange rates) of approximately £286 million. A claim for compensation which would not be payable by the licensee because of the limit on its liability to pay compensation, and which is not satisfied out of the sum of approximately £286 million, may, under the NIA, be satisfied by the UK Government to such extent and out of funds provided by such means as Parliament may determine. The proposed revisions to the Paris and Brussels conventions described above, if implemented, would result in an increase in the Government s liability cap from £286 million to 1.5 billion euros, or as calculated at the September 5, 2003 Noon Buying Rate, £1.0 billion.

The NIA provides for the licensing and inspection of sites which are to be used for the operation of nuclear reactors and certain other nuclear installations and requires that no site may be used for a licensable activity unless a license has been granted by the HSE. The NII, which is part of the HSE, administers the license. The nuclear site license is granted to the corporation in charge of the day to day operations of the installation. It defines the site and installation and has standard conditions attached to it which set out general requirements but do not prescribe how they should be achieved.

The NII inspectors powers under the Health and Safety at Work Act extend to industrial safety and to enforcing the nuclear site license by improvement notices, prohibition notices, or in the event of non-compliance with license conditions or other offences, by prosecution. The NII may also direct a licensee to shut down a nuclear reactor. A nuclear power station remains a licensed site throughout the decommissioning process and is subject to the same system of regulation as when it was operational. Nuclear site license conditions include a requirement for statutory outages and periodic shutdown when necessary for the purpose of enabling any examination, inspection, maintenance or testing required by the maintenance schedule approved by the NII.

Our nuclear site licenses were amended in the early 1990s to include a requirement that each of our nuclear power stations carries out a Periodic Safety Review, or PSR. As part of our nuclear site license compliance arrangements, we carry out a PSR at each site once every ten years.

The transport of all radioactive material, both waste and fuel, off-site must comply with the Department of Transport s requirements under the Radioactive Material (Road Transport) Act 1991, or RMRTA, the HSE s requirements under the Carriage of Dangerous Goods by Rail Regulations 1994 and the Anti-Terrorism Crime and Security Act 2001. The RMRTA regulates the transport by road of radioactive material. Under this Act, the UK Government may regulate the packaging, labeling, consignment, handling, transport, storage and delivery of radioactive packages. The current regulations require certain consignments to be specifically approved by the Secretary of State for Transport.

Nuclear Regulation in the United States

In the United States, the Nuclear Regulatory Commission, or NRC, regulates the operation of nuclear plants for the period up to the agreed operating life of the stations. The NRC was established by Congress under the Energy Reorganization Act of 1974 to ensure adequate protection of the public health and safety, the common defense and security and the environment, in each case, with respect to the use of nuclear materials in the United States. The funds necessary to enable AmerGen to comply with the NRC s requirements are guaranteed by its owners, Exelon and British Energy. Along with Exelon, we have provided funding assurances to

AmerGen totaling US$200 million, in order to

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provide assurance that AmerGen will be able to meet its obligations to the NRC, which include the expenses associated with the ownerships and operation of its nuclear plants. Under the terms of this funding assurance, our 50% share is to be provided in amounts equal to that provided by Exelon, but not to exceed US$100 million.

Under the terms of the proposed disposal of our interest in AmerGen, British Energy will be released from its obligation when the disposal is completed.

Safety and the Environment

Our operations are subject to numerous international, UK and US federal, state, and local environmental, health and safety laws and regulations governing, among other things, the construction, operation and decommissioning of nuclear and coal-fired power stations, discharges to the air, water and land, the use, handling and disposal of radioactive and hazardous substances and wastes, soil and groundwater contamination and public and employee health and safety. As with our competitors, liability risks are inherent in our operations. Requirements under environmental, health and safety regulation can be expected to increase in the future.

We have made significant expenditures to comply with environmental regulations. Significant additional financial reserves, or compliance expenditures could be required in the future due to changes in law, new information on environmental conditions or other events, and those expenditures could have an adverse effect on our operations and our financial condition or results of operations.

With regard to safety, we adopt a common approach to our international nuclear fleet, adopting methodologies of the World Association of Nuclear Operators, or WANO, and the Institute of Nuclear Plant Operators to compare relative plant performance, operationally and in safety terms, and to seek to improve this performance.

Along with many other major companies which operate large industrial sites, we regularly organize exercises as part of an ongoing program under Licence Condition 11 of our nuclear site licenses. This program, involving a wide range of local and national agencies, plays a major part in keeping emergency response plans up to date. Security measures are regulated by the UK Government s Office for Civil Nuclear Security.

Safety and Environment in the United Kingdom

A nuclear site license is required from the Health and Safety Executive to operate a nuclear power station in the United Kingdom. Licenses for our nuclear power stations in England are held by BEG, and for those in Scotland by BEG(UK). The NII administers the license. Nuclear site licenses define the site and installation and have standard conditions attached to them which set out general requirements but do not prescribe how they should be achieved. In December 2002 BEG applied for nuclear site licenses in respect of the 2 nuclear stations in Scotland currently licensed to BEG(UK). The re-licensing of these 2 stations is expected to be completed in 2004/5 and will result in all our UK nuclear stations being within a single licensed company.

The Radioactive Substances Act, or RSA, governs the disposal of radioactive waste including radioactive discharges. Radioactive gaseous, liquid or solid waste may only be disposed of or moved off the site in accordance with authorizations granted under the RSA. To enable the re-licensing referred to above it is also necessary for BEG to be granted the RSA authorizations in respect of the 2 Scottish stations. Applications for these authorizations have been submitted to the Scottish Environment Protection Agency (SEPA) and are expected to be granted on a similar timescale to the nuclear site licenses.

