



# Interim Results

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## 6 months ended 30 September 2003

The Company wishes to draw the following statement to shareholders' attention.

The Proposed Restructuring remains subject to a large number of significant uncertainties and important conditions, including receipt by the Secretary of State of a satisfactory notification from the European Commission that insofar as the proposals involve the grant of State Aid by the UK Government, such aid is compatible with the common market. The Secretary of State expects to receive this notification by mid 2004. Furthermore, the Secretary of State is entitled not to proceed with the Proposed Restructuring if, in her opinion, the Group will not be viable in all reasonably foreseeable conditions without access to additional financing beyond that which is committed and will continue to be available when required.

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

The information in this presentation is drawn from the interim results of British Energy for the 6 months ended 30 September 2003. This presentation is a summary and reading it is not a substitute for reading the interim results in their entirety.

# 2003/04 Interim Results - Key Points

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- Loss before tax of £71m after net exceptional credits of £19m.
  - UK operating loss £9m before exceptionals.
  - Share of operating profit in AmerGen £43m.
  - Financing charges £124m before exceptionals.
- Total UK nuclear output up 10% year on year.
- Revised UK nuclear output for year expected to be around 65.5 TWh, assuming Heysham 1 returns to service in first half of February 2004
- Total operating costs before exceptionals fell £40m mainly due to lower depreciation.
- Net operating cash outflow of £26m compared with £71m in 2002/03.
- Since 30 September 2003:
  - Proposed disposal of AmerGen to Exelon for US \$277m.
  - Clearance of all regulatory approvals concerning Amergen disposal.
  - Formal agreement of creditors and HMG to Proposed Restructuring.
  - Existing shareholders will receive 2.5% of new equity plus 5% in warrants, subject to approval of Proposed Restructuring.
  - Temporary increase in HMG facility due to short-term pressures on liquidity as a result of increasing collateral requirement and recent unplanned outages.
  - Board believes that UK operating profit for full year consistent with its expectations

# Restructuring - Events Since April 2003

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- Up to 30 September 2003:
  - Standstill Agreements became fully effective.
  - Exchanged a suite of contracts with BNFL and sold uranium stocks for £58m.
  - European Commission published its initial views on Proposed Restructuring.
  
- Since 30 September 2003:
  - Terms of restructuring formally agreed with creditors and HMG.
  - Exelon exercised right of first refusal to buy British Energy's 50% share of AmerGen for \$277m subject to various adjustments and shareholder consent.
  - Confirmation that outstanding requirements re creditors sign-offs have been satisfied.

# Restructuring Repositions British Energy

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- Revised BNFL contracts:
  - Reduces fixed and variable costs.
  - Provide partial price hedge against market price movement on c50% of nuclear output.
  - Reduce annual cashflows to BNFL by c.£150 - £200m pa, subject to indexation
- Trading strategy:
  - Reduces medium-term exposure to electricity prices through trading mix (including Direct Sales and Wholesaling).
- NLF/Government funding arrangements:
  - Reduces exposure to UK nuclear liabilities.
  - Historic spent fuel deal transfers fuel cycle liabilities to HMG.
- Restructuring of indebtedness and certain onerous contracts:
  - £550m of new bonds to be issued (NLF - £275m/major creditors - £275m).
  - New CTA with the Eggborough banks equivalent to £150m of new bonds.
  - Existing shareholders to get 2.5% of new equity plus 5% in warrants (subject to conditions).

# Restructuring - Remaining Steps

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- AmerGen:
  - EGM - 22 December 2003.
  - Completion expected shortly.
  
- European Commission decision to restructuring proposals:
  - Expected by mid 2004.
  
- Implementation of Restructuring:
  - Mid to late 2004.
  
- Application will be made for new shares and new bonds to be listed after European Commission approval.

# Business and Financial Performance - UK

6 Months Ended 30 September 2003

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- UK operating loss before exceptionals of £9m, compared with £64m in 2002.
- Net reduction in UK turnover of £26m:
  - Higher output of £77m offset by lower prices of £55m, lower miscellaneous income of £7m and exceptional NEA items in prior period of £41m.
- Nuclear:
  - Output up 10% to 33.3 TWh.
- Power & Energy Trading:
  - Achieved price of 1.58p/kWh compared with 1.73p/kWh in 2002.
  - Annual Direct Sales volumes up 30% to 29 TWh.
  - 18th successive quarterly customer satisfaction award for Direct Sales Business.
- Operating Costs (continuing activities, pre-exceptionals):
  - £686m in total (including £103m of energy supply costs).
  - Net reduction of £40m year on year.
  - Depreciation fell £111m due to major plant writedown at 31 March 2003.
  - £47m of additional materials and services costs, previously capitalised.
  - Unit costs of 1.92p/kWh (comprising total operating costs and revalorisation excluding energy supply costs) down 18%.

