



2002/2003 PRELIMINARY RESULTS - PART 1

The following summary of key points must be viewed in the context of the Company's proposed restructuring, which is outlined in the enclosed Chairman's Statement.

- Loss before tax of £(4,292)m, after exceptionals of £(4,162)m, compared with a loss of £(493)m in 2001/2. Loss before exceptionals and tax of £(130)m compared with a profit of £42m in 2001/2.
- Exceptionals principally represent write-downs in generation plant, being £(3,587)m for nuclear assets and a further £(151)m write-down in the value of Eggborough. There were also write-downs of decommissioning funds and shares in employee trusts as well as provisions for slow moving stocks, interest rate swaps, onerous electricity contracts and restructuring costs.
- In view of the Company's financial condition, no dividend is proposed. The Board does not expect to declare or propose any dividend on the ordinary or A shares prior to the completion of the restructuring.
- UK business incurred a business performance loss before tax of £(274)m, including group interest charges, (total loss after exceptionals was £(4,353)m) compared with a business performance loss before tax of £(41)m in 2001/2 (total loss after exceptionals was £(576m)), owing to UK output being reduced by 5.2TWh and a further decline in UK power prices.
- Total business performance contribution of £144m (pre-minorities) from our North American activities (total contribution after exceptionals was £61m), compared with a business performance (and total) contribution of £83m (pre-minorities) in 2001/2, including Bruce Power contribution of £97m (pre-minorities) for the 10½ month period up to the date of its disposal in February.
- Cash consideration of C\$627m (£250m) (excluding C\$51m in respect of capital payments made by British Energy to Bruce Power at closing) received up to the year end for the disposal of our interest in Bruce Power out of a maximum of C\$770m. A further C\$20m (£8m) was received after the year end in respect of cash held in an escrow account in respect of a potential pension fund adjustment.

- The UK Government's White Paper emphasised the importance of environmental factors and combating climate change in future energy policy, and made it clear that the Government intends to "keep the door open" for nuclear power, and will review the prospects for nuclear power in four years' time.
- Adrian Montague was appointed Chairman with effect from 28 November 2002. Mike Alexander was appointed Chief Executive Officer with effect from 1 March 2003.
- Under the revised Nuclear Energy Agreement, which received regulatory approval in November 2002, prices received for output from our Scottish stations will be linked to the England and Wales power prices until the earlier of 2006 or the implementation of BETTA. British Energy released £41m as exceptional income in respect of the adjustments to the long-term contract.
- Under FRS 17, there was a deficit of £352m in respect of the Company's pension funds at 31 March 2003. The next actuarial valuation to assess funding and contribution levels is due to take place as at 31 March 2004. The Company is keeping pensions issues under close review.
- In relation to the proposed restructuring, since the year end, revised contracts with BNFL for front-end and back-end AGR fuel services have been signed, giving effect to the non-binding heads of terms agreed with BNFL on 28 November 2002. These agreements are conditional upon the successful completion of the restructuring. We also sold the majority of our uranium stock to BNFL for £50m.
- On 14 February 2003, we announced the completion of our disposal of our interest in Bruce Power and that we had reached binding standstill agreements and non-binding agreement to the restructuring proposals with certain of our significant creditors and BNFL. Also in February we announced a major electricity supply contract for 38TWh over four years.
- On 7 March 2003, the Government submitted the restructuring plan to the European Commission for its approval under State Aid rules, and also extended its credit facility to British Energy at a reduced amount of £200m up to September 2004 or the time at which restructuring is completed, whichever is the sooner.
- The formal standstill agreements with significant creditors and BNFL, and the amendments to the bonds agreed in March 2003, have meant that principal amounts due under the bonds

and the Eggborough finance agreements were not repaid and termination payments under certain onerous contracts have not been made. This has allowed the Company to build up its cash reserves.

- Significant progress has been made but the proposed restructuring remains subject to a large number of significant uncertainties. 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.
- Looking to the future, nuclear safety remains our number one priority. We must maintain high standards of safety while ensuring that we deliver reliable output and reduce our exposure to fluctuations in UK power prices.

FURTHER INFORMATION

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FINANCIAL OVERVIEW

This summary sets out the Company's financial information on a "pre-restructured" going concern basis.

	2003 Total £m	2003 Exceptional Items £m	2003 Business Performance £m	2002 Business Performance £m	2002 Exceptional Items £m	2002 Total £m
Turnover	1,903	41	1,862	2,049	-	2,049
Operating (loss)/profit	(3,802)	(3,906)	104	231	(512)	(281)
(Loss)/profit before tax	(4,292)	(4,162)	(130)	42	(535)	(493)
Net operating cashflow	54					155
Net cash /(debt)	(550)					(859)

The going concern basis assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continued support of the Secretary of State for Trade and Industry and the group's significant creditors, and the successful completion of long-term financial restructuring, failing which the Company may have to take appropriate insolvency proceedings. Therefore, adjustments may have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise, and to re-classify fixed assets and long-term liabilities as current assets and liabilities.