The UK Environmental Protection Act 1990, or EPA 1990, provides that potentially polluting activities, such as the operation of power plants, require prior authorization. The EPA 1990 also

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provides for a waste management licensing regime and imposes certain obligations and duties on companies that produce, handle and dispose of waste.

In England and Wales, the Environment Agency, or EA, regulates nuclear power stations under the RSA. The EA consults with the public, relevant bodies and the Department of Environment, Food and Rural Affairs, or DEFRA, in relation to nuclear sites in England and Wales before granting discharge authorizations. Appeals may be made to the Secretary of State for the Environment against decisions taken by the EA, and the Secretary can also direct the EA to refer applications to him for determination. In Scotland, the Scottish Environment Protection Agency, or SEPA, regulates under the RSA and follows a similar consultation process including consultation with the First Minister of the Scottish Parliament, before granting hazardous and radioactive materials discharge authorizations for nuclear sites in Scotland. The First Minister of the Scottish Parliament has similar powers to the Secretary of State for the Environment in relation to appeals against decisions of the SEPA. We have obtained all necessary consents and authorizations from EA and SEPA for the disposal of radioactive waste and for non-radioactive discharges from our stations.

Authorizations for disposal of radioactive waste require the operator to use best practicable means to reduce discharges of radioactivity. The operator must in any event comply with the authorized discharge limits set by the EA or SEPA.

Nuclear power stations use large volumes of water to condense the steam from the turbines and all our power stations use seawater for this purpose, which is discharged to the sea after use under consents granted either by the EA or SEPA as relevant.

Operators of nuclear power stations must comply with the strict dose limits set out in the Ionizing Radiations Regulations 1999, implementing Euratom Directive 96/29 laying down basic safety standards for the protection of the health of workers and the general public against the dangers arising from ionizing radiation.

Eggborough, our only coal-fired power station, is subject to particularly stringent environmental regulation. Under the EPA 1990, a system of Integrated Pollution Control, or IPC, was introduced in April 1991 for power stations. Under EPA 1990, the EA has authority for enforcing IPC with respect to emissions to the atmosphere in the United Kingdom. Each IPC authorization requires that a power station use the best available techniques not entailing excessive cost to minimize the emission of certain pollutants. The main requirements imposed on Eggborough, our coal-fired power station, are set out in the authorization issued by the EA. This authorization contains the station s emissions limits for discharges to air and water. With respect to emissions to air, a program agreed with the Environment Agency has been undertaken to cut sulphur oxides, or SOx, nitrogen oxides, or NOx, and particulate emissions from the station. See Item 4. Information on the Company Property, Plant and Equipment regarding FGD to be installed pursuant to EA requirements. Eggborough also operates under two waste management licenses, regulated by the EA. Negotiations are ongoing to transfer the license from the previous holder. Landfills are now regulated by the Landfill Directive and in England by the Landfill (England and Wales) Regulations 2002. In due course, a landfill permit will be required to replace the Waste Management License which may result in different conditions being imposed.

Under the auspices of the United Nations Economic Commission for Europe, or UNECE, protocols regarding reductions in the emissions of sulphur dioxide and nitrogen oxide have been agreed. These are currently implemented in the EU by means of the Large Combustion Plants Directive, which has

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been recently amended. The EU has introduced a Ceilings Directive which implements the sulphur dioxide and nitrogen oxide targets agreed in the UNECE Gothenburg Protocol. The United Kingdom had introduced legislation implementing these directives. These Directives may affect the operation and emissions of Eggborough. Once implemented and in effect, we may choose to install significant additional pollution control technology at Eggborough, although it is not presently contemplated.

The EU has adopted a Directive on Integrated Pollution Prevention and Control. This Directive is being implemented via the Pollution Prevention and Control Regulations which will bring modifications to the IPC regime into effect, on a staged basis.

Under UK law, a liability can be incurred for environmental contamination or pollution. In respect of pollution or contamination in ground or in certain waters, there are three laws in particular which should be noted: the first is the contaminated land regime (to be found in the EPA 1990 Part IIA); the second is water pollution (to be found in the Water Resources Act 1991); and the third is the general law of nuisance.

Under the contaminated land regime, remediation notices may be served in the event of land being found to be contaminated. The polluter and the person who knowingly permitted contamination to be present or remain will normally be liable but if such persons cannot be found, the owner or occupier of the land will be liable. Accordingly, the site operator could be liable to carry out remediation of any contamination present. Contamination will need remediation where significant harm is being caused or where there is a significant possibility of such harm being caused or where pollution of waters controlled by the legislation is being or is likely to be caused. The contaminated land regime is to be extended to cover radioactive contamination. Generally, in order for harm to be demonstrated, there should normally be a source of pollution, a receptor and a pathway present. A clean-up is generally required to be to fitness for use standards. We are continuing our investigations of all our UK sites in compliance with the regulations.

Under the Water Resources Act 1991, the polluter or the person who has knowingly permitted water pollution or the possibility of water pollution may be ordered to carry out or pay for the carrying out of remediation works. Furthermore, causing or knowingly permitting water pollution is generally an offence so it is incumbent on the site occupier to take action where necessary (the waters controlled by the legislation include most of the aquatic environments including rivers, streams and groundwaters).