# Business and Financial Performance - North America

6 Months Ended 30 September 2003

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- USA - AmerGen (50% share) contribution of £43m, virtually unchanged from previous year.
  
- AmerGen - Generation performance:
  - Total output of 10.6 TWh, with load factor of 98%.
  
- Canada - Nil contribution due to the sale of Bruce Power in February 2003.

# Summary of Profit and Loss Account

6 Months Ended 30 September 2003

	6 Months Ended Sept 2003 £m	6 Months Ended Sept 2002 £m
Continuing activities		
Turnover	677	703
Operating loss - UK	(9)	(64)
Operating profit - Bruce Power (Discontinued)	-	38
AmerGen - 50% Share	43	45
Profit pre financing charges	34	19
Financing charges	(124)	(143)
(Loss) before exceptionals and tax	(90)	(124)
Exceptional credits/(charges)	19	(213)

# Financial Performance - Exceptionals

6 Months Ended 30 September 2003

➤ There were exceptional items in the period as follows:

	<b>6 Months Ended Sept 2003 £m</b>	<b>6 Months Ended Sept 2002 £m</b>
Restructuring costs	37	7
Onerous trading contracts	-	46
Write down of investment in own shares	-	98
Release of NEA Provisions	-	(41)
UK decommissioning fund (credit)/write down	(39)	103
US decommissioning fund credit	(14)	-
Interest rate swap provision	(3)	-
	<b>(19)</b>	<b>213</b>

# Balance Sheet

As at 30 September 2003

	30 Sept 03 £m	31 Mar 03 £m	30 Sept 02 £m
<b>Fixed Assets</b>	<b>793</b>	<b>763</b>	<b>4,850</b>
<b>Current Assets</b>			
Decommissioning fund/HMG indemnity	398	334	332
Stock/debtors	761	747	1,144
Cash/investments	359	333	84
	1,518	1,414	1,560
Short-term creditors/bond and bank loans	(1,393)	(1,185)	(885)
<b>Net Current Assets</b>	<b>125</b>	<b>229</b>	<b>675</b>
Nuclear liabilities/long-term creditors	(2,613)	(2,640)	(2,726)
Provisions	(1,776)	(1,735)	(2,598)
<b>Long-term liabilities</b>	<b>(4,389)</b>	<b>(4,375)</b>	<b>(5,324)</b>
<b>Net (liabilities)/assets</b>	<b>(3,471)</b>	<b>(3,383)</b>	<b>201</b>

- The 2002/03 Report and Accounts included a proforma balance sheet showing the effects of the Proposed Restructuring with net assets of £348m.

# Cash Reserves and Increase in Government Facility

- Group cash reserves are subject to seasonal, trading and output variances.

<b>Date</b>	<b>Cash Reserves (£m)</b>	<b>Collateral Deposited (£m)</b>	<b>UK Govt Facility (£m)</b>	<b>Drawings on UK Govt Facility (£m)</b>	<b>Availability (£m)</b>
30 September 2003	359	315	200	103	97
12 December 2003	379	359	200 (*)	94	106

(\*) Before temporary increase of £75m.

- UK Government granted temporary increase in its credit facility to £275m to protect Group cash flow due to short term pressures on the Company's liquidity.
- Temporary increase will only be available until the earlier of (i) receipt of proceeds from AmerGen disposal and (ii) 22 February 2004.