STATEMENT BY ADRIAN MONTAGUE, CHAIRMAN

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

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

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

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

The Restructuring: What Has Happened to Date?

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

For some time, British Energy had been seeking to renegotiate its fuel contracts with BNFL, and thereby secure a significant reduction in its fixed cost base. On 3 September 2002, BNFL delivered its final proposal to British Energy, but the terms proposed fell short of those which the Company required. In any event, having reviewed the longer-term prospects of the group, including future market prices and trading conditions, the Board concluded that it should not draw down on existing undrawn loan facilities, and decided that there was no alternative but to seek support from the Government.

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

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

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

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

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

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

- The reduction of its exposure to wholesale electricity prices through the renegotiation of its contracts with BNFL and the implementation of the new trading strategy.

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

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

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

Remaining Steps

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

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

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

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

The Government must obtain the approval of the European Commission for the assistance it will provide as part of the restructuring plan. We do not expect a decision on our restructuring plan to be reached by the European Commission until summer 2004.

Finally, the detailed terms of the restructuring remain to be finalised and will need to be discussed and agreed with the regulators and the Inland Revenue and approved by shareholders (where required).

The Board's View

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

Energy Review

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

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

Strategic Focus and Board Changes

Safety, as always, remains our number one priority and, together with the Government, we regard

safety and security of supply as being the fundamental drivers behind the restructuring. As a result of these restructuring proposals, the strategic focus of British Energy has moved back to the UK where our emphasis will be on securing safe, reliable nuclear generation. At the same time, the commercial risk profile of the Company must change fundamentally. We will achieve this through the maintenance of diverse channels to market, the revised BNFL contracts, the new funding arrangements for nuclear liabilities and our efforts to reduce exposure to UK power prices.

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

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

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

There have also been a number of changes among the Independent Directors during the year. Most recently we have made two new appointments to the Board. William Coley and Pascal Colombani joined the Board as Independent Directors on 1 June. Bill Coley, former CEO of Duke Power and Pascal Colombani, a nuclear physicist, who was President of the Commissariat à l'Energie Atomique in France. Their experience will reinforce the Board's nuclear credentials as we focus on the performance and reliability of the UK nuclear fleet.

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

REVIEW OF OPERATING PERFORMANCE

BY MIKE ALEXANDER, CHIEF EXECUTIVE OFFICER

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

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

UK Nuclear Generation

The total UK nuclear output fell to 63.8 TWh in 2002/3, compared with the output of 67.6 TWh in the previous year. The major setback was at Torness, which experienced extended outages on each of its 2 reactors due to gas circulator problems. This cost us some 4 TWh in lost output. The lost income and repair costs were offset, in part, by insurance recoveries of some £15m. Following the resolution of these problems, both reactors were returned to service by December 2002 and since then the plant has been operating well. Technical problems were also experienced at Dungeness B and Heysham 2, which contributed to the lower overall output. There were, however, strong performances at other stations notably Hartlepool and Hunterston B.

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

It is clear that the greatest risk to achieving our UK nuclear generation target is the level of unplanned generation losses. For this reason we have launched a number of programmes that will tackle the root causes of under performance and reduce losses to competitive levels.

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

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

Power and Energy Trading

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

Overall our achieved price fell 10%, from £20.40/MWh to £18.30/MWh, reflecting the ongoing market price weakness. This compared with total UK generation costs of £21.70/MWh (including nuclear, Eggborough and corporate overheads plus revalorisation) as compared to £20.30/MWh in 2001/2. We managed our risk exposure by continuing to seek diverse channels to market and making best use of the flexibility of our coal-fired plant. Our direct sales business increased its volume by over 20% to 22.5 TWh and continues to be highly rated for the quality of its customer

service. Eggborough, our 2000MW coal-fired station, generated 5.7TWh in the year. Work is proceeding to fit Flue Gas Desulphurisation (FGD) to two of its four units which will allow continued operation using a variety of coals whilst still complying with stricter limits on sulphur emissions.

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

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

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

North America

British Energy's recent financial difficulties have resulted in dramatic changes for the group's interests in North America. As a key element of the proposed restructuring we sold our interest in

Bruce Power, and announced plans to dispose of AmerGen, our 50/50 joint venture with Exelon Corporation.

