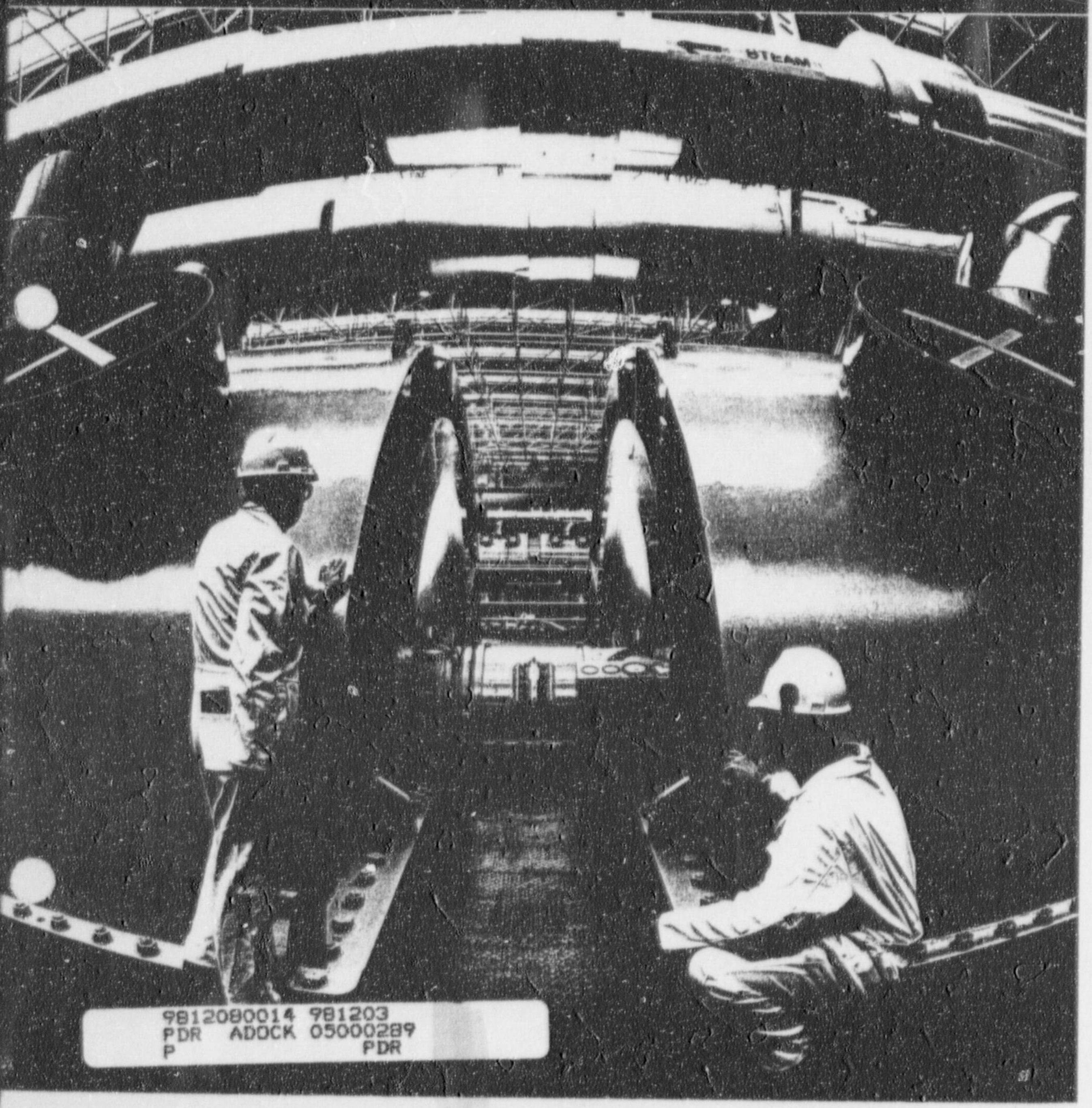
British Energy

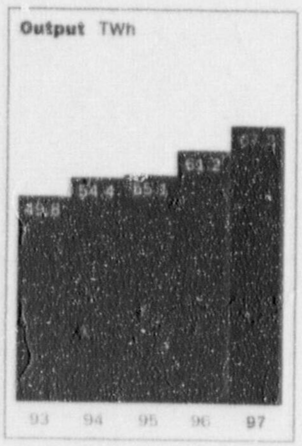
Annual Report and Accounts 1996/97

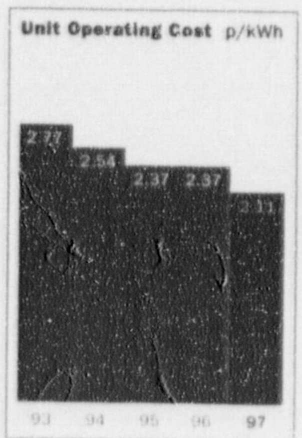


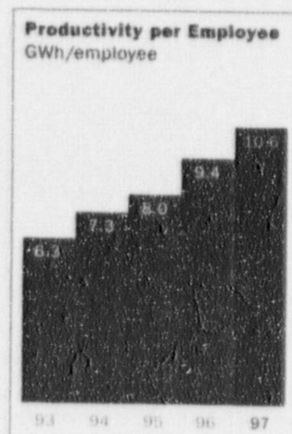
Contents

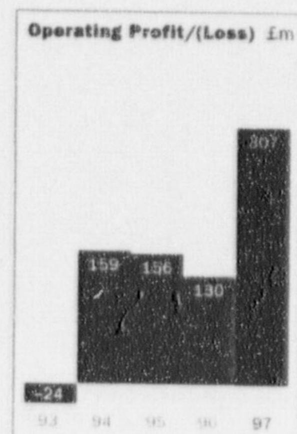
Highlights

- High safety standards maintained
- Output up by 6 TWh to 67.2 TWh
- Operating profit up £177m to £307m
- Profit before tax £61m (1995/96 loss of £155m)
- Earnings per share 5.1p (1995/96 loss of 22.1p)
- Net debt down £417m to £262m
- Total dividend of 13.7p per share, in line with Prospectus









The pro forma figures shown above and, where appropriate, in the text have been prepared on the basis referred to in note 1 to the Accounts.

About British Energy

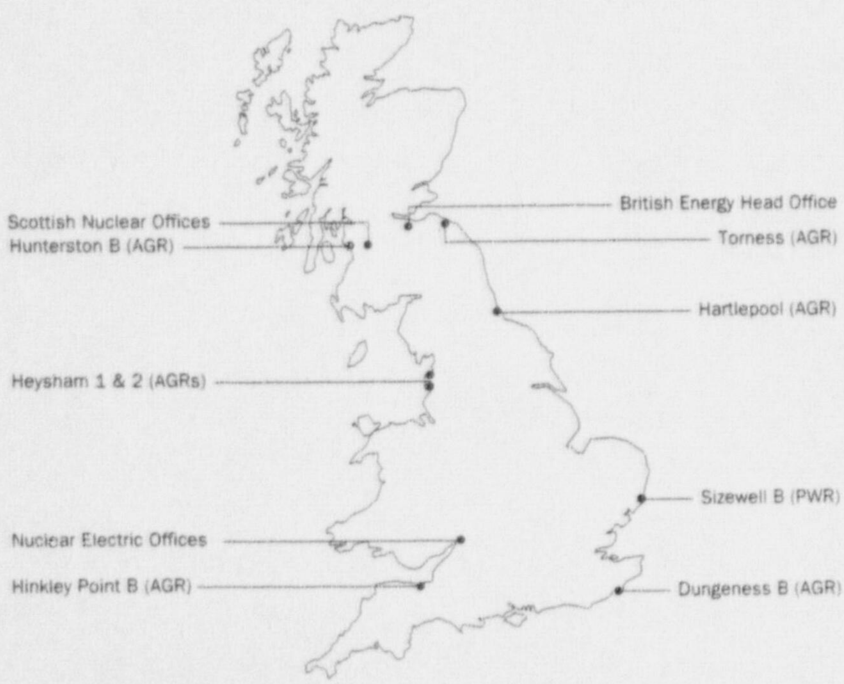
Our Vision: "British Energy aims to be a world class energy company expanding from its UK nuclear generation base by building a portfolio of UK and international energy related businesses."

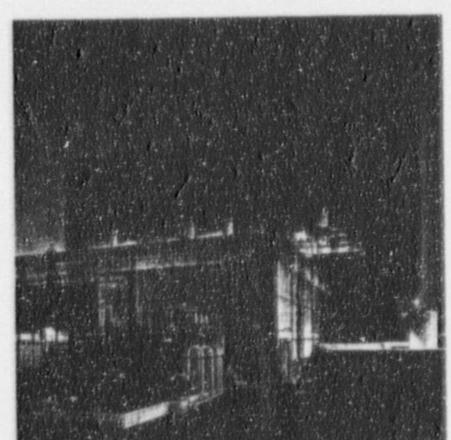
Hartlepool

A twin Advanced Gas-cooled Reactor (AGR) station of 1205 MW capacity situated 30 miles south of Newcastle. The station commenced operation in August 1983. It achieved 81% load factor in 1996/97 – up from 69% the previous year – despite one reactor having a statutory maintenance and inspection outage.

Location of British Energy's power stations and offices

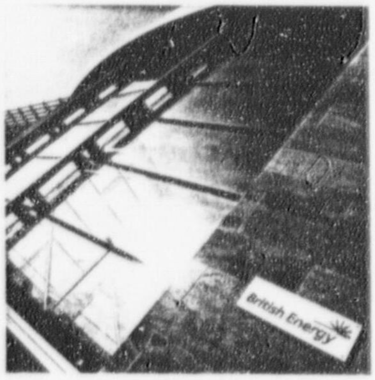
- AGR = Advanced gas-cooled reactor
- PWR = Pressurised water reactor





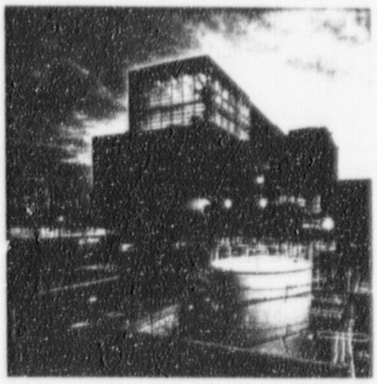
Heysham 1

A twin AGR station of 1060 MW capacity situated on the Lancashire coast near Morecambe. Similar design to Hartlepool. The station commenced operation in July 1983. With no significant outages in 1996/97, the station broke its output record, generating 8.19TWh at a load factor of 81%.

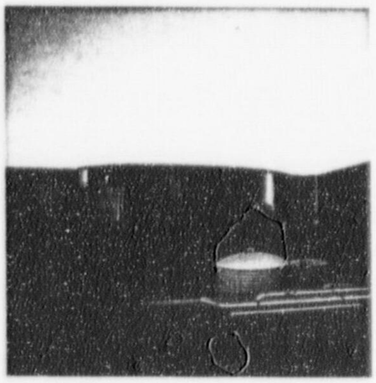


British Energy Head Office
Situated in Edinburgh in a new business park on the western outskirts of the city, British Energy's head office was officially opened on 14 August 1996 by Mr George Kynoch, the then Minister for Industry at The Scottish Office. All major group functions are located there.

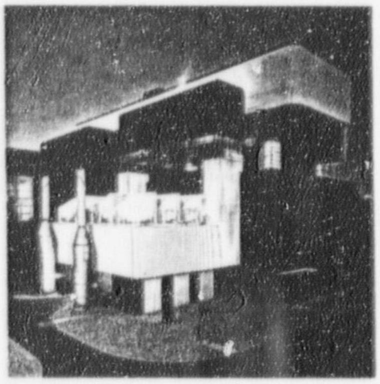
Torness
A twin AGR station of 1210 MW capacity situated on the east coast of Scotland near Dunbar, East Lothian. The station commenced operation in May 1988. In 1996/97 Torness had a record year, achieving a load factor of 88%.



Hunterston B
A twin AGR station of 1195 MW capacity situated on the west coast of Scotland in Ayrshire. It commenced operation in 1976. Despite shutdowns on both reactors for replacement of steam pipes early in the year, it achieved a load factor in 1996/97 of 77%. Cleared during 1996 by the Nuclear Installations Inspectorate (NII) to operate for a further 10 years.



Sizewell B
A 1200 MW single Pressurised Water Reactor station – Britain's first. It is situated on the Suffolk coast and was completed in 1995. 1996/97 saw its first complete year of commercial operation, during which it achieved a load factor of 81% overall; this included a statutory 55-day outage, without which the load factor would have been 97%.



Heysham 2
A twin AGR station of 1340 MW capacity situated next to Heysham 1 on the Lancashire coast. A sister station to Torness, it is the youngest of the AGRs, commencing operation in July 1988. In 1996/97, one reactor had a statutory maintenance and inspection outage, but Heysham 2 still achieved an 82% load factor.

Hinkley Point B
A twin AGR station of 1270 MW capacity situated in the south west of England near Bridgwater, Somerset. A sister station to Hunterston, it also commenced operation in 1976. In 1996/97, like Hunterston, it had a shutdown for steam pipe replacement and returned a load factor of 74%. It was also cleared by NII to operate for a further 10 years.

Dungeness B
A twin AGR station of 1120 MW capacity situated on the Kent coast at Romney Marsh. It commenced operation in 1983. After a major refurbishment programme to rectify long-term problems in 1995/96, it returned to full power operation in 1996/97, generating its best year's output to date – 6.68TWh giving a load factor of 67%.

Chairman's Statement

I am pleased to report that British Energy's first year as a listed Company has been a successful one. We have some 350,000 shareholders and as at the date of this statement we rank as the 120th largest British company as measured by market capitalisation.