Proposals which may impose liability for environmental damage (including strict liability, particularly for damage to protected natural areas or biodiversity damage caused by dangerous and potentially dangerous activities) are under consideration by the EU and a Directive is being brought forward.

Safety and Environment in the United States

In the United States the NRC regulates the operation of nuclear plants under an NRC license for the operating life of the stations (initially forty years, with the ability to apply for a twenty year license extension). The NRC also regulates the decommissioning of each nuclear plant until the applicable license is terminated by the NRC. The NRC was established by Congress under the Energy Reorganization Act of 1974 to ensure adequate protection of the public health and safety, the common defense and security and the environment in the use of nuclear materials in the United States. Environmental matters for AmerGen plants are regulated by the United States government, through the US Environmental Protection Agency and other agencies. Local environmental matters are regulated by state and local government entities in the states of Illinois, Pennsylvania and New Jersey.

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Certain environmental laws, in particular, the US Comprehensive Environmental Resource and Conservation Act of 1980, impose strict, joint and several liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. These environmental laws also assess liability on persons who arrange for or transport hazardous substances to be sent to disposal or treatment facilities. Our nuclear power stations have been operated by us and our predecessors for many years. As a result of these and our future operations and potential impact from neighboring facilities, there are contamination and other potential environmental liabilities associated with them.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following information together with the Financial Statements and the related notes included in this annual report beginning on page F-1. Certain statements in this section are forward-looking statements. You should read Information Regarding Forward Looking Statements on page 3, for information about our presentation of forward-looking information in this annual report. The following discussion and analysis is based on the Financial Statements which have been prepared in accordance with UK GAAP. You can find a description of the differences between UK GAAP and US GAAP and reconciliations of (loss)/profit after tax (or net (loss)/income) and deficit on equity shareholders funds in Note 37 of the notes to our consolidated financial statements.

Introduction

We have interests in a total of 15 nuclear reactors and one coal-fired plant in the United Kingdom and, through our joint venture AmerGen, 3 nuclear reactors the United States. Our operations in the United Kingdom, which comprise eight nuclear power stations and one coal-fired station, represent the largest part of our business with an aggregate output of 69.5 TWh and turnover of £1,528 million during the year ended March 31, 2003. In the period between April 1, 2002 and the disposal of our interests in Canada on February 14, 2003, our Canadian operations produced output of 19.2 TWh and turnover of £375 million. In the United States, AmerGen operates three nuclear power stations, contributing an operating profit of £43 million during the year ended March 31, 2003.

In general, the operation of nuclear power stations is characterized by high fixed costs and low marginal costs. Fixed costs include costs that are unique to the nuclear power generation industry, including the cost of reprocessing and storage of spent fuel and storage and disposal of nuclear waste, collectively referred to as back-end fuel costs, as well as the costs of defueling plants and decommissioning nuclear power stations upon closure. In the United Kingdom, we are currently responsible for all our back-end fuel costs as well as the cost of defueling and decommissioning. As discussed in Critical Accounting Policies United Kingdom Generally Accepted Accounting Principles Nuclear Liabilities and Decommissioning , these costs have a significant impact on our financial condition and results of operations.

Recent Developments

On September 5, 2002, our board of directors announced that it had initiated discussions with the UK Government with a view to seeking immediate financial support to implement a longer-term financial restructuring. The board of directors decided to initiate discussions with the UK Government based on several factors including: (i) its review of our revised forecast for UK nuclear generation for the fiscal year ending March 31, 2003 (which indicated output of approximately 63 TWh as compared with the original target output of 67.5 TWh, due to unplanned outages particularly those at our Torness and Dungeness B nuclear power

stations), (ii) the failure of our negotiations with British Nuclear Fuels plc, or BNFL, to reach agreement on the terms of revisals to our fuel contracts our fuel contracts, and (iii) its review of the long-term prospects of the British Energy Group.

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On September 9, 2002, the UK Government granted us the Credit Facility in order to provide working capital and cash collateral in support of our electricity trading contracts in the United Kingdom and certain procurement contracts. The Credit Facility currently provides for an aggregate principal amount of £200 million and will mature, subject to certain conditions, at the earlier of the completion of our proposed restructuring or September 30, 2004.

On November 28, 2002, we announced that we had concluded a non-binding agreement on the principles for the financial restructuring of British Energy, referred to as the Proposed Restructuring. The Proposed Restructuring had been negotiated among British Energy, the Bondholders, the steering committee of the Eggborough Banks, RBS as provider of a letter of credit to the Eggborough Banks, and our significant trade creditors, including Teesside Power Limited Total Gas & Power Ltd. and Enron Capital & Trade Europe Finance LLC (Teesside Power Limited, Total Gas & Power Ltd. and Enron Capital & Trade Europe Finance LLC are collectively referred to as the Significant Creditors).

On February 14, 2003, we announced we had entered into binding standstill agreements with our Bondholders, the Eggborough Banks, RBS, the Significant Creditors and BNFL based upon a non-binding agreement on the principles for the financial restructuring of British Energy plc, referred to as the Proposed Restructuring.

We do not currently anticipate that our material day-to-day operations, in particular electricity generation and the payment of suppliers and employees, will be disrupted by the restructuring process or affected by the Proposed Restructuring.

On August 28, 2003, the Board of British Energy was notified by the New York Stock Exchange that British Energy did not at that time comply with the NYSE s continued listing standard relating to the minimum market capitalisation and shareholders equity.