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

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

At completion of the disposal, we received initial consideration of C\$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 of £(35)m. However, in addition, British Energy expects to receive up to:

- C\$100 million, contingent on the restart of two of the reactors at Bruce A. If the restart of the two reactors is delayed beyond 15 June and 1 August respectively, the consideration of C\$50m per reactor 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. The current restart programme is on track to bring both reactors back ahead of these due dates, although there is little margin for slippage.
- 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\$80m is held in an escrow account to cover the estimated outstanding tax liabilities of the Bruce Power group. In the event that the sums held back to satisfy the tax liability are insufficient, British Energy would be required to repay the amount of such excess to the purchasing consortium. Conversely, British Energy will be refunded any balance remaining after settlement of the tax liability.

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

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

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

Current Trading and Outlook

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

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

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

Looking to the future, nuclear safety remains our number one priority. We have a major responsibility in this area. We must maintain high standards of safety whilst ensuring that we

deliver reliable output, consistently meeting our targets from cost-efficient operations and achieving world-class operational standards. This will be demanding but I expect that British Energy can re-emerge as an effective participant in the UK electricity market which is able to generate electricity at a price customers are willing to pay.

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

GROUP FINANCIAL SUMMARY

The accounts for the year ended 31 March 2003 are dominated by the effect of exceptional items. Due to their size, the Group Financial Summary addresses the exceptional items first and then the "business performance" figures which exclude exceptional items.

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

British Energy made a loss before tax after exceptional items of £(4,292)m, compared with a loss of £(493)m in the previous year. The group's financial statements have been drawn up on a non-restructured basis, as this represents the legal position of the group pending completion of the restructuring by September 2004.

However, this Statement includes an unaudited pro forma net asset statement to illustrate the financial effects of the restructuring as if it were implemented at 31 March 2003.

Exceptional Items

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

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

Total exceptional Items

(4,162)

Write-down of fixed asset carrying values

Due to the substantial reductions in UK electricity prices, we have written down the value of all our generation assets by a total amount of £(3,738)m. This included a write-down of £(3,587)m for our nuclear generation assets and a further write-down of £(151)m for our Eggborough coal-fired plant.

Write-down of UK decommissioning fund

The market value of the UK decommissioning fund has fallen to £334m following the fall in the value of the equity markets, compared to a value of £458m based on revalorising the open balance sheet at 1 April 2002. An exceptional charge of £(124)m has been required to restate the balance sheet value to market value.

Write-down of AmerGen decommissioning fund

The market value of the AmerGen decommissioning fund has also fallen and an exceptional charge of £(48)m has been required for British Energy's share of the adjustment required to restate the balance sheet value to market value.

Write-down of own shares held

The value of British Energy shares held in trust to cover employee share options was written down by £(102)m to £2m to reflect market value, based on market prices of 3.75p and 3.0p for the Company's Ordinary and 'A' shares respectively.

Slow moving stocks

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

Provision for interest swaps

An interest rate swap provision has been created amounting to £(56)m in respect of interest rate swap contracts which are no longer effective as hedges and are no longer required by the group.

Restructuring Costs

A charge of £(35)m has been made in respect of advisory and other costs associated with the Company's restructuring.

Loss on sale of investments in Bruce Power and Huron Wind

The accounts record a loss on the disposal of Bruce Power and Huron Wind amounting to £(35)m. The calculation of the loss on disposal incorporates receipt of the C\$20m retention relating to pensions, but does not take into account retentions of C\$120m.

Write-off of capitalised borrowing costs

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

Onerous trading contracts

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

Nuclear Energy Agreement

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

BUSINESS PERFORMANCE RESULTS

This summary is based on "business performance" figures which exclude exceptional items (as described in Note 1 to the accounts). Loss before tax was £(130)m compared to a profit before tax last year of £42m. The main changes are highlighted below:

	£m	£m
2001/2 Profit Before Tax		42
Lower UK electricity prices	(111)	
Lower UK output (net of effect on fuel costs)	(81)	
Increased UK misc. income	15	
Increased UK energy supply costs	(13)	

Lower UK operating costs (excluding output related savings)	18	
Total decrease in UK operating profit		(172)
Increase in Bruce Power operating profit (primarily due to higher prices and lower costs)		45
Increased contribution from AmerGen		6
Increased group net interest charges		(6)
Increased revalorisation charges		(45)
2002/3 Loss Before Tax		(130)

Debt

At 31 March 2003, net debt was £(550)m, compared with £(859)m last year. The reduction was primarily due to the impact of the standstill arrangements and the disposal of our interest in Bruce Power.