# Looking Forward

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**Financial Restructuring**

**Financially Robust  
Commercially Viable**

**Operations Improvement**

**Effective Operations  
Reliable, Predictable and Efficient**

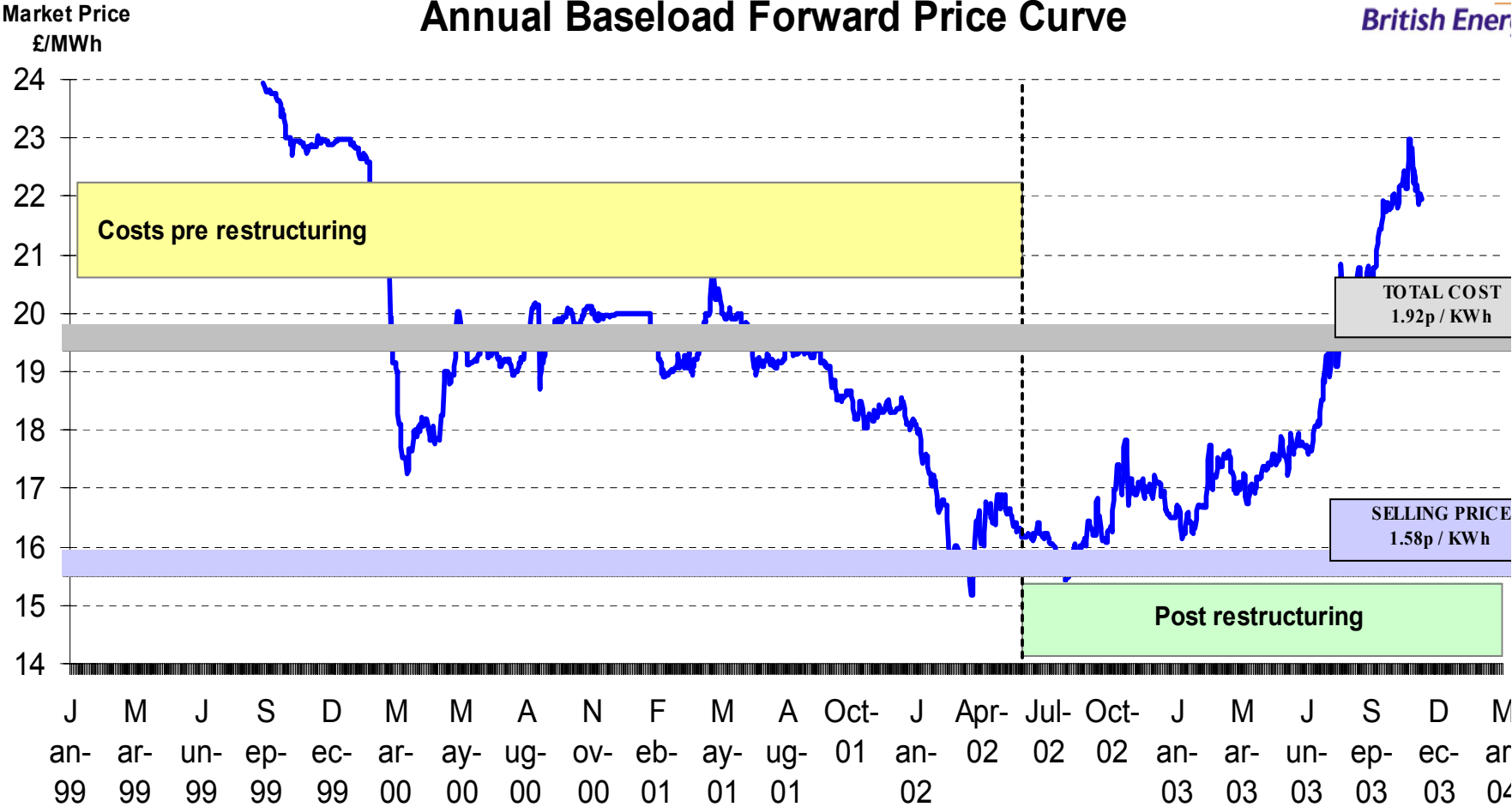
**Trading Capability**

**“Smart” Trader  
Control Risk and Add Value**

**Corporate Action**

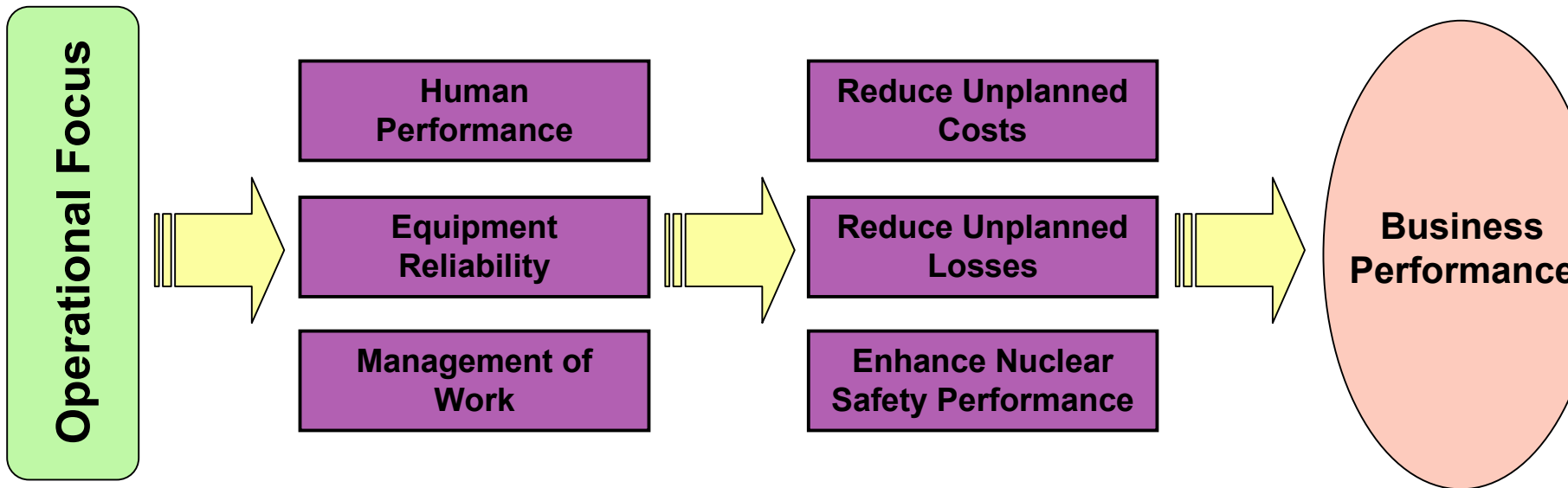