The privatisation process was conducted within an extremely demanding timetable – and our staff had to contribute significant levels of additional effort to ensure the Government's target was met. I should like to place on record the Board's appreciation for this commendable achievement.

British Energy's financial performance improved significantly in the year ended 31 March 1997. Profit before tax was £61m compared to a loss before tax in the previous year of £155m. Cash flow was strong with net debt being reduced by £417m to £262m. Earnings per share were 5.1p in 1996/97 compared with a loss per share of 22.1p in 1995/96. This strong financial result was due, in large measure, to an increase of 10% in electricity output from our eight power stations and a reduction of 11% in the cost of each unit of electricity.

British Energy's head office has been established in Edinburgh and we have created more than 100 new jobs in Scotland – exceeding our commitment to Government before privatisation. The cost of the London office is being reduced substantially by our move to smaller premises later this month.

Whilst high standards of safety were maintained the Company continues to pursue initiatives in order to improve the efficiency of the business. We are implementing a programme, which was announced in October 1996, to reduce our staffing levels by 24% by the end of the century. When complete this is expected to save British Energy £50m per year. A further improvement to profitability will result from the implementation of new contracts with BNFL, our most significant supplier, which were signed on 3 June 1997.

A principal long term goal for the Company is to invest our surplus cash in projects which will ensure the continued viability of British Energy beyond the time when our existing stations cease generation. We have focused our investment strategy in the United Kingdom on improving the balance

"British Energy's financial performance improved significantly in the year ended 31 March 1997. Profit before tax was £61m compared to a loss before tax in the previous year of £155m. Cash flow was strong with net debt reduced to £262m. This strong financial result was due, in large measure, to an increase of 10% in electricity output and a reduction of 11% in the cost of each unit of electricity."

of British Energy's generation mix. The investment we made in April 1997 in Humber Power Limited which owns and operates a gas-fired plant is a first step in this direction. We have also sought to strengthen our position in the UK electricity market.

Internationally, we have identified a number of opportunities to invest in generating plant. Already our consultancy teams are giving advice in a number of countries on safety practice and industry structure. Our success in operating nuclear power stations leaves us well placed to add value through direct investment in nuclear and conventional plants overseas. However, the Board will only sanction such investments when shareholder value is enhanced.

Motivating our employees to improve our performance in all aspects of the business is a priority for British Energy. The Gainshare schemes in place across the Group allow all employees to share in the Company's improved returns where it exceeds demanding safety, environmental and performance targets. Incentive plans for managers and Executive Directors are similarly dependent on achieving a range of challenging performance targets and meeting safety and environmental priorities. An encouraging 72% of staff now participate in our Sharesave scheme designed to increase employee share ownership. Our long term success depends on the quality and commitment of our staff and we plan to encourage employee share participation further by granting share options to all levels in the Company.

The year ahead will be one of change for the electricity sector. 1998 will see the introduction of full retail competition in the UK. The change of Government may see new policies and priorities impacting the energy sector. Pool prices may well be affected by these changes in 1997/98. The impact, if any, of the Government's proposed windfall tax on British Energy is unclear and will be assessed when the nature and scope of the tax is published. In this challenging environment, British Energy will be vigorously implementing its cost saving efforts and efficiency improvements during the year ahead and will continue to manage income risk.

In November 1996, our Board was strengthened by the appointment of Peter Warry, Chief Executive of Nuclear Electric. I was delighted to welcome Peter, who brings his wide experience of industry and Whitehall.

In the light of the strong all round performance in 1996/97 your Board is pleased to recommend a final dividend of 9.1p per share payable on 28 July 1997. This makes a total dividend for the year of 13.7p per share, as forecast in our Prospectus.

Your Board looks forward with confidence to its second year as a listed company committed to continuing to improve shareholders' return on their investment.

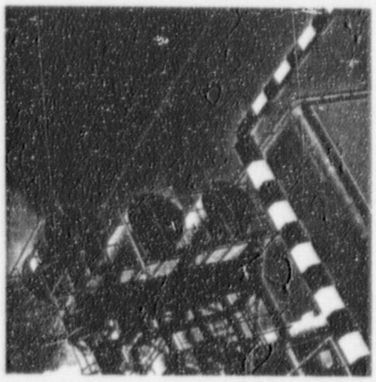
John Robb

John Robb
Chairman
3 June 1997

Chief Executive's Review

"Significant improvements were achieved in our operating and financial results, and we succeeded in laying the foundations for our UK and international business development ... an encouraging start to our life in the private sector. We are fully committed to growth, to adding shareholder value, and to being widely recognised as a company characterised by its qualities – safe, profitable, progressive and open in its approach."

Dr Robert Hawley
Chief Executive



Above left: Sizewell B's link to the National Grid. The station generates enough electricity for the whole of East Anglia. **Above:** Protecting the environment. Comprehensive checks carried out at all our power stations include air sampling such as this.

Introduction

In line with the demanding objectives set on privatisation, British Energy produced a strong performance in 1996/97. Significant improvements were achieved in our operating and financial results and we succeeded in laying the foundations for our UK and international business development strategies.

We increased output and reduced operating costs, excluding electricity purchases to satisfy direct sales. As a result unit operating costs fell 11% to 2.11p/kWh and operating profits increased by £177m to £307m on turnover of £1,870m, up £216m. Operating cash flow on a like for like basis rose by £182m to £404m.

This strong performance is an encouraging start to life in the private sector and is mainly due to the efforts of our highly motivated and professional staff. As a Group we work to a set of common values: safety above all else, a determination to improve all our businesses and their profitability, respect for those we work with and recognition of achievements, integrity in our dealings and openness in explaining what we do.

Safety First

Safety is, and always will be, British Energy's top priority. Our commercial future depends on our safety record and safety culture. Throughout the year we produced excellent safety results against challenging targets.

All our power stations aim to beat stringent targets for safety performance and measure their performance against international benchmarks. During the year there was no incident at any British Energy power station rated above Level 1 (procedural variations) on the seven point International Nuclear Event Scale, used to measure the significance of incidents at nuclear plants.

Six British Energy AGR stations received gold awards for industrial safety from the Royal Society for the Prevention of Accidents (RoSPA) reflecting their continuing improvement in industrial safety. Heysham 2 achieved its sixth successive RoSPA gold award while Scottish Nuclear received the prestigious electricity sector award and more recently became the first workplace to win a Gold Award for Scotland's Health at Work scheme.

Safety dictates our whole approach to managing our plant at all times; it is reflected in meticulous attention to detail in planning and implementation by all our staff and contractors.

Safety will always be our number one priority.

Profit Through Progress

Our aim is to enhance shareholder value by maximising profit and

values

Safety first

Profit through progress

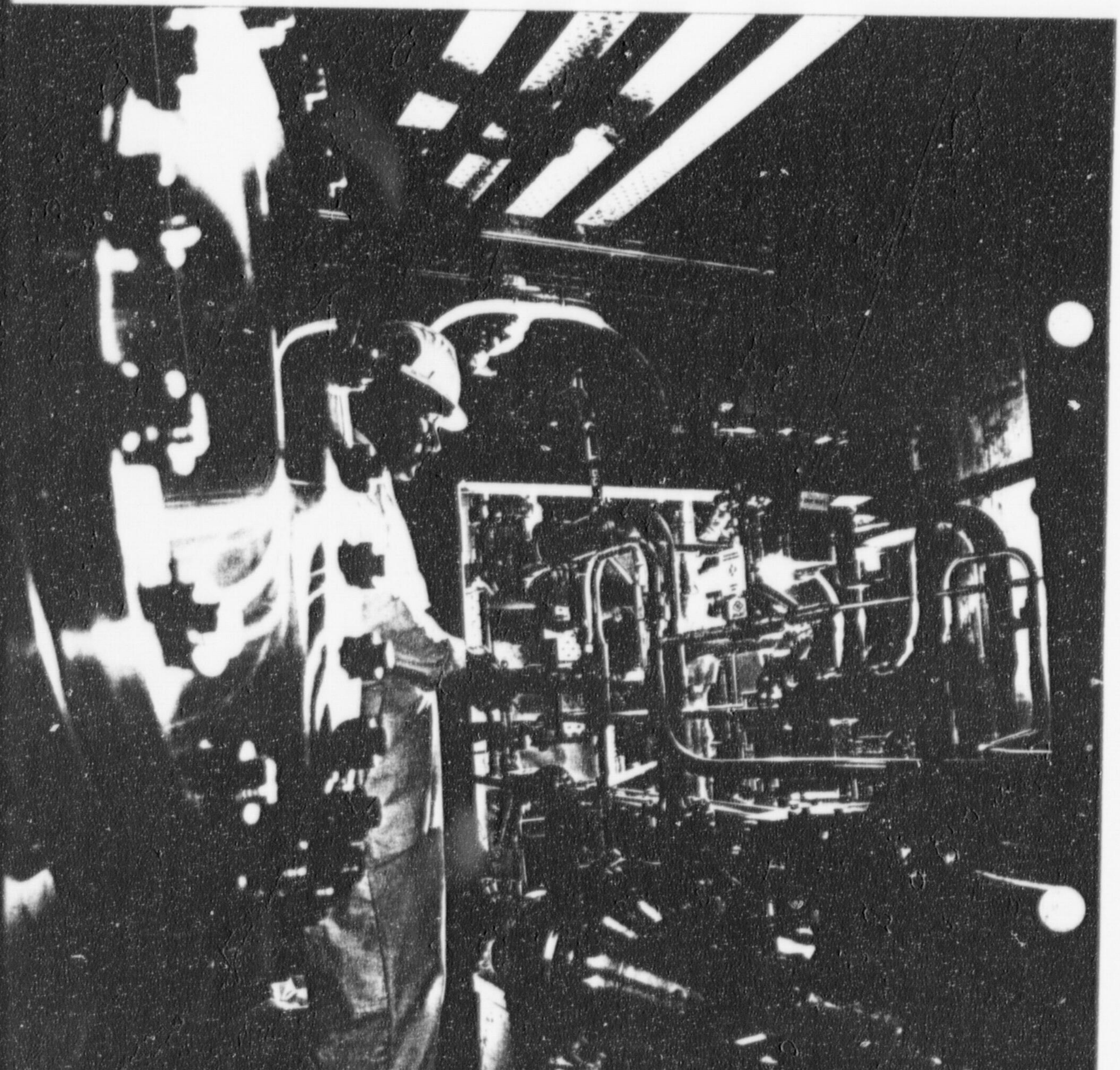
Respect and recognition

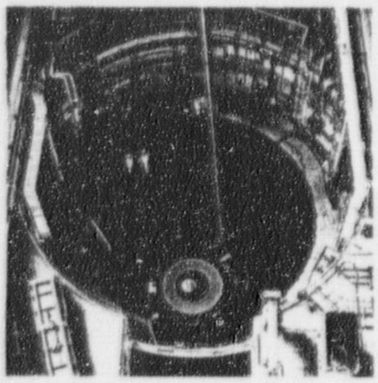
Professional and personal integrity

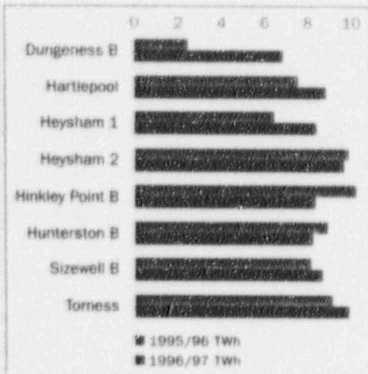
Openness

Chief Executive's Review

"All our power stations aim to beat stringent targets for safety performance and measure their performance against international benchmarks."







Opposite: Safety dictates our whole approach to managing our plant at all times. It is reflected in meticulous attention to detail.
Centre: The operating floor of an AGR. Preparing to refuel the reactor 14 metres below.
Left: An excellent effort from all our power stations – total electricity sales.
Below: Safety first – RoSPA gold medal awarded to Heysham 2 for industrial safety.

prudently expanding our business. In 1996/97 we made significant advances towards these goals.

We increased our output by 6 TWh to 67.2 TWh, underlining an excellent effort from all eight of our power stations. The seven AGR stations exceeded their previous record set in 1994/95. Three AGR stations – Torness, Heysham 1 and Dungeness B – set individual annual production records. Sizewell B, the UK's only PWR station, completed its first full commercial year of operation and contributed 8.4 TWh. In all, the average load factor of British Energy stations improved from 72% to 79%.

A number of factors lay behind this improvement. Efficiency improved all round. There were fewer statutory outages for maintenance – four compared to seven in 1995/96 – reflecting the Nuclear Installations Inspectorate's (NII) approval to move to statutory outages every three years at several stations. Dungeness B returned to full power at the start of 1996/97 following a major overhaul.

Torness received clearance to move from two-year to three-year intervals between outages, bringing to five the number of British Energy AGR stations able to operate this way.

Sizewell B operated at a load factor of 81% over the year or 97% excluding its first statutory maintenance outage and recommissioning. The outage was completed in 55 days – a very commendable performance reflecting great credit on all concerned.

Our two oldest AGR stations, Hunterston B and Hinkley Point B, returned to full power after extended outages and both completed the first phase of a turbine upgrade programme designed to enhance potential output. Both stations received clearance from the NII to operate for a further ten years to at least 2006.

Onload refuelling – when stations refuel without shutting down – has been routine at Hunterston B and Hinkley Point B. After engineering modifications Heysham 2 has recommenced onload refuelling and Torness will follow shortly. December saw the introduction of oxygen injection at Torness, with promising results. Oxygen injection is designed to alleviate the problem of carbon deposition which can adversely affect a station's output.