We are currently in discussions with the NYSE with respect to our ability to meet the minimum market capitalisation criteria and are reviewing the options available to us going forward. See Item 5. Risk Factors Risks Related to our Business We currently do not and may not, in the future, comply with the minimum listing criteria of the New York Stock Exchange Inc., and we may, therefore, lose our listing on the New York Stock Exchange.

On September 11, 2003, we announced that we had entered into an agreement to dispose of our 50% interest in AmerGen to FPL Energy LLC, a wholly-owned subsidiary of FPL Group for approximately US$277 million. See Item 4 Information on the Company Proposed Restructuring The sale of Bruce Power and AmerGen.

Factors Affecting Results of Operations

During each of the periods under review, the three years ended March 31, 2003, our results of operations were significantly impacted by a number of factors and by the recognition of a number of exceptional operating and financing items. Each of these factors and exceptional items is discussed below.

UK Operations

The results of our UK operations are principally affected by changes in plant output, achieved electricity prices, operating costs, and our revalorization charge. The results of our UK operations during the periods under review were also affected by a change in the manner in which we account for turnover and certain operating costs to reflect the new trading arrangements in England and Wales as a result of NETA. Each of these factors is discussed below.

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Plant Output

Our net nuclear output was 62.5 TWh for the year ended March 31, 2001 compared to 67.6 TWh for the year ended March 31, 2002 and to 63.8 TWh for the year ended March 31, 2003. Eggborough produced 7.0 TWh during the year ended March 31, 2001, 7.1 TWh during the year ended March 31, 2002 and 5.7 TWh during the year ended March 31, 2003.

Nuclear output is subject to a number of factors, principally the frequency and duration of outages. The nuclear regulatory regime in the United Kingdom requires each nuclear power station to be shut down periodically for maintenance and inspection as a condition of that power station s nuclear site license, which we refer to as a statutory outage. Certain of our nuclear power stations must be shut down to allow for refueling, which we refer to as a refueling outage. In addition, nuclear power stations must be shut down for planned maintenance, inspection and testing or to address an unplanned technical malfunction or engineering failure, all of which we refer to as other outages. The ability of a nuclear power station to reduce the duration of statutory and refueling outages, and to reduce the duration or eliminate the occurrence of other outages as a result of a technical malfunction or engineering failure, can have a significant positive effect on its operating cash flows and profitability. In recent years, we have sought to reduce the impact of refueling outages through the introduction of low power on-load refueling at four of our seven AGR power stations and scheduling refueling outages to coincide with statutory outages. In addition, we have undertaken extensive programs of work to improve plant performance and reduce both the duration and occurrence of other outages. This program has also allowed us to secure the agreement of the NII to the extension of the period between statutory outages at all of our power stations, with the exception of Dungeness B. Set forth below is the aggregate duration of our statutory, refueling and other outages during the periods shown.

	Year ended March 31,		
Outages	**2003**	**2002**	**2001**
	(in reactor days)[2]		
Statutory	382	183	307
Refueling	106	122	71
Other[1]	571	383	578
Duration of all outages	1059	688	956

(1) Other outages during the year ended March 31, 2003 include outages that arose in connection with failures to gas circulators which resulted in outages of 69 reactor days and 203 days, respectively, on each of the two reactors at Torness. Other outages during the year ended March 31, 2001 include outages that arose in connection with superheater weld cracking at Dungeness B, which resulted in outages of 347 reactor days on the two reactors. Also, during the year ended March 31, 2001 an unplanned outage arose in connection with boiler tube corrosion at Hunterston B which resulted in an unplanned outage of 156 reactor days. For further discussion of outages, see Our Business Operations in the United Kingdom Advanced Gas-cooled Reactors .

(2) A reactor day is any day on which a reactor is shut down. If two reactors at the same station (where applicable) are shut down on the same day, this is recorded as two reactor days.

Electricity Prices

Our achieved selling price (which is calculated by dividing total wholesale and direct sales by total output during the period) for the year ended March 31, 2001 (before the introduction of NETA (New Electricity Trading Arrangements)) was £22.50/MWh. Our achieved selling price for the years ended March 31, 2002 and 2003, however, reflects the effect of several changes to the manner in which we account for turnover and certain operating costs as a result of the introduction of new trading arrangements brought

about by the commencement of NETA. On a comparable basis, adjusted to reflect the trading arrangements in place prior to the commencement of NETA, our achieved selling price for the year ended March 31, 2002 was £20.40/MWh, a decrease of 9%. On the same basis, our achieved selling price for the year ended March 31, 2003 was £18.30/MWh, a further decrease of 10%.

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These declines reflect the impact of increased competition in the UK electricity generation market and other factors outside our control, such as gas and coal prices. You should also read Item 3. Key Information Risk Factors . Assuming that our proposed restructuring is completed, our profitability is dependent upon a number of factors over which we have little or no control, including our ability to achieve and maintain lower operating costs per unit.

Operating Costs

We have undertaken a number of initiatives to reduce our operating costs during the periods under review. Our fuel costs reflect not only the cost of our nuclear fuel and the amount of fuel burnt during the period (based on output), but also the efficiency of our fuel utilization (the percentage of nuclear fuel used before it is removed from the reactor). Principally through the introduction of radial reshuffling of fuel in our AGR reactors, we have improved the efficiency of our fuel utilization during the periods under review, resulting in substantial fuel cost savings.