**Focused UK Generator  
Crisp and Robust Decision-making**

# Total Costs v Forward Price



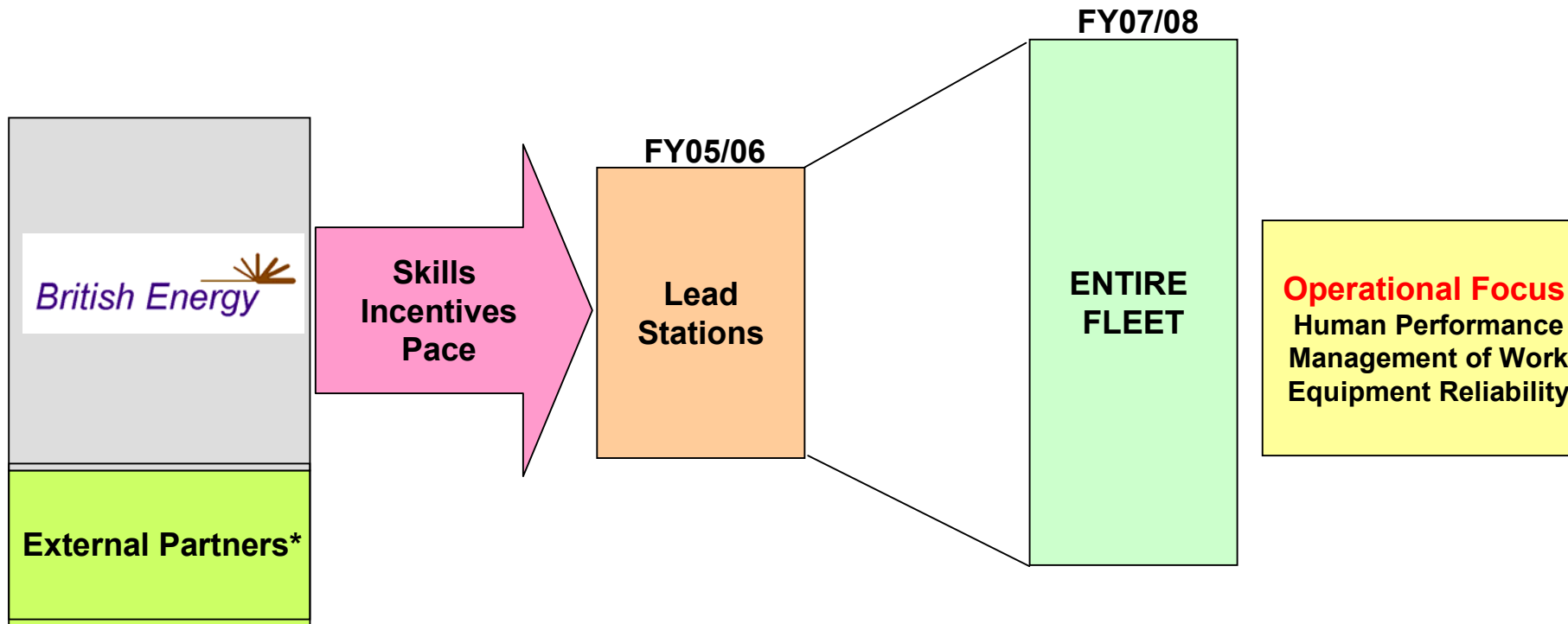
# Operations Enhancement Strategy

- Safety remains paramount.
- Create sustainable performance improvement.
- Change culture (personal accountability, second best not acceptable, commercially astute and sound, logical nuclear operator).