A 14% rise in the time weighted pool price in England and Wales for the first six months of the year was followed by a reduction of 10% in the second half, which in output terms is a more significant period. Over the year the time weighted pool price was down 1% (or 3% in real terms), at 2.37p/kWh. British Energy's achieved price was 2.54p/kWh, down by 1% on last year but still representing a premium of 7%

Chief Executive's Review

"We increased output by 6 TWh to 67.2 TWh, underlining an excellent effort from all eight of our power stations."

over pool price. The premium arises because of contract cover, other hedging arrangements and the concentration of planned outages in the summer months when prices are lower. Contracts for Differences (CFDs) and other contracts were used to hedge price risk in 1996/97 to a greater extent than before, giving increased confidence at the time of flotation in the average price that would be achieved.

We have continued to work with other members of the England and Wales Pool to ensure that this wholesale market operates efficiently. We have actively supported the efforts of OFFER and the Pool to introduce full and fair competition to the retail electricity market.

British Energy found innovative ways of securing its electricity sales, offsetting the downward trend in pool prices. We managed income risk and will continue to do so. The 15-year alliance which has been agreed in principle with Southern Electric will allow us to hedge our pool price risk and to strengthen our position in the market. Our direct sales grew 96% to £147m with customers which included the Bank of England, Blue Circle and Nissan.

Arrangements for managing long term liabilities remain a key factor. The segregated decommissioning fund set up during privatisation to meet the majority of power station decommissioning costs is now well established.

In March the Government announced that the proposed Nirex Rock Characterisation Facility at Sellafield had not been granted planning permission. This has set back the Government's timetable for underground disposal of intermediate level waste but the decision should not have a material financial impact on British Energy. We will be working with the rest of the nuclear industry and Government to identify the best way to safely and prudently store and dispose of the relatively small amounts of intermediate and high level waste produced by our operations. Our accounts make prudent provision for a range of possible long term solutions based upon a deep geological repository. Our contractual obligation to fund 8.4% of Nirex's expenditure in 1996/97 amounted to £3m.

Our strategic priorities for the business remain as before. In the short term we are driving to improve the financial performance of our existing assets and to strengthen our position in the electricity market in Great Britain.

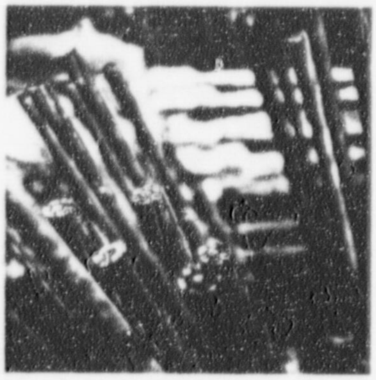
Cost reduction continues to be a key goal for British Energy. Initiatives pursued during 1996/97 included reducing staff numbers and contract negotiations with BNFL.

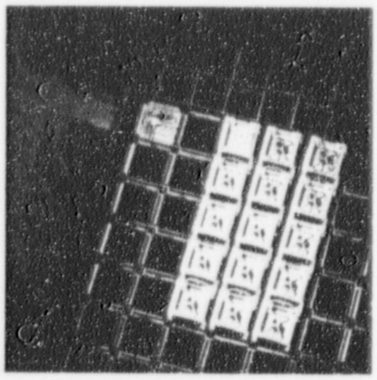
In October we announced a programme which carries forward plans in place before privatisation at Nuclear Electric and Scottish Nuclear. Over the three-year period to March 2000 there will be a 24% reduction in group-wide numbers to below 5,000. When completed this is expected to save £50m per year in staff costs.

New contracts for fuel services worth around £1.5bn at current prices were recently concluded with BNFL. The contracts cover the extension of fuel manufacturing services from 2000 to 2006 for Nuclear Electric's AGR stations and the provision of reprocessing and storage services for all spent fuel arising from these stations, over and above the existing contracts. The Scottish Nuclear contracts for similar services agreed in 1995 have also been revised. The contracts put in place fixed price arrangements, subject to RPI indexation, for the major part of spent fuel services required by British Energy's seven AGR power stations. The contracts will see savings in fuel costs of some £10m in 1997/98 and very competitive prices for fuel discharged from around 2004 onwards.

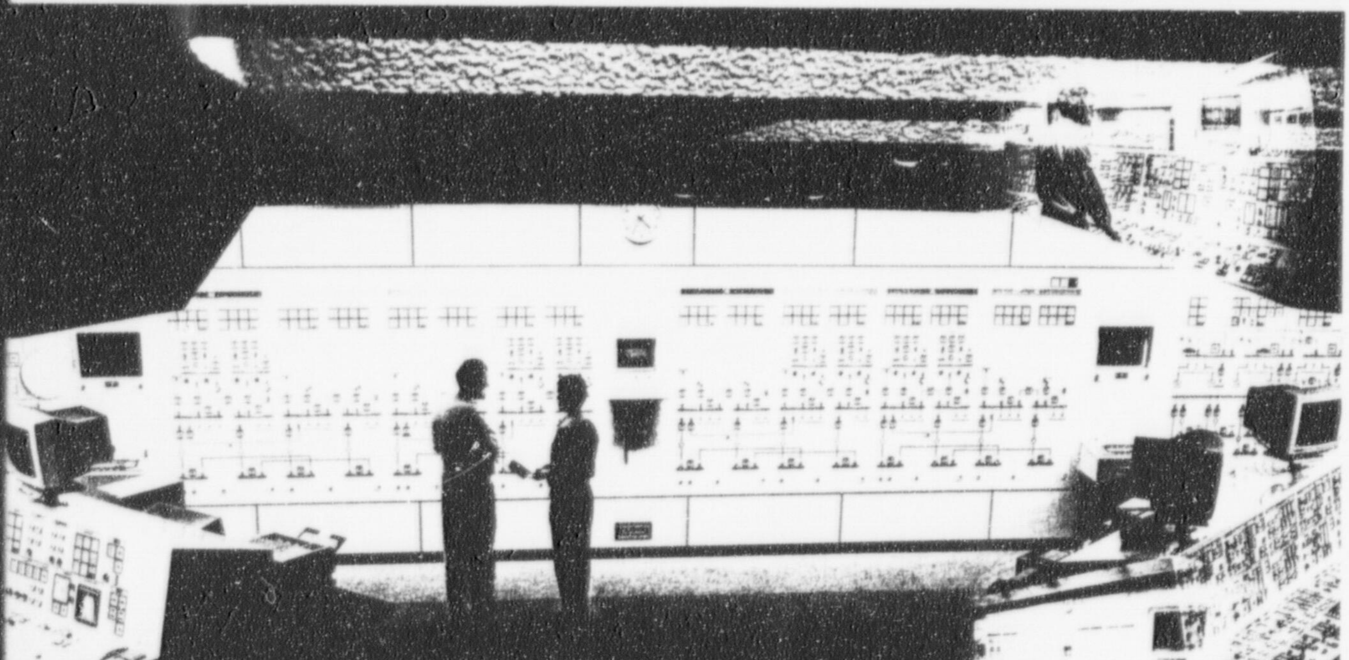
Longer term we are looking to broaden our fuel and plant mix in the UK through direct investment and to invest in generation projects in international markets, but only if they will enhance shareholder value.

Since the year end we acquired a 12.5% stake in Humber Power Ltd, which is building and operating a combined cycle gas turbine station on South



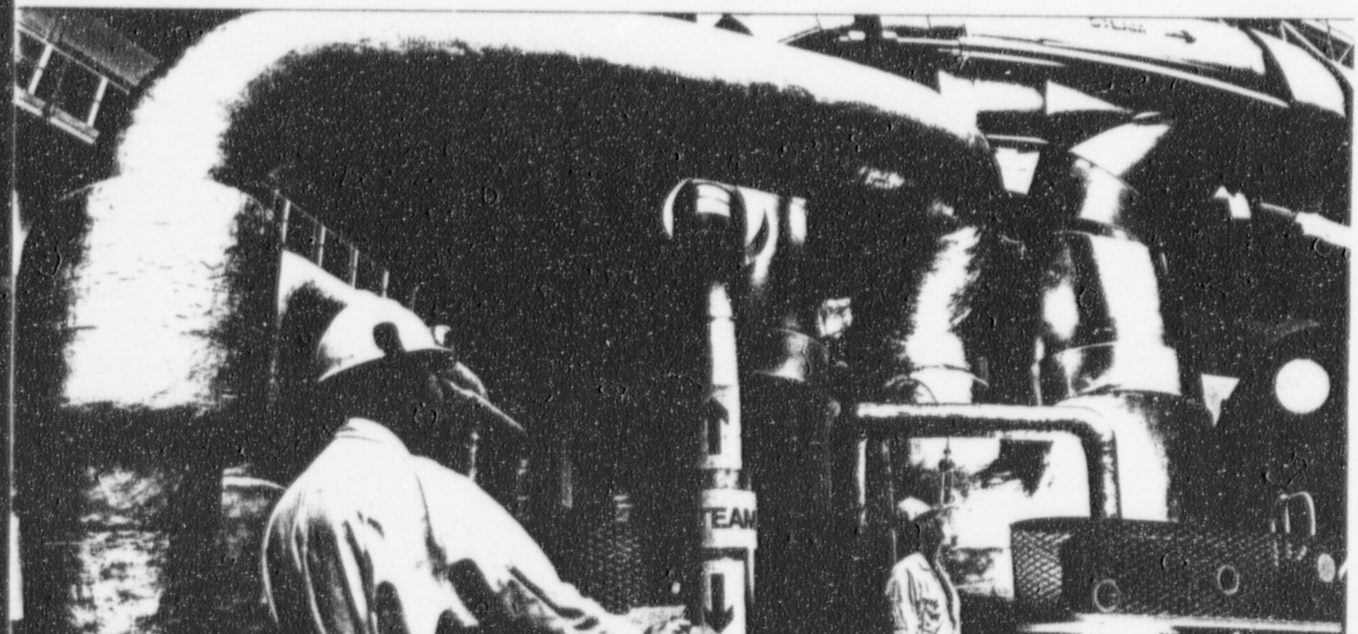


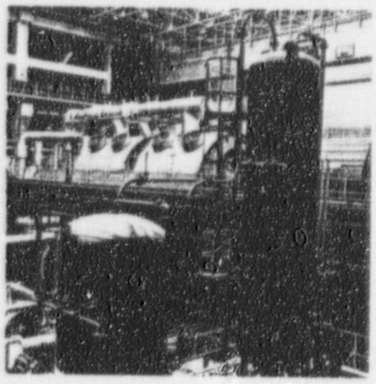
Below: Torness power station control room
Right: Engineered for safety. An AGR concrete containment is maintained at full strength by these tensioners. **Far right:** Used reactor fuel cooling in specially engineered ponds before despatch for reprocessing.



Chief Executive's Review

"British Energy is strongly committed to protecting and enhancing the environment. We are also committed to sharing best practice both in the UK and internationally."





Far left: Power to the turbines – high pressure steam drives an AGR's generators.
Centre: Complex simulation systems allow detailed analysis of our procedures.
Left: Power for the next generation – each of our power stations produces enough electricity for more than 2 million homes.

Humberside. To date Humber Power has commissioned 750 MW of plant and a further 510 MW CCGT is due to be commissioned in 1999. We also reached agreement with PECO Energy of Pennsylvania – a major US energy utility – to pursue possible joint ventures in the US nuclear and non-nuclear generation sectors.

Respect and Recognition

Our values are designed to ensure that we work effectively as a team. This is particularly important as our subsidiaries, notwithstanding their differing origins, are working more closely together. Our aim is to encourage and motivate all our employees to achieve their full potential. This philosophy is at the heart of our plans to reward our staff through Gainshare and the granting of share options at all levels.

British Energy is fortunate in having a highly skilled and professional workforce created through the foresight of our predecessors. The emphasis on skill enhancement and competence begun by Nuclear Electric and Scottish Nuclear will continue under British Energy. Initiatives to develop and educate our staff and to create the opportunities for them to excel, together with effective appraisal and career development programmes, are essential during a period of change if the Group is to flourish.

Integrity

Your Board places great weight on its duty to ensure the Group is managed responsibly and in accordance with best practice in Corporate Governance. It is also the duty of all our staff to enhance safety, quality and concern for the environment throughout the Group.

All British Energy power stations operate to quality management systems based on BS 5882, the demanding Nuclear Quality Assurance Standard. During the year, Torness became the first UK power station to gain independent certification to this standard after an exacting series of external audits. All Nuclear Electric's power stations are certified for BS 7750, the British Standard for Environment Management Systems and the Scottish power stations operate on a similar basis.

More generally, British Energy is strongly committed to protecting and enhancing the environment. Throughout the Group we are dedicated to:

- complying with all mandatory requirements for environmental protection. Where appropriate we will exceed these standards.

- encouraging our staff, shareholders, suppliers, customers and the public to have a clear understanding of the environmental issues related to our business.

Chief Executive's Review

"British Energy is pledged to a culture of openness. We produce full information programmes for our key stakeholders and audiences ... we desire to maintain and broaden our involvement with the wider community."

- publishing reports each year on performance and progress on our stated environmental objectives. The Nuclear Electric and Scottish Nuclear safety and environment reports for 1996/97 will be published shortly.

- improving our environmental performance on a continuous basis.

In practice, our total quality approach to the environment covers everything from energy saving initiatives to minimising pollution and waste and to positive enhancement of environmental awareness at our power stations through community initiatives and nature awareness programmes developed with local and education authorities.

We are also committed to sharing best practice both in the UK and internationally. For example, at Heysham 2 a two-year programme of waste reduction – part of a drive to achieve the environmental standard BS 7750 – led to a substantial decrease in the number of low level radioactive waste drums produced for disposal. We have since shared the results of this work and our wider experience in achieving BS 7750 certification with many companies. In turn we learn from others' experience through peer reviews of our stations by UK and international teams and by participating in similar benchmarking programmes in the UK and abroad.