Revalorization

Each fiscal year we recompute our back-end fuel costs and decommissioning costs to reflect the impact of inflation during the year and to remove the effect of one year s discount to the estimated costs of decommissioning (which is capitalized at the commencement of commercial operation of a nuclear power station and depreciated over the life of the station as the estimated payment date moves a year closer). These two effects combined, known as revalorization , are accounted for as part of the financing charge in our income statement. The charge in respect of the revalorization of decommissioning liabilities is partially offset by a credit in respect of the actuarially determined long term rate of return on the decommissioning fund during the year. You should also read Item 11. Quantitative and Qualitative Disclosures about Market Risk Financial Instruments and Risk Management Equity Risk Management and Item 4. Information on the Company Decommissioning in the United Kingdom Decommissioning Fund for more information about our decommissioning fund. The amount of the revalorization charge in any one year will be affected, principally, by the rate of inflation in the United Kingdom. Over the last three years the rate of inflation for the twelve months ended March 31 has fluctuated from 2.1% in 2001 to 1.7% in 2002 and 3.0% in 2003. Although these fluctuations are relatively modest in absolute terms, they have had a significant impact on our revalorization charges due to the magnitude of the long-term nuclear liabilities. In general, a 1% change in the retail price index results in a £35 million change to our revalorization charges.

Canadian Operations

On May 12, 2001, our 82.4% owned Canadian subsidiary, Bruce Power, leased the two nuclear power stations at the Bruce nuclear site in Canada from OPG. The initial term of the lease was until 2018, and we had an option to extend the lease for up to a further 25 years. In connection with the signing of the lease, Bruce Power paid OPG C$367 million (£168 million) in May 2001 and undertook to make a further payment of C$225 million (£104 million). This amount was payable in two equal installments in February 2005 and February 2007 and bore interest at 10.5%.

Our financial difficulties have resulted in dramatic changes for our interests in North America. As a key element of our proposed restructuring we sold our interest in Bruce Power.

The terms of the disposal of Bruce Power were negotiated in very difficult circumstances. At an EGM on February 10, 2003, our shareholders approved the disposal, which was completed on February 14, 2003. The purchaser of our interest was a consortium consisting of Cameco Corporation (an existing partner in Bruce Power), BPC Generation Infrastructure and TransCanada Pipelines Limited. The Power

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Workers Union and The Society of Energy Professionals also acquired a further combined 2.6% interest to add to their existing 2.6% interest.

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

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

- C$100 million, contingent on the restart of two of the reactors at Bruce A. If the restart of the two reactors was delayed beyond June 15 and August 1 respectively, the consideration of C$50 million per reactor reduces on a sliding scale falling to zero after 9 months delay and amounts not paid to British Energy are paid instead to the Province of Ontario. To date, Bruce Power has not succeeded in restarting the two reactors at Bruce A, see note 36 to our consolidated financial statements.

- C$20 million, which will be held in an escrow account to cover claims made up to February 2005 in respect of representations and warranties.

In addition, C$80 million was held in an escrow account to cover the estimated outstanding tax liabilities of the Bruce Power group. In the event that the sums held back to satisfy the tax liability are insufficient, British Energy would be required to repay the amount of such excess to the purchasing consortium. Conversely, British Energy will be refunded any balance remaining after settlement of the tax liability. We have subsequently received interim refunds of some C$3 million from this account which remain subject to further adjustment. British Energy is continuing to pursue the refund of further amounts with the buying consortium and the Canadian tax authorities.

In the period from May 12, 2001 to March 31, 2002, Bruce Power generated 20.5 TWh and made a profit contribution before minorities of £52 million. In the period of April 1, 2002 to February 14, 2003, Bruce Power generated 19.2 TWh and made an operating profit contribution before minority interest of £97 million.

Exceptional Operating and Financing Items

During the three years ended March 31, 2003, our financial results have been significantly impacted by a number of exceptional operating and financing items.

The table below summarizes the impact of exceptional operating and financing items (before tax) under UK GAAP for each of the three years ended March 31, 2003.

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	Year ended March 31,		
	2003	2002	2001
	(in millions of pounds)		
Write-down of fixed asset carrying values	(3,738)	(300)	
Write-down of UK decommissioning fund	(124)	(27)	
Write-down of AmerGen decommissioning fund	(48)		
Write-down of own shares held	(102)		
Provision against slow moving stocks	(57)		
Provision for interest swaps	(56)		
Restructuring costs	(35)		
Loss on sale of investments in Bruce Power and Huron Wind	(35)		
Write-off of capitalized borrowing costs	(6)		
Trading contracts	(2)	(209)	
Release of Nuclear Energy Agreement provision	41		
Release of pension provision			52
Favorable adjustments to fuel costs in respect of Heysham I and Hartlepool accounting life extensions			24
Exceptional costs in respect of shares issued to the British Energy Qualifying Share Trust to meet options granted to employees under the Sharesave Scheme		(3)	(8)
Increase in power purchase contract provision			(14)
Exceptional redundancy costs at AmerGen			(7)
Loss on disposal of Swalec			(5)
Revalorization credit in respect of Heysham 1 and Hartlepool accounting life extensions			5
Sale of investment in Humber Power Limited		4	
Total	(4,162)	(535)	47

During the periods under review, we recognized net exceptional operating and financial charges of £4,162 million before tax during the year ended March 31, 2003, net exceptional operating and financial charges of £535 million before tax during the year ended March 31, 2002 and net exceptional operating and financial income of £47 million before tax during the year ended March 31, 2001. Exceptional items during the periods under review were comprised of:

An exceptional charge of £3,738 million during the year ended March 31, 2003 resulting from the write-down of our fixed assets.