Taxation

There was a tax charge of £(2)m for the year, compared with £(81)m last year. As for the previous year, the tax figures were adversely affected by relatively high marginal tax rates in North America.

Other Accounting Issues

Pensions

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

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

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

The funding of the pension schemes is based on the results of three-yearly valuations by independent actuaries rather than on the results of the FRS17 valuation. The next actuarial valuation is scheduled to take place as at 31 March 2004. During the year, the actuary of the British Energy Generation Group Scheme (the main UK pension scheme) carried out an interim review of scheme assets and liabilities in order to assess the appropriateness of the continued use of the surplus that arose at the 31 March 2001 valuation. As a result of that review, the employer's contributions to that scheme were increased from 10% to 17.1% from 1 November 2002. The employer's contributions to the British Energy Combined Group Scheme (the smaller UK pension scheme) had been increased from 12% to 15.3% from 1 April 2002.

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

The Group balance sheet reported at 31 March 2003 does not include the FRS 17 deficit.

Pro forma asset statement

The accounts include an unaudited pro forma net asset statement to illustrate the financial impacts of the restructuring, as if they were implemented at 31 March 2003.

Contingent Liabilities

The accounts include extensive disclosures of contingent liabilities as set out in Note 31.

INDEPENDENT AUDITORS' REPORT

The independent auditors' report on the financial statements for the year ended 31 March 2003 was not qualified, but contained an explanatory paragraph in respect of a fundamental uncertainty as follows:

"In forming our opinion we have considered the adequacy of the disclosures made in note 1 concerning the preparation of the financial statements on the going concern basis. The validity of

this depends on the continuation of the financial assistance from the Secretary of State for Trade and Industry and the Group's significant creditors and the successful completion of financial restructuring. In view of the significance of the uncertainty concerning the continuation of financial assistance from the Secretary of State for Trade and Industry and the Group's significant creditors and the successful completion of financial restructuring we consider that it should be drawn to your attention but our opinion is not qualified in this respect."

UNAUDITED PRO FORMA GROUP NET ASSET STATEMENT AS AT 31 MARCH 2003

(i) Basis of Preparation

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

Set out below is an unaudited pro forma statement of the consolidated net assets of the British Energy Group, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed restructuring of British Energy plc as if they had taken place on 31 March 2003. This statement has been prepared for illustrative purposes only and does not, because of its nature, give a true or complete picture of the financial position of British Energy.

No adjustments have been made to take account of trading or changes in the financial position of British Energy after 31 March 2003.

The pro forma statement of net assets has been based on the audited consolidated balance sheet of British Energy as at 31 March 2003, included in the consolidated financial statements of the Group, after making the adjustments required in respect of steps 1 to 4 below.

The terms and conditions, especially with respect to the methodology of the restructuring and amongst other matters, the treatment of Eggborough, have only been agreed in principle with the relevant parties and are not contractually binding. The restructuring is subject to a large number of significant uncertainties, the implications of which are set out elsewhere in this report. Restructuring negotiations continue and the pro forma net asset statement may require to be adjusted should the final restructuring terms and conditions differ from those currently proposed.

(ii) The Unaudited Effects of Restructuring on the Group's Net Assets as at 31 March 2003

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

General

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

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

UNAUDITED PRO FORMA GROUP NET ASSET STATEMENT AS AT 31 MARCH 2003 (Continued)

(ii) The Unaudited Effects of Restructuring on the Group's Net Assets as at 31 March 2003 (continued)

General (continued)

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

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

Step 1 – Revaluation of fixed assets

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

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

Step 2 – New BNFL Contracts

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

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

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

Step 3 – NLF and HMG Indemnity Arrangements

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

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

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

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

Post restructuring the Group will be entitled to retain a minimum amount of cash in reserve, initially set at a target of £490m, which can be adjusted for any incremental collateral requirements, prior to the proposed NLF cash sweep taking effect, to support collateral and liquidity requirements post restructuring. A provision of £216m has been created for cash reserves due to the NLF, representing 65% of the Group's cash and liquid funds balance at 31 March 2003. An additional provision of £17m has been created for net working capital balances as at 31 March 2003. The cash sweep mechanism will have an impact on future dividend policy.

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

Step 4 – New Bonds Issued

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

FURTHER INFORMATION

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Find this News Release on our web site: www.british-energy.com

Information Regarding Forward-Looking Statements

This report contains certain "forward-looking" statements as defined in Section 21E of the United States Securities Exchange Act 1934. Such forward-looking statements include, among others, statements concerning 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, our proposed restructuring, our expectations as to the growth of our business, our expectations with regard to our future investments in energy related projects in the UK and internationally and other statements of expectation, belief, future plans and 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. 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 harbour provision referred to above.