Openness

Internally and externally, British Energy is pledged to a culture of openness. We produce full information programmes for our key stakeholders and audiences including frequent station newsletters and monthly output updates and hold regular meetings with local community and regulatory bodies. Both Scottish Nuclear and Nuclear Electric organise visitor centre and exhibition programmes at all our power stations. Last year the total number of visitors rose to a record 310,000.

During the year our two operating subsidiaries went live on the Internet. Now a new British Energy web-site is operational at *www.british-energy.com* and I encourage you to "surf" your way through it.

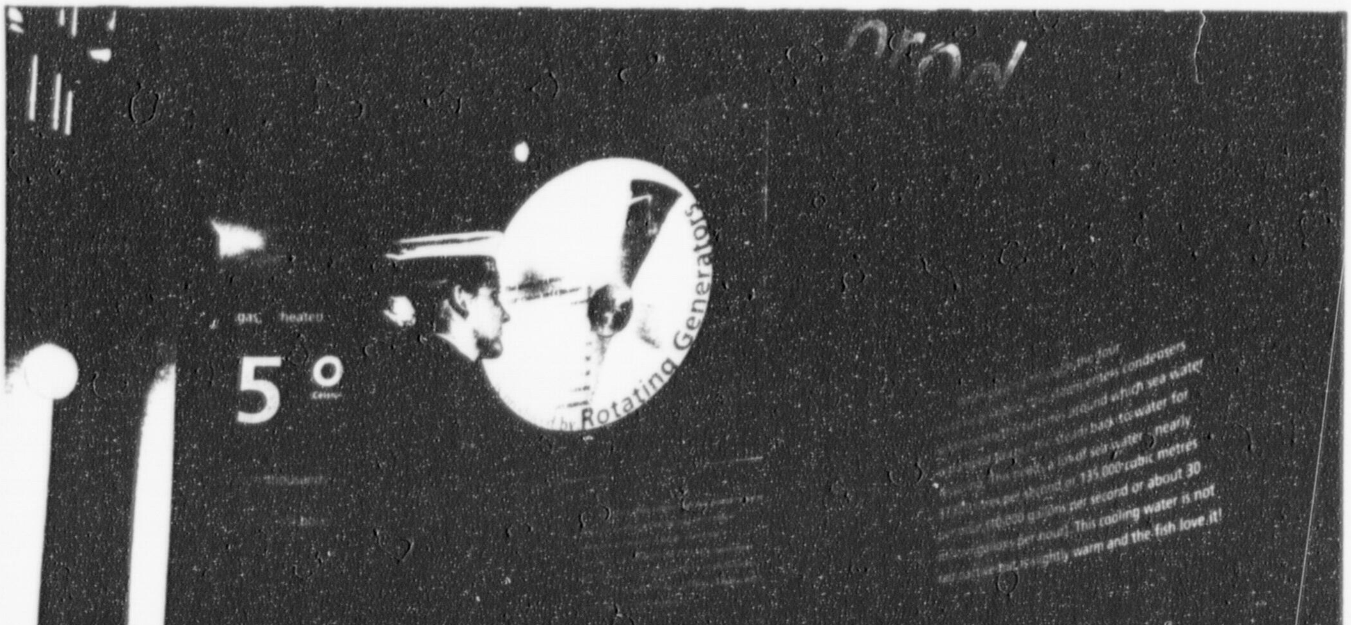
Our ongoing sponsorship programme reflects British Energy's desire to maintain and broaden our involvement with the wider community. To emphasise our interest in the young, we became the first sponsors of the new Scout BR badge and supported the first international festival of youth rugby which involved about 6,000 players from 12 nations, culminating in a finals day at Murrayfield Stadium.

Conclusion

This has been an encouraging start to our life in the private sector. As to the future, we are fully committed to growth, to adding shareholder value and to being widely recognised as a company characterised by its qualities – safe, profitable, progressive and open in its approach.

Dr Robert Hawley
Chief Executive
3 June 1997

Above: www.british-energy.com – our internet site. **Right:** Torness provides a home for the Dunbar lifeboat and some of its crew members work at the station. **Far right:** New College, Cardiff under-15 rugby captain, Robin Sowden-Taylor receives the British Energy Youth International trophy at Murrayfield. **Below:** "Come & See" – a record 310,000 visited our stations or exhibitions.



Financial Review

Pro Forma Information

As a result of the changes to the capital structure and the other changes related to privatisation (including the ending of the nuclear levy), both the 1996/97 accounts and the comparative figures for 1995/96 contain a number of non-recurring items. To enable a meaningful comparison to be made, pro forma figures have been prepared and these form the basis of the financial review. The pro forma figures exclude exceptional and non-recurring items on a similar basis to the pro forma figures included in the Prospectus issued in June 1996 and in the half year results for the six months ended 30 September 1996.

Financial Highlights

	1997 £m	1996 £m
Turnover	1,870	1,654
Operating profit	307	130
Profit/(loss) before tax	61	(155)
Net debt at year end	(262)	(679)

Turnover

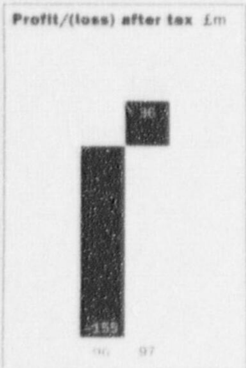
Turnover comprises generation sales, direct supply sales and miscellaneous income. Generation sales of £1,706m accounted for 91% of turnover in 1996/97 and increased by 8% over 1995/96. The increase was due to the good performance of our power stations whose output at 67.2 TWh was up by 10%. Direct supply sales to large customers increased by £72m to £147m. The benefits of our increased output were partly offset by a fall of 1% in our average achieved selling price, from 2.57p/kWh to 2.54p/kWh. The time-weighted average pool price – the price which is most relevant for a base-load generator – fell from 2.39p/kWh to 2.37p/kWh, a fall of 3% in real terms.

Operating Costs

Operating costs per unit of electricity generated fell by 11% to 2.11p/kWh, reflecting both higher output and reduced costs.

Operating costs, excluding electricity purchases, were down £33m to £1,415m. The principal reductions were a fall of £40m in materials and services and a fall of £34m in the depreciation charge following last year's asset write down. There was an increase of £31m in back end fuel costs reflecting the increase in output.

Staff numbers at the year end were 5,940, a reduction of 484 during the year with



"Operating profit increased by £177m to £307m. Profit after tax was £36m compared with a loss of £155m in 1995/96. The recommended final dividend of 9.1p per share brings the total dividend for 1996/97 to 13.7p per share."

average staffing numbers in 1996/97 being 6,366. Productivity measured in terms of electricity output per employee rose 13% to 10.6 GWh/employee.

Electricity purchases increased by £72m to £148m in line with the growth in our direct supply business.

Operating Profit

As a result of the improvements outlined above we increased operating profit by £177m to £307m. Our operating margin now represents over 16% of turnover, compared with 8% in the previous year.

Financing Costs

Financing charges, comprising revalorisation and net interest, were down £39m to £246m.

Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per year from the eventual payment dates. The revalorisation charge is the adjustment that results from restating these liabilities to take into account the effect of inflation in the year and to remove the effect of one year's discount as the eventual dates of payment become one year closer. The revalorisation charge for the year at £196m was £18m lower based on an inflation rate of 2.6%.

Net interest fell by £21m to £50m, reflecting the lower average net debt level. Included within interest payable was an £8m charge relating to the repurchase of bonds as explained below. Net interest was covered six times by operating profit.

Taxation

There was a taxation charge for the year of £25m, an effective tax rate of 41%. The higher effective tax rate results from a portion of the Group's costs, particularly those relating to station decommissioning, being disallowed for tax purposes.

Proposals for accounting for deferred taxation in the UK are under review. The Group supports the current accounting standard SSAP 15, which requires provision to be made only for that amount of deferred taxation that is considered likely to become payable in the foreseeable future. As a result, some £562m of deferred taxation has not been provided in the Group's accounts at 31 March 1997 on the basis that timing differences, which mainly relate to accelerated capital allowances, are not expected to reverse in the foreseeable future.

In the event that the rules change to require full provision for deferred tax, our view is that such provision should be discounted in line with British Energy's long term nuclear liabilities. If our full potential liability at 31 March 1997 was discounted, the total provision would be in the region of £200m.

Earnings and Dividends

Profit after tax was £36m compared with a loss of £155m in 1995/96 representing an improvement of £191m. Earnings per share for the year were 5.1p.

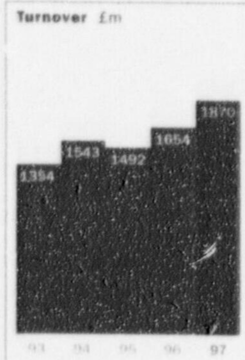
The recommended final dividend of 9.1p per share brings the total dividend for 1996/97 to 13.7p per share. The dividend is uncovered by profits after tax with a cover ratio of 0.4 and covered 3.7 times by free cash flow.

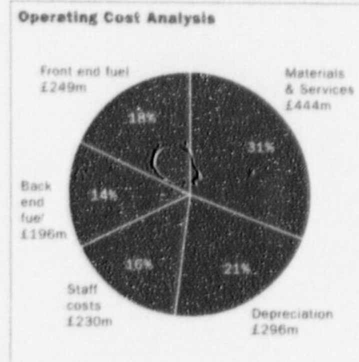
Cash Flows and Net Debt

After net capital expenditure of £106m, net operating cash flow was £473m, up £664m. However, a number of large non-recurring flows in both 1995/96 and 1996/97 contributed to the improvement. In particular, 1995/96 outflows were increased by £345m of backlog payments to BNFL and £83m for the final construction costs of Sizewell B, while 1996/97 inflows were increased by £87m from the sale of uranic stocks to BNFL. Excluding such non-recurring items, operating cash flow in 1996/97 was £404m, giving a like-for-like increase of £182m over 1995/96.

Net debt at 31 March 1997 was £262m compared with £679m at the end of 1995/96. The gearing ratio at 31 March 1997 was 17%.

Financial Review





Debt at the year end comprised £448m bonds and £225m medium term bank loans. In March the Company drew down £225m of its medium term bank loan facility leaving undrawn facilities of £275m at the year end.

The bonds, which mature between 2003 and 2016, were "re-set" on 26 March under an agreement with HM Treasury made when they were issued in June 1996. The re-set involved the coupons on the bonds being reduced to prevailing gilt yields with a corresponding increase in their principal values. At the same time the coupons were reduced further to reflect the investment grade rating accorded to the bonds by Standard & Poors and Moody's. Following the re-set, the interest rates on the bonds range from 8.2% to 8.9% with a weighted average of 8.6%, a reduction of 1%. There was a £17m increase in principal values which will be amortised over the remaining lifetime of the bonds.

An agreement was reached in March 1997 with HM Treasury for £105m of the 8.9% bonds due in 2016 to be repurchased on 1 April 1997 for a premium of £3m. The £8m excess of the repurchase cost over the original principal value, £100m, is included in financing costs.

Nuclear Liabilities and Segregated Decommissioning Fund

Accrued nuclear liabilities, in respect of power station decommissioning and the management of spent fuel and waste, rose 1% to £3,786m at 31 March 1997. These liabilities increase annually due to fuel used in our power stations during the year, inflation and the removal of one year's discount, and are reduced by cash payments made during the year. In 1996/97 these payments totalled £346m.

A segregated decommissioning fund was set up on privatisation to cover the long term post-closure costs of decommissioning British Energy's power stations. The fund is administered by trustees who are independent of British Energy. Following an initial endowment of £228m made in July 1996, British Energy makes annual contributions currently fixed at £16m (subject to RPI indexation). The adequacy of funding and of future contribution rates are reviewed by the trustees every five years: the next review is due in March 2001.

Other Provisions

During 1996/97 British Energy utilised £33m of its brought forward restructuring provision. The amounts charged against the provision comprised payments for severance costs of employees who left during the year. Provisions remaining at the year end comprise £161m in respect of severance and restructuring, including enhanced pension costs, and £14m for insurance. No further provisions were made or are expected to be made in respect of the manpower reduction programme announced in October 1996.

Treasury Management

The management of cash resources, debt finance and financial risks is the responsibility of a centralised treasury function operating within policies and procedures approved by the Board on the advice of the Treasury Committee (a sub-committee of the Board). The treasury function is authorised to use appropriate instruments, within specified limits, in order to manage financial risks but is not permitted to take speculative, open positions.

The majority of British Energy's income and expenditure is denominated in sterling, the main exception being uranic materials and services which are purchased in foreign currencies, principally US dollars. British Energy hedges 100% of such commitments through appropriate forward periods to lessen risk and provide certainty of costs. Consequently, once a hedging contract has been entered into, the Group neither loses from adverse exchange rate movements nor gains from favourable movements.

Funding is managed through long term debt and short term bank facilities – committed and uncommitted. The Board requires that a minimum of 50% of net debt is at fixed interest rates. To enable this objective to be achieved British Energy enters into interest rate swaps with banks to fix the interest rates on a portion of its variable rate borrowings. After taking into account the impact of

Net Operating Cash Flow*
£m

*Adjusted for exceptional and non recurring items

interest rate swaps, at 31 March 1997 83% of total borrowings were at fixed rates.

British Energy protects its electricity sales income against fluctuations in Pool prices by entering into Contracts for Differences (CFDs) and similar instruments with a range of counterparties. Under the terms of CFDs British Energy receives payments from the counterparties when the Pool price falls below the contract strike price and makes payments when the Pool price exceeds the strike price.