The carrying value of the nuclear stations was calculated by discounting the expected future cash flows from continued use of the assets, having made appropriate assumptions regarding future operating performance. The valuation of Eggborough was based on an assessment of net realizable value.

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

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An exceptional charge of £300 million during the year ended March 31, 2002 resulting from the writedown of our investment in the Eggborough coal-fired plant. This writedown arose as a result of lower electricity selling prices in England and Wales than had been anticipated when Eggborough was purchased and our assessment as to the effect of continued over-capacity in the UK electricity market on the value of similar coal-fired power stations.

An exceptional charge of £124 million during the year ended March 31, 2003 related to a write-down in the market value of our UK decommissioning fund. An exceptional charge of £27 million during the year ended March 31, 2002 related to a similar writedown in the market value of our UK decommissioning fund. The market value of our UK decommissioning fund, which is partly invested in equity securities, declined in both years relative to its book value, which is based on an actuarially determined growth rate of 3.5% over the life of the fund, as a result of the world-wide decline in prices of equity securities.

An exceptional charge of £48 million during the year ended March 31, 2003 related to a similar write-down in the market value of the AmerGen decommissioning fund.

An exceptional charge of £102 million in the year ended March 31, 2003 related to the write-down in value of British Energy shares held in trust to cover employee share options. The shares were written down to £2 million to reflect market value, based on market prices of 3.75p and 3.0p for the Company s Ordinary and A shares respectively.

An exceptional charge of £57 million during the year ended March 31, 2003 related to a provision for slow-moving and obsolete stocks.

An exceptional charge of £56 million during the year ended March 31, 2003 related to interest swap provisions in respect of interest rate swap contracts which are no longer effective as hedges and are no longer required by the Group.

An exceptional charge of £35 million during the year ended March 31, 2003 related to advisory and other costs associated with the Company s proposed restructuring.

An exceptional charge of £35 million during the year ended March 31, 2003 related to a loss on disposal of Bruce Power and Huron Wind. The calculation of the loss on disposal incorporates receipt of the C$20 million retention relating to pensions, but does not take into account retentions of C$120 million.

An exceptional charge of £6 million during the year ended March 31, 2003 related to borrowings which are now part of the proposed financial restructuring. These costs had been capitalized and were being amortized over the duration of the borrowings.

An exceptional charge of £209 million during the year ended March 31, 2002 arising as a result of a provision for three significant out-of-the-money trading contracts due to lower than anticipated electricity prices in the United Kingdom. These contracts had previously been accounted for as a hedge against our electricity output in the United Kingdom. However, since the introduction of NETA, these contracts are no longer accounted for as hedge contracts and, because they are out-of-the-money, they must be provided for as onerous contracts under UK GAAP. A further provision of £2 million was made in the year ended March 31, 2003, when two of these contracts were terminated, thus giving rise to claims for certain amounts which became payable. The amounts reflect the claimed amounts which have been agreed in principle with the three relevant counterparties for the purposes of restructuring. You should read Critical Accounting Policies United Kingdom Generally Accepted Accounting Principles Onerous Contracts for more information as to how we account for these contracts.

An exceptional credit of £41 million during the year ended March 31, 2003 related to the revised terms for the electricity supply agreement with ScottishPower and Scottish and Southern Energy. Under the terms of the agreement, which has now had regulatory approval,

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the Company is in a position to release a balance of £41 million in respect of cash previously received.

Exceptional operating costs of £3 million in the year ended March 31, 2002 and £8 million in the year ended March 31, 2001 resulting from the issuance of shares to the British Energy Qualifying Employee Share Trust, or QUEST, to satisfy the exercise of options granted to employees under the Sharesave Scheme between 1999 2000 and 2002 2003. The charge arises as a result of the difference between QUEST s subscription price (the then prevailing market price per share) and the option exercise prices. The costs were charged over a five-year period ended March 31, 2002.

An exceptional credit of £4 million in the year ended March 31, 2002 related to the gain on the sale of our investment in Humber Power Limited. We acquired a 12.5% interest in Humber Power Limited, the operator of a 1,260 MW Combined Cycle gas fired power plant in 1997.

An exceptional operating credit of £52 million in the year ended March 31, 2001 relating to the release of a pension provision following the ruling by the House of Lords in favor of National Grid Group in respect of the use of pension scheme surplus to offset the cost of early retirement. Our main pension scheme is, like National Grid s, a participant in the Electricity Supply Pension Scheme, or ESPS.

Adjustments of £24 million in the year ended March 31, 2001 to reflect the extensions to the accounting lives of two power stations, Heysham 1 and Hartlepool. The extension of the accounting lives at these stations resulted in the recognition of an exceptional credit to operating costs reflecting the postponement of nuclear liabilities by the additional years of operation of those power stations as well as a revalorization credit of £5 million during the year ended March 31, 2001.

Exceptional operating costs of £14 million during the year ended March 31, 2001 to reflect the change in value of a power purchase contract acquired as part of our acquisition of the Swalec electricity and gas supply business following the fall in electricity selling prices.

Exceptional costs of £7 million during the year ended March 31, 2001 reflecting our share of the costs incurred by AmerGen in respect of redundancy costs at its three nuclear power stations, which we recognize as an exceptional item under UK GAAP.