# Performance Improvement Programme

- Drive AGR average performance to 2002/03 “best of fleet” status.
- Drive PWR to top quartile.

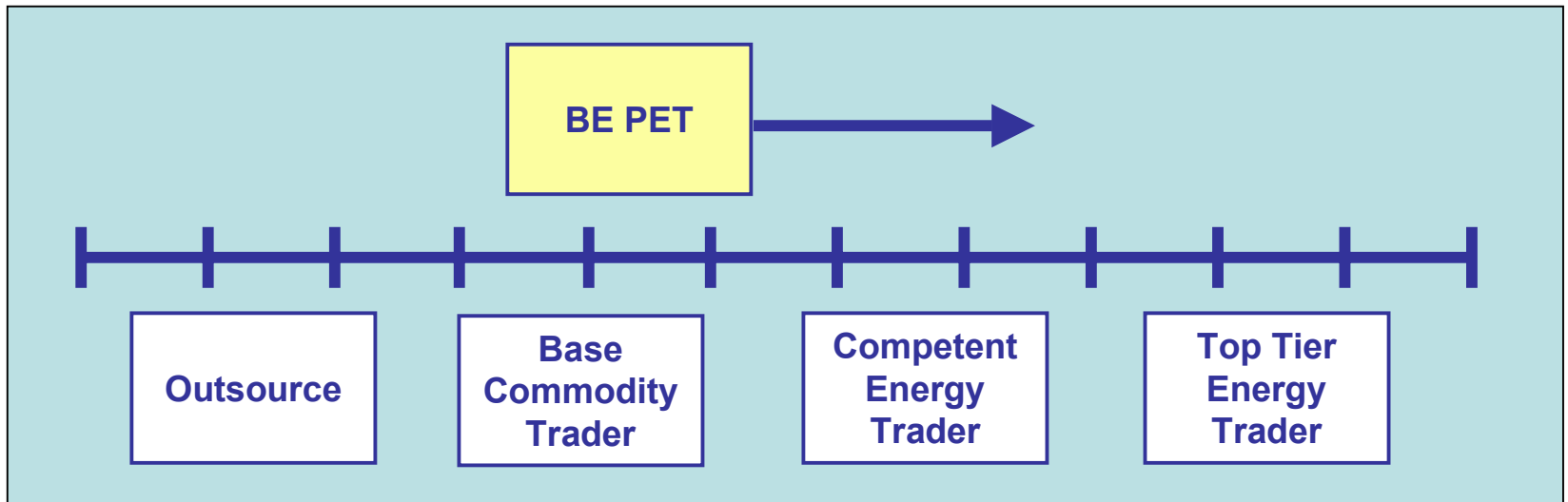


\* External support **transfers** know-how and skills to British Energy staff in 2-3 years.

# Trading Capability Development

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- Where are we on “normal trader” horizon?



# Corporate Actions

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- Focus Headquarters:
  - Reduce size.
  - Improve cohesion of Corporate centre.
  
- Review support activity:
  - Align Engineering staff closer to stations.
  - Segment and focus support activity.
  
- Results:
  - Lower overhead staff numbers.
  - Close Peel Park and relocate to affordable premises.
  - Direct cost savings.
  - Culture of safety and efficiency.

# Current Trading and Outlook

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- Total UK output of 46.7 TWh up to end November 2003:
  - Nuclear 42.8 TWh.
  - Eggborough 3.9 TWh.
  
- Recent outages:
  - Sizewell B - Returned to service 14 November 2003.
  - Heysham 1 - Both reactors to return to service in first half of February 2004.
  
- Expect to achieve margin improvements of £25m over business plan in current financial year.
  
- Board believes operating profit in UK for the full year will be consistent with its expectations.
  - Due to non-cash impact of revised revalorisation assumptions, profit before tax for full year likely to be below Board's previous expectations.