CFDs normally cover periods of six to eighteen months. Some of the other instruments run for periods of up to 10 years or longer. British Energy does not use CFDs to take speculative positions in the electricity market, restricting their use to covering up to an agreed portion of its electricity output.

Capital Investment

British Energy's primary financial objective is to create value for its shareholders. In order to meet that objective all investment proposals are subject to detailed appraisal.

The capital expenditure policy for existing assets is designed to ensure that each investment is either economically beneficial or is necessary to protect safety or the environment. Following the completion of Sizewell B in 1995/96, British Energy's investment in its existing infrastructure fell by £119m to £110m in 1996/97.

Appraisal of new investment opportunities takes account of the variation in risks associated with different projects and geographical locations. Accordingly an appropriate "hurdle rate", reflecting the minimum required rate of return, is set for the evaluation of each proposal.

Conclusion

British Energy's first year as a quoted company has been a financial success. We moved from loss into profit, achieved our dividend forecast and significantly improved our cash flow.

Mike Kirwan
Finance Director
3 June 1997

Board of Directors

1

2 3 4

5 6 7

8 9 10

1. John Robb (61) **
Chairman
Appointed Chairman in 1995. Also Chairman of Logitron Holdings plc and Non-Executive Director of Allied Domecq plc, Unigate plc and Therapeutic Antibodies Inc. He is deputy Chairman of the Horserace Betting Levy Board. Formerly Chairman of Wellcome plc.

2. Robert Hawley DSc FEng FRSE (60) †
Chief Executive
Appointed Chief Executive in 1995. Chief Executive of Nuclear Electric plc from 1992–1995. Chairman of Rotork plc, INBIS Group plc and Non-Executive Director of WS Atkins plc and Tricorder Technology plc. Currently President of the Institution of Electrical Engineers.

5. Michael Kirwan (56) °†
Finance Director
Appointed Finance Director in 1995. A chartered accountant, he was previously a management consultancy partner of Deloitte Haskins & Sells before becoming Executive Director, Finance of Nuclear Electric plc in 1990.

8. Sir Robin Biggam (58) **
Non-Executive Director
Appointed a Non-Executive Director in 1996. Chairman of the Independent Television Commission and Fairey Group plc and a Non-Executive Director of British Aerospace plc, Redland plc and Foreign & Colonial German Investment Trust PLC.

3. Sir Noel Davies (63) **
Deputy Chairman
Appointed Non-Executive Deputy Chairman in 1995. Currently Chairman of Powell Duffryn plc, Non-Executive Director of Ricardo and Chairman of British Energy's subsidiary Nuclear Electric Limited. He was formerly Chief Executive of VSEL plc.

6. Peter Warry (47) †
Executive Director
Appointed Executive Director in 1996. Previously Director of Norcros plc until 1994. Executive Director, Commercial of Nuclear Electric plc (1995–96) and appointed Chief Executive of British Energy's subsidiary Nuclear Electric Limited in 1996. Also a Non-Executive Director of PTS Group plc and an Industrial Professor at the University of Warwick.

9. Julia Walsh (48) **
Non-Executive Director
Appointed Non-Executive Director in 1996. Chairman of AVL Holdings Limited and Non-Executive Director of Southalls Limited and David A Hall Limited. Formerly Chief Executive of ADAS.

4. Robin Jeffrey FEng (58)
Deputy Chairman
Appointed Deputy Chairman in 1995. Chief Executive of British Energy's subsidiary Scottish Nuclear Limited since 1992 and also its Chairman since 1995. Non-Executive Director of London Transport Limited and London Underground Limited. Visiting Professor in Electrical Power Engineering at Strathclyde University.

7. John Bullock (63) ***
Non-Executive Director
Appointed a Non-Executive Director in 1995. Currently a Non-Executive Director of Kingfisher plc and More Group plc. Also a Non-Executive Director of Nuclear Electric Limited and previously on the Board of the UK Atomic Energy Authority.

10. Peter Stevenson (50) ***†
Non-Executive Director
Appointed a Non-Executive Director in 1995. Chairman of Mackays Stores (Holdings) PLC. Also a Non-Executive Director of Scottish Nuclear Limited since 1990.

* denotes member of the Audit Committee
* denotes member of the Remuneration Committee
° denotes member of the Pensions Supervisory Committee
† denotes member of the Treasury Committee

Corporate Governance

For the year ended 31 March 1997

The Directors consider that during the year the Company complied with all aspects of the Cadbury Committee's Code of Best Practice.

The Board

The Board comprises John Robb (Non-Executive Chairman), four Executive Directors and five Non-Executive Directors as set out on page 21.

The Non-Executive Directors, all of whom hold or have held senior positions in other major UK and International organisations, bring a wide range of experience to the Board and participate in decisions on key issues facing the Group. The Board meets monthly and considers a number of matters specifically reserved to it, including appropriate strategic, financial and organisational issues. In appropriate circumstances, all directors are entitled to obtain independent professional advice at the expense of the Company. A number of matters are delegated to Board Committees. Board membership of these committees is identified on page 21.

Audit Committee

The Audit Committee consists solely of Non-Executive Directors and is chaired by John Bullock. It reviews the adequacy and effectiveness of internal control and compliance procedures within British Energy and the principles, policies and practices adopted in the preparation of the British Energy accounts to confirm they comply with all statutory requirements. The committee discusses with the external auditors matters arising from their work and encourages and monitors adoption of best practice in corporate governance.

Pensions Supervisory Committee

The Pensions Supervisory Committee is chaired by Peter Stevenson and consists of certain Directors and senior managers of British Energy. It monitors the management of the pension schemes of Nuclear Electric and Scottish Nuclear and the policies being adopted by the trustees of these schemes and advises the Board on all matters relating to those schemes.

Remuneration Committee

A separate report from The Remuneration Committee appears on pages 24 to 27.

Treasury Committee

The Treasury Committee is chaired by Dr Robert Hawley and consists of certain Directors and senior managers of British Energy. It monitors performance and risk management particularly in the areas of electricity trading, treasury and insurance and advises the Board on such matters.

Internal Financial Control

The Directors are responsible for the maintenance of a system of internal financial controls. The Board is responsible for identifying key business risks, evaluating their financial implications and establishing policies for managing those risks. However any such system of controls can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Audit Committee has reviewed the effectiveness of the Group's system of internal financial controls. The key procedures which are designed to provide effective internal financial control are summarised as follows:

- Organisational structure – British Energy has a well defined organisational structure with clear lines of accountability. British Energy has strict authorisation, approval and control procedures within which senior management operate. Each subsidiary has its own senior management team which is responsible for internal financial controls within that company. The subsidiaries' management teams operate within an overall framework which is determined by the Board.

- Investment approval – the approval of capital and revenue schemes above certain limits is reserved to the Board. Other investment decisions are delegated for approval in accordance with authority limits. Comprehensive appraisal and monitoring procedures are applied to all major investment decisions.

- Business planning – British Energy undertakes a comprehensive business planning and budgeting process each year to establish plans and targets against which performance is monitored on an ongoing basis. Key business risks are identified during the business planning process and are reviewed regularly during the year. The Board receives monthly reports and management accounts and reviews the overall Group performance against budget and the latest forecasts for the current year. Subsidiary company management teams meet regularly to monitor performance.

- Internal compliance – British Energy monitors compliance with its internal financial controls through management reviews and self-certification reports from the chief executive and finance director of each of the key subsidiaries. In addition, the Group's internal audit department reviews the performance of the internal financial control systems and computer operations and reports regularly to the Audit Committee. The internal audit work is focused on the areas of highest risk.

Going Concern

The Directors confirm that they have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. The Directors accordingly continue to adopt the going concern basis in preparing the Company's Consolidated Accounts.

John Robb

John Robb
Chairman
3 June 1997

Report by the Auditors to British Energy plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 22 and 23 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by The London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on pages 22 and 23 and going concern on page 23, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the Directors' statement on page 22 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Binder Hamlyn Price Waterhouse

Binder Hamlyn
Chartered Accountants
3 June 1997

Price Waterhouse
Chartered Accountants

Remuneration Committee Report

For the year ended 31 March 1997

The Directors consider that during the year the Company has complied fully with the best practice provisions contained within the Greenbury code and as set out in Section A of the Annex to The London Stock Exchange Listing Rules.

Remuneration Committee

The Remuneration Committee is concerned primarily with the pay and conditions of Executive Directors, but retains an interest in the pay and benefits of other senior staff, to ensure reasonable consistency. It also considers appointments for senior posts within British Energy.

Terms of reference for the Committee empower it to recommend the appointment of Executive Directors; establish the remuneration policies and practices for Executive Directors and certain other directors and senior employees; design and implement long term incentive schemes; determine the individual remuneration packages of the Executive Directors and other selected senior employees, including pension provision; and authorise the annual performance incentive plan targets for Executive Directors. It may obtain external professional advice and expertise necessary for the performance of its duties.

The Committee is chaired by John Robb. Its other members, identified on page 21, are all Non-Executive Directors. John Kennedy, director, human resources acts as Secretary to the Committee.

Executive Remuneration Policy

In establishing its policy, the Remuneration Committee gives full consideration to the best practice provisions set out in Section B of the Annex to The London Stock Exchange Listing Rules.

In setting the remuneration package for individual directors, the Committee aims to ensure that the total package, including benefits, is competitive with companies of a similar size, activity and complexity and that as a consequence the Company will attract and retain Executive Directors with the skills and experience both to develop the business and to maximise returns for shareholders. It targets total remuneration at the middle market level of its comparator companies.

It is the policy of the Remuneration Committee that:

- a significant proportion of Executive Directors' remuneration should be variable and linked to performance
- the movement in basic pay of directors and senior managers will be broadly in line with pay increases offered to other staff
- in structuring base and variable pay, the Committee focuses on the Company's commitment to safety, the environment and sustained profit growth, and on forging strong links between reward and performance against agreed stretch targets.

Elements of Remuneration

In the lead up to privatisation, the Remuneration Committee undertook a review of the remuneration of its senior executives. It was advised by external consultants who were commissioned to establish external market levels of remuneration using appropriate sector and industry comparisons.

A process for review has been established, utilising both data available commercially and from external professional advisers. Comparisons are drawn, on a job-by-job basis, across a wide range of organisations both inside and outside the utilities sector.

The following paragraphs detail the current remuneration structure for Executive Directors.

(a) Base Salary

Salaries were established for each director in 1996, taking into account the recommendations of the external advisers. The Committee aims to maintain individual executive salaries at close to market median.

Levels are reviewed annually in April and take into account any changes in individual responsibilities as well as the need to maintain overall competitiveness in the marketplace.

(b) Annual Performance Incentive Plan

The performance-related elements of the remuneration package are designed to provide objective measures of corporate and individual success. Individual payments need to be both realistic and justifiable. To satisfy these aims under current conditions, the Committee has focused on a single annual incentive plan with common measures for each director.

In the plan, payments are determined by performance against a range of challenging targets underpinned by the safety and environmental priorities necessitated by the nature of the Company's principal activity.

i) Executive Directors can be awarded cash payments of up to 40% of basic salary, depending on achievement against pre-set financial and safety measures. In 1996/97, cash flow, earnings and specific safety targets provided the main components of a multi-factor scheme.

ii) the Committee has the discretion to make cash awards of up to a further 10% of salary, subject to performance against a range of personal factors.

In 1996/97, the payments under the plan amounted to between 43% and 46% of salary for each of the Executive Directors. Incentive payments are not pensionable.

(c) Other Cash Bonuses

The privatisation process for British Energy imposed considerable pressures on a number of employees for much of 1996. In recognition of the contribution made by the Directors to the success of the process whilst ensuring maintenance of ongoing operations, the Committee confirmed special one-off bonuses of 15% of salary to Dr Hawley, Dr Jeffrey and Mr Kirwan. Payments were made in the Autumn of 1996 and are not pensionable.

(d) Share Option Schemes

The Committee regards share options as an important means of aligning the interests of employees with those of its shareholders. As a consequence, it plans to introduce two Share Option Schemes in 1997: (i) an Approved Share Option Scheme; (ii) an Unapproved Share Option Scheme, to which invitations will be extended to senior employees.

The rules of the schemes conform to the details given in the Prospectus and comply with the undertaking that the Company would delay the introduction of schemes until 12 months have elapsed since Admission. Both schemes will require the satisfactory achievement of challenging performance criteria prior to exercise. The Committee will determine the allocation to each Executive Director.

Except for the all employee Sharesave Scheme, detailed in the Prospectus, the Company has not operated any long term incentive arrangements during the year.

(e) Retirement Benefits

Dr Jeffrey is the only Executive Director to participate in one of the Company's Pension Schemes. He is a member of the Scottish Nuclear Pension Scheme which has a normal retirement age of 63; provides benefits of 1/60th of final pensionable salary for each year of pensionable service; requires contributions of 5% of pensionable salary from its members; provides a capital sum of 4 times pensionable salary on death in service, together with a spouse's pension of 1/120th of pensionable salary for each year of service, including prospective service; provides a spouse's pension of 50% of the member's pre commutation pension for death in retirement; and provides pension increments in line with RPI. The Company may restrict such increases to 10%. Past practice has been to pay increases in line with RPI.

The following sets out the relevant figures for Dr Jeffrey:

Age at 31 March 1997: 58

Years of service at 31 March 1997: 22, including service credits from a previous transfer into the scheme
Additional Pension earned during the year £14,715
Accrued entitlement at 31 March 1997 £54,560 (£39,845 at 31 March 1996)

Remuneration Committee Report Continued

Dr Hawley, Mr Kirwan and Mr Warry are not members of any of the Company Pension Schemes. However, they received annual allowances in 1996/97 towards their own pension and life assurance arrangements as follows:

	Company Pension Contributions £	Life Assurance Contributions £
Dr Hawley	28,770	3,016
Mr Kirwan	22,912	2,033
Mr Warry	8,201	726

(i) Dr Hawley and Mr Warry participate in a personal pension plan into which the Company makes the maximum Inland Revenue age related contributions. The amounts shown for Mr Warry are for that part of the year from his date of appointment to the British Energy Board (7 November 1996).