An exceptional loss of £5 million during the year ended March 31, 2001 related to the loss on the sale of the Swalec gas and electricity supply business. We acquired Swalec from Hyder plc in February 2000. However, in August 2000 we disposed of the Swalec business after determining it did not meet our strategic requirements.

Results of Operations for the year ended March 31, 2003 compared with the year ended March 31, 2002

Turnover

Turnover in the year ended March 31, 2003 was £1,903 million, a decrease of £146 million compared with turnover of £2,049 million for the year ended March 31, 2002. The principal factors resulting in this decrease are set forth below.

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	Changes in turnover (in millions of pounds)
Decreased UK turnover	
Due to decreased output	(118)
Due to lower electricity prices	(111)
Due to exceptional NEA income	41
Increase in Miscellaneous income mainly due to Torness related insurance receipts	15
Decrease in turnover from continuing activities	(173)
Increase in Bruce Power turnover	27
Total decrease in turnover	(146)

Output in the United Kingdom was 69.5 TWh in the year ended March 31, 2003 as compared with 74.7 TWh in the year ended March 31, 2002. Nuclear generation output was 63.8 TWh in the year ended March 31, 2003 compared with 67.6 TWh in the year ended March 31, 2002. Eggborough output reduced from 7.1 TWh to 5.7 TWh in the year ended March 31, 2003. Decreased output from our UK power stations resulted in decreased turnover of £118 million. Our achieved selling price during the year ended March 31, 2003 was £18.30/MWh, a decrease of 10% as compared with the prior year, resulting in a decrease in UK turnover of £111 million. UK turnover increased by £41 million in respect of the exceptional credit relating to the release of the balance that had been held awaiting settlement of our dispute with Scottish Power and Scottish and Southern Energy for the Nuclear Energy Agreement. Miscellaneous income increased by £15 million, mainly due to insurance receipts relating to outages at Torness. The increase in turnover at Bruce Power was mainly due to increased electricity prices, offset to some extent by a reduction in output.

Operating Costs

Operating costs were £5,705 million in the year ended March 31, 2003, an increase of £3,375 million compared with £2,330 million in the year ended March 31, 2002. Excluding the exceptional items, operating costs decreased by £60 million to £1,758 million in the year ended March 31, 2003 from £1,818 million in the year ended March 31, 2002. The following table sets forth the various components of our operating costs for the years ended March 31, 2003 and March 31, 2002.

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	Year ended March 31,	
	2003	2002
Continuing Activities		
Fuel	371	467
Material and services	519	604
Staff costs	227	212
Depreciation	4,011	580
	5,128	1,863
Amounts written off non-operational assets	115	
Energy supply costs	184	171
	5,427	2,034
Discontinued Activities		
Fuel	17	23
Material and services	143	149
Staff costs	111	119
Depreciation	7	5
	278	296
Total operating costs	5,705	2,330

Fuel costs for our continuing UK activities were £371 million in the year ended March 31, 2003 compared with £467 million in the year ended March 31, 2002. The reduction reflects decreased output by our UK power stations, fuel efficiencies and price variances.

Materials and service costs are comprised of operating expenses for our power stations and support functions (such as administrative, engineering and maintenance costs) excluding fuel costs, staff costs and depreciation. Materials and services costs for our continuing UK activities in the year ended March 31, 2003 were £519 million, a decrease of £85 million compared with the year ended March 31, 2002. These figures include exceptional charges in the year ended March 31, 2003 of £57 million in respect of a write down of slow moving stocks, £35 million in respect of restructuring costs and £2 million in respect of additional provisions for onerous trading contracts. They include exceptional charges of £209 million in the year ended March 31, 2002 in respect of provisions for onerous trading contracts. Excluding these exceptional items, materials and services costs for our continuing UK activities increased by £30 million to £425 million in the year ended March 31, 2003 compared with £395 million in the year ended March 31, 2002. This increase was primarily due to the costs associated with a higher number of outages in the year ended March 31, 2003.

Staff costs for our continuing UK activities in the year ended March 31, 2003 were £227 million, an increase of £15 million compared with the year ended March 31, 2002. The main reason for the increase was additional severance costs of £8 million.

Depreciation charges for our continuing UK activities were £4,011 million in the year ended March 31, 2003 compared with £580 million in the year ended March 31, 2002. These figures include exceptional charges associated with the write down of our fixed

assets amounting to £3,738 million in the year ended March 31, 2003 and £300 million in the year ended March 31, 2002. Excluding these exceptional charges, the depreciation charges for our continuing UK activities decreased by £7 million to £273 million in the year ended March 31, 2003 compared with £280 million in the year ended March 31, 2002.

Amounts written off non-operational assets in our continuing activities amounted to £115 million in the year ended March 31, 2003 compared to zero in the year ended March 31, 2002. These amounts

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consisted of exceptional items relating to the write down of own shares held and an element of a write down of the UK decommissioning fund receivable, both of which were treated as exceptional items.

Energy supply costs in the UK were £184 million in the year ended March 31, 2003 compared with £171 million in the year ended March 31, 2002. The increase primarily reflects the increase of sales through our direct supply business.

Operating costs in our discontinued Canadian activities were £278 million in the year ended March 31, 2003 compared with £296 million in the year ended March 31, 2002. The decrease was partly attributable to reduced fuel costs arising from the reduction in output and partly attributable to operational efficiencies.

Operating Loss

The operating loss in the year ended March 31, 2003 was £3,802 million compared with an operating loss of £281 million in the year ended March 31, 2002. The operating loss of our continuing activities was £3,899 million in the year ended March 31, 2003 compared with an operating loss of £333 million in the year ended March 31, 2002. The operating profit of our discontinued activities was £97 million in the year ended March 31, 2003 compared with an operating profit of £52 million in the year ended March 31, 2002.