The Company has recently agreed to provide a guaranteed level of pension for Dr Hawley equivalent to a pension based on an accrual of 1/60th for each year of service with British Energy plc. Provision of this pension will be unfunded and will be included as a provision in the 1997/98 Balance Sheet. This pension guarantee will be inclusive of the benefit accrued within his personal pension plan.

(ii) the contribution for Mr Kirwan is as a taxable supplement to salary.

(f) Other Benefits

Other benefits are available to Executive Directors. These differ by individual and will comprise a selection from the following:

- a Company car and fuel
- medical, PHI and dental insurance
- reimbursement of telephone rentals and a mobile telephone
- subscriptions to professional bodies
- eligibility for the Company Sharesave Scheme.

Service Contracts

In accordance with arrangements made prior to privatisation, Executive Directors were given fixed two year contracts, reducing over time to contracts for a rolling 12 months.

Non-Executive Directors

The remuneration of Non-Executive Directors is determined by the Board, without the participation of the directors concerned. They do not have service contracts, are not eligible for a pension through any of the Company schemes and do not participate in any incentive or share schemes. Remuneration levels are detailed in full on page 27.

Directors' Remuneration and Interests

(i) Individual Remuneration

The remuneration of Directors was as follows:

	Salary and Fees		Bonus		Accommodation/ Relocation		Other Benefits		Total Emolaments excluding Pension		Pension Contributions	
Year ended 31 March	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
J Robb*	100,000	30,769	-	-	-	-	-	-	100,000	30,769	-	-
Dr R Hawley	207,000	190,485	122,730	47,793	31,914	-	22,522	19,964	384.166	258,242	28,770	25,626
Sir Noel Davies*	95,000	43,353	-	-	-	-	6,469	1,193	101,469	44,546	-	-
Dr R Jeffrey	147,212	111,360	87,082	44,600	-	-	6,606	4,281	240,900	160,241	21,554	18,819
M Kirwan	162,495	150,303	97,968	37,711	10,686	-	15,606	18,325	286,755	206.339	22,912	21,193
P Warry	66,248	-	30,401	-	-	-	3,255	-	99,904	-	8,201	-
Sir Robin Biggam*	20,000	-	-	-	-	-	-	-	20,000	-	-	-
J Bullock*	30,000	18,732	-	-	-	-	-	-	30,000	18,732	-	-
P Stevenson*	30,000	10,970	-	-	-	-	-	-	30,000	10,970	-	-
Dr J Walsh*	20,000	-	-	-	-	-	-	-	20,000	-	-	-
Total Emoluments	877,955	555,972	338,181	130,104	42,600	-	54,458	43,763	1,313,194	729,839	81,437	65,638

(i) Mr Warry was appointed to the Board with effect from 7 November 1996 and the emoluments and benefits shown are calculated from that date.
(ii) *Denotes Non-Executive Director.

(ii) Shares

The beneficial interests of Directors in Ordinary Shares of the Company together with options to subscribe for Ordinary Shares as at 31 March 1997 are as follows:

Name	Ordinary Shares	Sharesave Options
J Robb*	20,000	-
Dr R Hawley	43,094	10,781
Sir Noel Davies*	420	-
Dr R Jeffrey	5,476	6,093
M Kirwan	20,555	6,093
P Warry	1,460	6,093
Sir Robin Biggam*	10,000	-
J Bullock*	10,000	-
P Stevenson*	3,930	-
Dr J Walsh*	-	-

(i) Dr Hawley's Sharesave options are exercisable within six months of 15 July 2001 at an exercise price of £1.60 per share. All the Sharesave options held by the other Directors are exercisable within six months of 15 July 1999 at an exercise price of £1.60 per share.
(ii) *Denotes Non-Executive Director.

Directors' Report

For the year ended 31 March 1997

Financial statements

The Directors present their annual report and the audited Group financial statements for the year ended 31 March 1997. In addition pro forma information has been prepared on the basis set out in note 1 on page 34.

Principal activities and review of the business

The Group's principal activity is the generation and sale of electricity. The Chief Executive's Review and the Financial Review on pages 6 to 19 summarise the Group's business performance during the financial year and its outlook. The Group publishes separate Health & Safety and Environment Reports each year which are available from the Company Secretary.

Privatisation

On 21 June 1996 the Company increased its authorised share capital to £875m by the creation of 875 million ordinary shares of £1 each. 700 million of these ordinary shares were allotted to the Secretary of State for Trade and Industry in part satisfaction of the repayment of £1,745m of non-interest bearing debt to the Secretary of State.

On 15 July 1996 the interim rights in the Company's ordinary shares were admitted to the Official List of The London Stock Exchange.

Results and Dividends

The consolidated results for the Group are set out in the Group Profit and Loss Account on page 31. The Directors are recommending a final dividend of 9.1p payable on 28 July 1997 to shareholders on the register on 20 June 1997, making a total dividend for the year of 13.7p per ordinary share.

Post Balance Sheet Event

On 3 June 1997 the Group concluded new and revised contracts with BNFL for the supply of fuel services. Further details are included in note 35 on page 54.

Substantial shareholdings

The following have notified the Company of an interest in 3% or more of the ordinary share capital:

Name	Shareholding	% Shares held
Templeton Investment Management acting on behalf of Franklin Resources Inc.	77,720,800	11.1
SBC Brinson Holdings Inc.	24,416,000	3.5

Research and development

The Group invested £20m in research and development. This is primarily continuing scientific and engineering research activity which is directed towards securing further improvements in the reliability, performance and safety of its generating business.

Directors

Information required under the provisions of the Companies Acts regarding the remuneration and share options of Directors, the interests of the Directors and their families in the share capital of the Company and Directors' service contracts is detailed in the Remuneration Committee Report on pages 24 to 27.

Policy on payment of creditors

The Company supports the Prompt Payers' Code of the Confederation of British Industry. The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and to abide by the agreed terms. The Company has no trade creditors at 31 March 1997. At 31 March 1997 the Group had £36m of trade creditors which equates to 21 days value of supplier purchases for the financial year. The supplier purchases exclude payments to the Group's principal supplier which are made against an agreed long-term contract profile.

Charitable and political contributions

The Group made charitable donations of £220,000. No political donations were made.

Employees

The Group is firmly committed to a policy of communication and consultation with staff at all levels. Information is regularly provided to all employees through briefings, a staff newspaper, conferences and formal consultation procedures.

The Group's policy is to promote training and career development for all employees and to give full and fair consideration to any suitable person, including disabled persons, for all vacancies and opportunities. The Group operates an equal opportunities policy.

Auditors

A resolution proposing that Binder Hamlyn and Price Waterhouse be re-appointed as auditors of the Company will be put to the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 11 am on Friday 18 July 1997 at the Edinburgh International Conference Centre. Notice of the business to be considered at the meeting accompanies this Annual Report.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company, and of the results of the Group, for that period. A statement on Corporate Governance matters is set out in a separate report on pages 22 to 23.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board of Directors on 3 June 1997 and signed on its behalf by:

Robt Armour.

Robert Armour
Company Secretary

Report by the Auditors

to the members of British Energy plc

We have audited the financial statements on pages 31 to 54 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 34 to 37. We have also examined the information specified for our review by The London Stock Exchange which is included in the report to shareholders by the Remuneration Committee on pages 24 to 27.

Respective responsibilities of Directors and auditors

As described on page 29, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn Price Waterhouse

Binder Hamlyn
Chartered Accountants
and Registered Auditors
3 June 1997

Price Waterhouse
Chartered Accountants
and Registered Auditors

Group Profit and Loss Account

for the year ended 31 March 1997

		Pro forma			
	Notes	1997 £m	1996 £m	1997 £m	1996 £m
Turnover excluding nuclear premium	3	**1,870**	1,654	**1,870**	1,654
Nuclear premium	4	**-**	-	**26**	899
Total turnover: continuing activities		**1,870**	1,654	**1,896**	2,553
Operating costs before exceptional items	5	**(1,563)**	(1,524)	**(1,563)**	(1,524)
Exceptional items	5	**-**	-	**-**	(1,996)
Operating costs after exceptional items	5	**(1,563)**	(1,524)	**(1,563)**	(3,520)
Operating profit/(loss): continuing activities		**307**	130	**333**	(967)
Financing (charges)/credits					
– revalorisation	8	**(196)**	(214)	**(196)**	(228)
– net interest (payable)/receivable	8	**(50)**	(71)	**(50)**	21
– exceptional items	8	**-**	-	**445**	1,304
Profit/(loss) on ordinary activities before taxation		**61**	(155)	**532**	130
Taxation:					
– on profit/(loss) on ordinary activities	9	**(25)**	-	**(35)**	-
– exceptional items	9	**-**	-	**-**	(100)
Profit/(loss) for the financial year		**36**	(155)	**497**	30
Dividends	11	**(96)**	-	**(96)**	-
Retained (loss)/profit for the year	27	**(60)**	(155)	**401**	30
Dividend per share (p)	11	**13.7**	-	**13.7**	-
Earnings/(loss) per share (p)	12	**5.1**	(22.1)	**71.0**	4.3

The Group had no recognised gains or losses other than the profits for the years.

The basis of preparation of the pro forma information included in the financial statements is set out in note 1. The pro forma profit and loss figures exclude the nuclear premium and exceptional items and reflect the capital structure following privatisation (as if it had been in existence throughout the year).

The notes on pages 34 to 54 form part of these financial statements.

Balance Sheets
as at 31 March 1997

		Group			Company	
	Notes	1997 £m	Pro forma 1996 £m	1996 £m	1997 £m	1996 £m
Fixed assets						
Tangible assets	13	**5,158**	5,348	5,348	**1**	–
Investments	14	**10**	–	–	**9**	9
		5,168	5,348	5,348	**10**	9
Current assets						
Segregated decommissioning fund	15	**254**	226	–	–	–
Stocks	16	**615**	762	762	–	–
Debtors	17	**221**	186	186	**1,655**	1,901
Investments – term deposits		**219**	–	–	**219**	–
Cash at bank and in hand		**192**	17	243	**192**	–
		1,501	1,191	1,191	**2,066**	1,901
Creditors: amounts falling due within one year						
– borrowings	18	**(108)**	(256)	(1,833)	**(108)**	(1,745)
– others	20	**(684)**	(576)	(576)	**(105)**	(15)
		(792)	(832)	(2,409)	**(213)**	(1,760)
Net current assets/(liabilities)		**709**	359	(1,218)	**1,853**	141
Total assets less current liabilities		**5,877**	5,707	4,130	**1,863**	150
Creditors: amounts falling due after more than one year						
– borrowings	18	**(565)**	(440)	(8)	**(565)**	–
– others	20	**(2,063)**	(2,046)	(2,046)	–	–
Provisions for liabilities and charges	21	**(1,751)**	(1,679)	(1,679)	–	–
Net assets		**1,498**	1,542	397	**1,298**	150
Capital and reserves						
Called up share capital	26	**700**	700	–	**700**	–
Profit and loss account	27	**798**	842	397	**598**	150
Equity Shareholders' funds	28	**1,498**	1,542	397	**1,298**	150

The financial statements on pages 31 to 54 were approved by the Board of Directors on 3 June 1997 and signed on its behalf by:

John Robb
Chairman

Mike Kirwan
Finance Director

The notes on pages 34 to 54 form part of these financial statements.

Group Cash Flow Statement

for the year ended 31 March 1997

	Notes	1997 £m	1996 £m
Net cash inflow from operating activities (excluding nuclear premium)	29	579	33
Nuclear premium income		26	899
Movement in nuclear premium debtor		13	301
Net cash inflow from operating activities		618	1,233
Interest paid		(62)	(20)
Interest received		19	12
Returns on investments and servicing of finance		(43)	(8)
Payments to acquire tangible fixed assets			
– Construction of Sizewell B		–	(83)
– Other		(110)	(141)
Receipts from sales of tangible fixed assets		4	–
Investments acquired by Lochside Insurance		(10)	–
Capital expenditure and financial investment		(116)	(224)
Equity dividends paid		(32)	–
Increase in term deposits		(219)	–
Management of liquid resources	30	(219)	–
Repayment of amounts borrowed		(256)	(98)
New medium term loan		225	–
Transfers of cash to the magnox business of Magnox Electric		–	(665)
Scottish Nuclear magnox nuclear liabilities discharged		–	(59)
Financing	30	(31)	(822)
Initial endowment of segregated decommissioning fund		(228)	–
(Decrease)/increase in cash	30	(51)	179
Cash allocated to segregated decommissioning fund in the pro forma balance sheet at 31 March 1996		226	–
Increase in cash from the pro forma balance sheet at 31 March 1996	30	175	179

The notes on pages 34 to 54 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 1997

1. PRO FORMA INFORMATION

British Energy's ordinary shares were admitted to the Official List of The London Stock Exchange on 15 July 1996 following HM Government's public offering. As a result of changes to the Group's capital structure on flotation and other changes related to privatisation (including the ending of the nuclear premium) the results for the year ended 31 March 1997 are not directly comparable with the results to 31 March 1996. To assist shareholders to compare the underlying financial performance of the Group, pro forma profit and loss account figures have been prepared which illustrate the effect that the exclusion of the nuclear premium and exceptional items, and the capital structure on privatisation would have had if they had been effective from 1 April 1995.

A pro forma consolidated balance sheet as at 31 March 1996 has also been prepared to reflect the capital structure on privatisation by adjusting for the following:

(a) cash at bank and in hand of £226m has been allocated to the segregated decommissioning fund representing the effect of endowing the segregated decommissioning fund which was set up on flotation;

(b) unsecured loans of £700m have been capitalised and are included as share capital;

(c) the profit and loss account has been increased by £445m and unsecured loans have been reduced by £445m, reflecting the net effect of the debt reorganisation on reserves.

The pro forma figures do not form part of the statutory accounts.

The notes below apply to both the actual and pro forma results, except where otherwise indicated.

2. ACCOUNTING POLICIES

(i) **Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The income recognised by the Group in respect of the long term rate of return of the segregated decommissioning fund is unrealised and its recognition is a departure from one of the accounting principles set out in Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note 2 (xvi) below.

(ii) **Basis of consolidation**

British Energy plc acquired the entire share capital of Nuclear Electric Limited and Scottish Nuclear Limited on 31 March 1996. The combination of Nuclear Electric and Scottish Nuclear was accounted for as a merger.

The Group financial statements consolidate the financial statements of British Energy and all its subsidiary undertakings. Inter-company profits and transactions are eliminated on consolidation.

(iii) **Turnover**

Turnover represents amounts receivable for sales of electricity including net income arising from Contracts for Differences, revenue from direct sales contracts and sales of other related goods and services, net of value added tax. The Directors consider there to be one class of business and one geographical market, that of the UK.

(iv) **Fuel costs – front end**

Advanced Gas Cooled Reactors ("AGR")

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. The fixed element is charged to the profit and loss account as incurred and the variable element, other than for unburnt fuel at shutdown, is charged to the profit and loss account in proportion to the amount of fuel burnt.

Pressurised Water Reactor ("PWR")

All front end fuel costs are variable and, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

Notes to the Financial Statements

for the year ended 31 March 1997

2. ACCOUNTING POLICIES continued

(v) **Fuel costs – back end**

AGR

Spent fuel extracted from the reactors is sent for reprocessing and/or long term storage and eventual disposal of resulting waste products. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value in respect of both the amount of irradiated fuel burnt during the year and an appropriate proportion of unburnt fuel which will remain in the reactors at the end of their lives. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

PWR

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

(vi) **Unburnt fuel at shutdown**

Due to the nature of the fuel process there will be some unburnt fuel in the reactors at station closure. The front end and back end costs of this fuel are provided for over the estimated useful life of each station on a straight line basis.

(vii) **Research and development**

Research and development expenditure is charged to the profit and loss account as incurred.

(viii) **Pensions costs**

Contributions to the Group's defined benefit pension schemes are assessed by qualified actuaries and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The capital cost of ex gratia and supplementary pensions is charged to the profit and loss account, to the extent that the arrangements are not covered by the surplus in schemes, in the accounting period in which they are granted. Differences between the amounts funded and the amounts charged to the profit and loss account are included in the balance sheet.

(ix) **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the profit and loss account.

(x) **Tangible fixed assets and depreciation, including decommissioning costs**

Fixed assets comprise assets acquired or constructed by the Group. Expenditure incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is also capitalised. Other expenditure, including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost less accumulated depreciation. Accumulated depreciation includes additional charges made where necessary to reduce net book value to economic value. Economic value is based on the discounted estimated future cash flows of each power station. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

The charge for depreciation of fixed assets is based on the straight line method so as to write off the costs of assets, after taking into account exceptional provisions for diminution in value, over the estimated useful lives. Depreciation starts from the year following the year of expenditure except for power stations which are depreciated from the date of commissioning.

The asset lives adopted are subject to regular review and are currently:

AGR power stations	25 – 30 years
PWR power station	40 years
Other buildings	40 years
Other assets	5 years

Notes to the Financial Statements

for the year ended 31 March 1997

2. ACCOUNTING POLICIES continued

The estimated costs for decommissioning the Group's power stations are provided for when stations begin operating commercially, are capitalised as part of the cost of construction and are depreciated over the same lives as the stations. These estimated costs are discounted having regard to the timescale whereby work will take place over many years after station closure. The estimated costs include the demolition and site clearance of the stations' radioactive facilities and the management of waste.

(xi) **Fixed asset investments**

Investments in subsidiaries are stated at the nominal value of shares allotted. Fixed asset investments are stated at cost less provisions for diminution in value.

(xii) **Leases**

Assets held under finance leases, which result in substantially all the risks and rewards of ownership being transferred to the Group, are capitalised and included in tangible fixed assets. The amount capitalised is the present value of the minimum lease payments. Each asset is depreciated over the shorter of the lease term or its useful life.

The obligations relating to finance leases net of financing charges in respect of future periods are included within creditors (due within or after one year). The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

All other leases are treated as operating leases and the rentals are charged to the profit and loss account.

(xiii) **Stocks of nuclear fuel, stores and spares**

Stocks of nuclear fuel, stores and spares are valued at the lower of cost and net realisable value. The nuclear fuel stock is reduced by the provision for unburnt fuel at shutdown relating to front end fuel costs (note 2 (vi)).

(xiv) **Deferred taxation**

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that the liability or asset will crystallise in the foreseeable future.

(xv) **Nuclear liabilities**

In matching the costs of generating electricity against the income from sales, accruals are made in respect of the following:

(a) *fuel costs – back end*

The treatment of back end fuel costs in the profit and loss account has been dealt with in (v) and (vi) above. These accruals cover reprocessing and storage of spent nuclear fuel and the long term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements or the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Where accruals are based on contractual arrangements they are included within creditors. Other accruals are based on long term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

(b) *decommissioning of nuclear power stations*

The financial statements include provision for the full cost of decommissioning the Group's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The technical assessments are reviewed regularly and the estimates of decommissioning costs are updated accordingly.

The provision established at the commencement of a power station's operating life is capitalised as part of the costs of the station.

Notes to the Financial Statements
for the year ended 31 March 1997

2. ACCOUNTING POLICIES continued

Accruals and provisions for back end fuel costs and decommissioning are stated in the balance sheet at current price levels, discounted at a long-term real rate of interest of 3 per cent per annum to take account of the timing of payments. Each year the financing charges in the profit and loss account include the revalorisation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

(xvi) **Segregated decommissioning fund**

The Group makes contributions into an independently administered fund to cover all costs of decommissioning nuclear power stations, except de-fuelling costs. The Group's annual contributions to the fund are assessed by qualified actuaries, taking into account the amount and timing of expected decommissioning costs and the periods until station closures. The value of the asset in the balance sheet represents the contributions made by the Group, together with an estimated actuarially determined long-term rate of return on the fund. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account and disclosed as part of revalorisation.

The revalorisation of the segregated decommissioning fund, which has been taken through the profit and loss account, is not a realised profit for the purposes of the Companies Act 1985 because the income is unrealised until the Group receives the related cash from the fund to reimburse decommissioning expenditure. The inclusion of this profit in the profit and loss account is a departure from the requirements of the Companies Act 1985. Revalorisation of the accrued decommissioning provision is charged to the profit and loss account each year and accordingly, in the opinion of the Directors, it is necessary to include the estimated annual long-term rate of return of the fund in the Group's profit and loss account in order for the financial statements to give a true and fair view.

The effect of the departure is to increase the reported profit for the year and net assets by £10m (1996: £nil).

(xvii) **Term deposits**

Cash which is placed on term deposits which mature more than one day after the end of the financial year is classified under current asset investments in the balance sheet and the movement in term deposits is disclosed under management of liquid resources in the cash flow statement.

(xviii) **Financial instruments and derivatives**

Financial instruments and derivatives are used to hedge interest rate, foreign exchange and trading risks. Profits and losses on financial instruments and derivatives are reported in the profit and loss account in the period to which they relate.

3. TURNOVER EXCLUDING NUCLEAR PREMIUM

	1997 TWh	1996 TWh
Output		
– England and Wales	**49.5**	43.6
– Scotland	**17.7**	17.6
	67.2	61.2

	£m	£m
Electricity generation		
– England and Wales	**1,248**	1,097
– Scotland	**458**	476
	1,706	1,573
Direct supply sales	**147**	75
Miscellaneous income	**17**	6
	1,870	1,654

Notes to the Financial Statements
for the year ended 31 March 1997

3. TURNOVER EXCLUDING NUCLEAR PREMIUM continued

Electricity generation represents the sale of electricity generated through the Pool for Nuclear Electric and to Scottish Power plc and Scottish Hydro-Electric plc for Scottish Nuclear. The amounts reflect sums payable or receivable under Contracts for Differences.

Direct supply sales represent the income generated from sales contracts with industrial and commercial customers.

4. NUCLEAR PREMIUM

The Group ceased to be eligible for a premium for nuclear power generation in England and Wales with effect from 1 April 1996. A similar premium which was receivable by the Group in Scotland ceased with effect from the admission of British Energy Ordinary Shares to the Official List of The London Stock Exchange on 15 July 1996.

5. OPERATING COSTS

	1997 £m	1996 £m
Operating costs before exceptional items:		
Fuel		
– front end	249	252
– back end	196	165
Materials and services	444	484
Staff costs (note 6)	230	217
Depreciation	296	330
	1,415	1,448
Electricity purchases for direct supply sales	148	76
	1,563	1,524
Exceptional items:		
Materials and services	–	18
Staff costs (note 6)	–	(8)
Depreciation – asset write downs	–	1,986
	–	1,996
Operating costs after exceptional items	1,563	3,520
Operating costs are stated after charging:		
Research and development	20	22

	£'000	£'000
Auditors' remuneration		
– statutory audit (Company: £86,000)	310	210
– other services – Binder Hamlyn	65	1,562
– Price Waterhouse	461	1,994

Notes to the Financial Statements

for the year ended 31 March 1997

6. EMPLOYEE INFORMATION

(a) Staff costs

	1997 £m	1996 £m
Salaries	**204**	195
Social security costs	**17**	17
Pension costs (note 25)	**21**	18
Amounts capitalised	**(12)**	(13)
	230	217
Exceptional charges/(credits):		
Credit in respect of pension provision	**-**	(9)
Redundancy and severance costs in respect of restructuring	**-**	1
	230	209

(b) Employee numbers

Average number of employees during the year	**6,366**	6,572

Average number of full time equivalent employees by category during the year were:

	Number	Number
Managerial	**157**	123
Engineering	**2,538**	2,634
Industrial	**2,471**	2,540
Administrative	**1,071**	1,131
Trainees	**73**	88
	6,310	6,516

7. SUMMARY OF DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Total emoluments, including pension contributions		
As directors	**301**	105
For management services:		
- salaries and other benefits	**674**	494
- performance related bonuses	**338**	130
- pension contributions	**81**	66
	1,394	795

Full details of the remuneration and share interests of the directors are set out in the Remuneration Committee Report on pages 24 to 27.

Notes to the Financial Statements

for the year ended 31 March 1997

8. FINANCING CHARGES/(CREDITS)

	Pro forma 1997 £m	Pro forma 1996 £m	1997 £m	1996 £m
Revalorisation of nuclear liabilities:				
– changes in price levels	**96**	113	**96**	113
– discharge of one year's discount	**110**	115	**110**	115
	206	228	**206**	228
Revalorisation of segregated decommissioning fund	**(10)**	(14)	**(10)**	–
Revalorisation charge	**196**	214	**196**	228
Interest:				
Interest on amounts repayable within five years				
– on amounts owed to BNFL	**7**	13	**7**	13
– on other borrowings	**24**	9	**24**	19
Bond re-set and redemption costs	**8**	–	**8**	–
Interest on loans repayable in five years or more	**32**	61	**32**	1
Interest receivable on magnox expenditure	**–**	–	**–**	(42)
Interest receivable	**(21)**	(12)	**(21)**	(12)
Net interest payable/(receivable)	**50**	71	**50**	(21)
Exceptional items:				
Waiver of restructuring debts owed to the Secretary of State	**–**	–	**(445)**	(2,020)
Cancellation of HM Government grant receivable	**–**	–	**–**	716
Exceptional items	**–**	–	**(445)**	(1,304)

The pro forma net interest charge of £71m in the year ended 31 March 1996 is based on the Group's capital structure on privatisation (see note 1).

9. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	Pro forma 1997 £m	Pro forma 1996 £m	1997 £m	1996 £m
United Kingdom corporation tax at 33 per cent	**–**	–	**–**	–
Deferred taxation (note 24)	**25**	–	**35**	–
Exceptional deferred tax charge	**–**	–	**–**	100
	25	–	**35**	100

There is no charge for UK corporation tax in the year because of the utilisation of capital allowances and tax losses, arising in the year and brought forward from prior years.

The exceptional credit of £445m arising from the waiver of the restructuring debt by the Secretary of State is not taxable. The pro forma tax charge in the year excludes the tax charge relating to nuclear premium.

Notes to the Financial Statements

for the year ended 31 March 1997

10. PROFIT OF THE COMPANY

The profit of the Group includes £544m (1996: £150m) attributable to the Company. As permitted under Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account.

11. DIVIDENDS

	1997 £m	1996 £m
Net dividend per ordinary share		
Interim paid 4.6p (1996: nil)	32	–
Final proposed 9.1p (1996: nil)	64	–
	96	–

12. EARNINGS/(LOSS) PER SHARE

The earnings per share for the year have been calculated on the basis of the profit on ordinary activities after taxation of £497m (1996: profit of £30m); and by reference to 700 million ordinary shares which were issued on privatisation. For the purposes of the calculation it has been assumed that the number of ordinary shares were in issue throughout the period from 1 April 1995 to 31 March 1997. The pro forma earnings per share were based on a profit after tax of £36m (1996: loss of £155m).