Excluding exceptional items, operating profit in the year ended March 31, 2003 was £104 million, compared with an operating profit of £231 million in the year ended March 31, 2002. The operating profit of our continuing activities was £7 million in the year ended March 31, 2003 compared with an operating profit of £179 million in the year ended March 31, 2002. The operating profit of our discontinued activities was £97 million in the year ended March 2003 compared with an operating profit of £52 million in the year ended March 31, 2002.

Share of Operating Profit of Joint Ventures

Our share of the operating profit of AmerGen increased by £6 million to £43 million in the year ended March 31, 2003. The output from the three AmerGen power stations totaled 20.2 TWh in the year ended March 31, 2003, an increase of 1.5 TWh compared with 18.7 TWh in the year ended March 31, 2002.

(Loss)/Profit on Sale of Business

The results for the year ended March 31, 2003 include a loss of £35 million in respect of the disposal of our interests in Bruce Power and Huron Wind. The results for the year ended March 31, 2002 include a profit of £4 million on the disposal of our interests in Humber Power.

Financing Charges

Financing charges, which comprise revalorization charges and net interest expense, were £498 million in the year ended March 31, 2003, an increase of £245 million compared with £253 million in the year ended March 31, 2002. The financing charges for the year ended March 31, 2003 include exceptional items amounting to £159 million in respect of a write down of our decommissioning fund receivables, £56 million in respect of a provision for interest rate swaps and £6 million in respect of a write off of capitalized borrowing costs. Financing charges for the year ended March 31, 2002 consist of a write down of £27 million in respect of the decommissioning fund receivable. Excluding these exceptional items, financing charges increased by £51 million to £277 million in the year ended March 31, 2003 compared with £226 million in the prior year. The increase primarily reflects higher

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revalorization as a result of higher UK inflation. Excluding the exceptional items, the revalorization charge was £205 million in the year ended March 31, 2003 compared with £160 million in the prior year. The increase in revalorization reflects the weighted average UK inflation rate of 3.0% in the year ended March 31, 2003 compared with 1.7% in the year ended March 31, 2002.

Taxation

In the year ended March 31, 2002 we adopted FRS19, the UK deferred tax accounting standard, on a discounted basis. The tax credit for the year ended March 31, 2003 was £368 million. Excluding tax relating to exceptional items, the tax charge for the year ended March 31, 2003 was £2 million. The effective tax rate is higher than the standard rate of 30% as a result of overseas profits being taxed at rates in excess of 30%, the impact of items that are non-deductible for tax purposes, such as the write-down of our investment in Eggborough, and the impact of unwinding one year s discount from our opening deferred tax liability. The tax charge for the year ended March 31, 2003 comprises a deferred tax credit of £396 million, an overseas tax charge of £18 million and £10 million charge in respect of AmerGen. The tax charge for the year ended March 31, 2002 comprised a prior year UK corporation tax credit of £11 million, a deferred tax credit of £8 million, an overseas tax charge of £15 million and £29 million charge in respect of AmerGen.

As of March 31, 2003 there were deferred tax assets of £382 million and deferred tax liabilities of £20m on an undiscounted basis. £262 million of the deferred tax asset relates to tax relief from operating losses carried forward. A further £64 million relates to the expected tax relief associated with accrued decommissioning costs which are expected to be deductible against future taxable income and £56 million relates to accelerated depreciation in excess of capital allowances. The deferred tax liability relates to other short term timing differences.

On a US GAAP basis, the total deferred tax asset, before valuation allowance, of £2,917 million and the total deferred tax liability of £811 million are significantly greater because they are based on the undiscounted amount of decommissioning and uncontracted back-end fuel costs. See note 37 to our consolidated financial statements.

The net discounted deferred tax asset under UK GAAP at March 31, 2003 of £150 million has not been recognized as it is not likely to be realized unless restructuring is effective. Under US GAAP a full valuation allowance has been made against the net deferred tax asset of £2,106 million at March 31, 2003.

Loss on Ordinary Activities

As a result of the factors discussed above, there was a loss on ordinary activities after taxation for the year ended March 31, 2003 of £3,924 million compared with a loss of £518 million in the year ended March 31, 2002. Excluding exceptional items there was a loss of £132 million in the year ended March 31, 2003 compared with a loss of £39 million in the year ended March 31, 2002.

Minority Interests

There was a minority interest in respect of the 17.6% minority shares of the profits of Bruce Power of £17 million in the year ended March 31, 2003 compared with £9 million in the year ended March 31, 2002.

Loss per Share

There was a loss per share of 654.7p per share in the year ended March 31, 2003 compared with a loss per share of 88.5p per share in the year ended March 31, 2002. Excluding the effect of

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exceptional items there was a loss per share of 24.8p per share in the year ended March 31, 2003 compared with a loss per share of 8.4p in the previous year.

In view of the Company s financial situation, no dividend was proposed in respect of the year ended March 31, 2003. On May 14, 2002 the Board of Directors recommended a final dividend of 5.3p per share which brought the total dividend for the year ended March 31, 2002 to 8.0p per share.

Results of Operations for the year ended March 31, 2002 compared with the year ended March 31, 2001

Turnover

Turnover in the year ended March 31, 2002 was £2,049 million, a decrease of £75 million compare