13. TANGIBLE FIXED ASSETS

Group

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 1996	9,602	47	215	9,864
Additions	97	1	12	110
Disposals	(5)	(5)	(12)	(22)
As at 31 March 1997	**9,694**	**43**	**215**	**9,952**
Depreciation				
As at 1 April 1996	4,372	17	127	4,516
Charge for the year	270	5	21	296
Disposals	(4)	(1)	(13)	(18)
As at 31 March 1997	**4,638**	**21**	**135**	**4,794**
Net book value				
As at 31 March 1997	**5,056**	**22**	**80**	**5,158**
As at 31 March 1996	5,230	30	88	5,348

Included within accumulated depreciation are exceptional charges of £1,986m made in the year ended 31 March 1996.

The net book value of tangible fixed assets includes the following amounts in respect of freehold land and buildings:

	1997 £m	1996 £m
Cost	2,223	2,226
Net book value	1,358	1,491

Company

During the year the Company acquired other land and buildings of £1m.

Notes to the Financial Statements

for the year ended 31 March 1997

14. FIXED ASSET INVESTMENTS

	Group £m	Company £m
Cost		
As at 1 April 1996	35	9
Additions	13	–
As at 31 March 1997	**48**	**9**
Provision for diminution in value		
As at 1 April 1996	35	–
Charge for the year	3	–
As at 31 March 1997	**38**	**–**
Net book value		
As at 31 March 1997	**10**	**9**
As at 31 March 1996	–	9

Loans of £38m have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided against in the Group's financial statements.

During the year the Company's insurance subsidiary, Lochside Insurance Limited, acquired investments of £10m.

Details of British Energy's principal subsidiary undertakings and other holdings of more than 10 per cent are as follows:

	Country of registration and operation	Class of share	Group share holding %	Company share holding %	Principal activity
Subsidiary undertakings					
Nuclear Electric Limited	UK	Ordinary	100	100	Generation and sale of electricity
Scottish Nuclear Limited	UK	Ordinary	100	100	Generation and sale of electricity
Lochside Insurance Limited	Guernsey	Ordinary	100	100	Insurance
Other holdings of more than 10 per cent					
United Kingdom Nirex Limited*	UK	Ordinary	10.8	–	Disposal of nuclear waste

*Investment held by Nuclear Electric Limited and Scottish Nuclear Limited.

Notes to the Financial Statements
for the year ended 31 March 1997

15. SEGREGATED DECOMMISSIONING FUND

	Group £m
As at 31 March 1996 (pro forma)	226
Interest accrued	2
Initial endowment on 15 July 1996	228
Regular contributions	16
Revalorisation (see note 8)	10
As at 31 March 1997	**254**

The segregated decommissioning fund asset in the balance sheet represents the contributions made by the Group, together with an estimated actuarially determined long-term rate of return on the fund. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account as a revalorisation credit. The segregated decommissioning fund asset is receivable in more than one year.

16. STOCKS

	Group	
	1997 £m	1996 £m
Nuclear fuel		
– unburnt fuel in the reactors	**244**	257
– other	**237**	366
Stores	**134**	139
	615	762

17. DEBTORS

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Trade debtors	**181**	154	**–**	–
Nuclear premium debtors	**–**	13	**–**	–
Other debtors	**10**	7	**26**	–
Prepayments	**30**	12	**2**	–
Amounts due from subsidiary undertakings	**–**	–	**1,627**	1,901
	221	186	**1,655**	1,901

Notes to the Financial Statements

for the year ended 31 March 1997

18. BORROWINGS

The year end borrowings are included in the balance sheet as follows:

	Group			Company	
	1997 £m	Proforma 1996 £m	1996 £m	**1997 £m**	1996 £m
Creditors					
– amounts falling due within one year	**108**	256	1,833	**108**	1,745
– amounts falling due after more than one year	**565**	440	8	**565**	–
	673	696	1,841	**673**	1,745

The movement in the Group's borrowings is summarised below.

	Group					
	HM Government Term Loan £m	Loan from Secretary of State £m	Bonds £m	Debentures £m	Medium term bank loan £m	Total £m
As at 1 April 1996	96	1,745	–	–	–	1,841
Conversion into equity shares	–	(700)	–	–	–	(700)
Conversion into bonds and debentures	–	(600)	440	160	–	–
Waiver of loan on restructuring	–	(445)	–	–	–	(445)
Pro forma as at 1 April 1996	96	–	440	160	–	696
Repayments in year	(96)	–	–	(160)	–	(256)
Bond re-set and redemption costs	–	–	8	–	–	8
New loan	–	–	–	–	225	225
As at 31 March 1997	**–**	**–**	**448**	**–**	**225**	**673**

Through a series of transactions entered into in June 1996, the loan from the Secretary of State of £1,745m was converted into £700m of Ordinary Shares, £440m of bonds and £160m of debentures. The balance of £445m was waived and has been recognised in the profit and loss account.

The Group's borrowings are all unsecured. All borrowings were held directly by the Company except the HM Government Term Loan of £96m, which was held and repaid by a subsidiary on 12 July 1996. The debentures were repaid on 16 July 1996 (£60m) and 14 March 1997 (£100m).

Notes to the Financial Statements

for the year ended 31 March 1997

18. BORROWINGS continued

On 25 March 1997 the bonds were re-set with HM Treasury resulting in reductions in interest coupon rates with corresponding increases in principal of £17m, as follows:

	Prior to 25 March 1997		At 31 March 1997	
	Coupon rate %	Principal £m	Coupon rate %	Principal £m
Bond 2003	9.122	100	8.194	102
Bond 2006	9.493	140	8.461	144
Bond 2016	9.936	200	8.883	211
		440		457

On 26 March 1997 the Company entered into an agreement with HM Treasury to redeem on 1 April 1997 £105m of the 8.883% bonds due 2016 for a total consideration of £108m. The change in the value of principal on these bonds of £5m, together with a redemption premium of £3m, are included in finance costs in 1996/97 (see note 8). The balance of the change in principal of £12m, which has not been included in finance costs during the year, will be accrued over the remaining lifetime of the bonds as the benefits of the lower coupon rate are received.

On 27 March 1997 the Group utilised its medium term bank loan facility by drawing down a loan of £225m. The loan attracts interest at LIBOR plus 0.35% and is repayable in four equal annual instalments commencing 9 June 1998.

Maturity of Borrowings

	1997 £m	Pro forma 1996 £m	1996 £m
Within one year	**108**	256	1,833
Between 1 and 2 years	**56**	–	–
Between 2 and 5 years	**169**	–	–
Over 5 years	**340**	440	8
Total	**673**	696	1,841

19. FINANCIAL INSTRUMENTS AND DERIVATIVES

The policies followed by the Group to manage its treasury and trading risks are detailed in the Financial Review on pages 16 to 19.

Interest Rate and Currency of Borrowings

The Group had no foreign currency borrowings at 31 March 1997.

Interest rate swaps with a notional principal amount of £108m are held to fix a portion of variable rate borrowings. The weighted average interest rate for fixed rate borrowings, after taking hedging agreements into account, is 8.374%. The weighted average duration of these fixed rate borrowings is 11 years. The interest exposure of the Group's borrowings at 31 March 1997, after taking into account the interest rate swap, is:

	Total £m	Variable £m	Fixed £m
Borrowings	**673**	**117**	**556**

Notes to the Financial Statements
for the year ended 31 March 1997

19. FINANCIAL INSTRUMENTS AND DERIVATIVES continued

The summary below of derivative instruments at 31 March 1997 does not necessarily represent the amounts exchanged or the exposure to the Group.

	Contract principal amounts £m	Carrying value £m	Fair value £m
Foreign exchange forward contracts	239	nil	(20)
Interest rate swaps	108	nil	nil

As noted in the Financial Review on page 18, the Group enters into forward exchange contracts to fix its foreign currency exposure. Consequently the Group does not suffer loss from adverse exchange movements nor gain benefit from favourable movements. The outstanding forward exchange contracts mature between 1 April 1997 and 30 November 2000.

20. OTHER CREDITORS

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Amounts falling due within one year				
Nuclear liabilities (note 22)	**282**	333	–	–
Trade creditors	**36**	23	–	–
Retentions	**9**	8	–	–
Other taxes and social security	**103**	9	**24**	–
Pensions	**2**	1	–	–
Accruals	**188**	202	**17**	15
Proposed dividends	**64**	–	**64**	–
	684	576	**105**	15
Amounts falling due after more than one year				
Nuclear liabilities (note 22)	**2,039**	2,029		
Retentions	**2**	2		
Pensions	**22**	15		
	2,063	2,046		

Notes to the Financial Statements

for the year ended 31 March 1997

21. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	1997 £m	1996 £m
Nuclear liabilities (note 22)	**1,465**	1,371
Other provisions (note 23)	**175**	208
Deferred taxation (note 24)	**111**	100
	1,751	1,679

22. NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decom-missioning £m	**1997 Total £m**	1996 Total £m
As at 1 April 1996	2,362	614	757	**3,733**	3,889
Charged to profit and loss account					
– operating costs	176	17	–	**193**	179
– revalorisation	129	33	44	**206**	241
Establishment of Sizewell B decommissioning liability	–	–	–	**–**	66
Payments in the year	(346)	–	–	**(346)**	(642)
As at 31 March 1997	2,321	664	801	**3,786**	3,733

The year end balances of nuclear liabilities are included in the balance sheet as follows:

	1997 £m	1996 £m
Creditors:		
– amounts falling due within one year	**282**	333
– amounts falling due after more than one year	**2,039**	2,029
Provisions for liabilities and charges	**1,465**	1,371
	3,786	3,733

Fuel costs – back end

Accruals for AGR fuel services relating to spent AGR fuel are based on the terms of contracts with BNFL, most of which include fixed prices subject to indexation or the Group's estimates where no contracts exist. Provisions for services relating to the disposal of nuclear waste are based on cost estimates derived from the latest technical assessments.

Decommissioning

The costs of decommissioning the power stations have been estimated on the basis of technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The estimates are designed to reflect the costs of making the sites of the power stations available for alternative use in accordance with the Group's decommissioning strategy.

Notes to the Financial Statements

for the year ended 31 March 1997

22. NUCLEAR LIABILITIES continued

Projected payment details

Based on current estimates of station lives and lifetime output projections, the following table shows, in current prices, the likely undiscounted payments, the equivalent sums discounted at 3 per cent to the balance sheet date and the amounts accrued to date.

	Back end fuel costs contracted £bn	Back end fuel costs uncontracted £bn	Decom-missioning £bn	**Group 1997 Total £bn**	Group 1996 Total £bn
Undiscounted	4.3	5.4	4.3	**14.0**	14.0
Discounted	3.0	1.8	0.8	**5.6**	5.6
Accrued to date	2.3	0.7	0.8	**3.8**	3.7

The differences between the undiscounted and discounted amounts reflect the fact that the costs concerned will not fall due for payment for a number of years. The differences between the discounted amounts and those accrued to date will be charged to the profit and loss account over the remaining station lives since they relate to future use of fuel.

Under the terms of the contracts with BNFL referred to above and in accordance with the projected pattern of payments for decommissioning and other liabilities, taking account of the segregated decommissioning fund arrangements described in note 2 (xvi), the undiscounted payments in current prices are expected to become payable as follows:

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decom-missioning £m	**Group 1997 Total £m**	Group 1996 Total £m
Within one year	280	8	16	**304**	589
2 - 5 years	1,144	60	64	**1,268**	1,231
6 - 10 years	1,049	384	97	**1,530**	1,449
11 - 25 years	1,116	1,296	433	**2,845**	3,042
26 - 50 years	320	949	61	**1,330**	1,199
51 years and over	428	2,737	-	**3,165**	3,197
	4,337	5,434	671	**10,442**	10,707

The amounts expected to become payable between 2 and 5 years, referred to above, are as follows:

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decom-missioning £m	**Group 1997 Total £m**
1 April 1998 to 31 March 1999	291	12	16	**319**
1 April 1999 to 31 March 2000	291	12	16	**319**
1 April 2000 to 31 March 2001	285	17	16	**318**
1 April 2001 to 31 March 2002	277	19	16	**312**
	1,144	60	64	**1,268**

The above information presents the position at 31 March 1997 and does not reflect the post balance sheet event detailed in note 35.

Notes to the Financial Statements

for the year ended 31 March 1997

23. OTHER PROVISIONS

	Restructuring £m	Insurance £m	Group 1997 Total £m	Group 1996 Total £m
As at 1 April 1996	194	14	**208**	259
Credited to profit and loss account				
– operating costs	–	–	–	(32)
Payments in the year	(33)	–	**(33)**	(19)
As at 31 March 1997	161	14	**175**	208

The restructuring provision is a provision for future redundancy and severance costs, including provisions for the cost of enhanced pensions on early retirement.

24. DEFERRED TAXATION

	Group 1997 Full Potential Liability £m	Group 1997 Amounts Unprovided £m	Group 1997 Liability/(Asset) Recognised £m	Group 1996 Full Potential Liability £m	Group 1996 Amounts Unprovided £m	Group 1996 Liability/(Asset) Recognised £m
Accelerated capital allowances	1,064	(562)	**502**	986	(566)	420
Other long term timing differences	(56)	–	**(56)**	(53)	–	(53)
Short term timing differences	(62)	–	**(62)**	(69)	–	(69)
Corporation tax losses	(249)	–	**(249)**	(198)	–	(198)
	697	(562)	**135**	666	(566)	100
ACT recoverable offset			**(24)**			–
			111			100

	Group 1997 £m
As at 1 April 1996	**100**
Charge for the year	**35**
ACT recoverable offset	**(24)**
As at 31 March 1997	**111**

The Company does not have a deferred tax liability at 31 March 1997 (1996 – £nil).

Notes to the Financial Statements
for the year ended 31 March 1997

25. PENSION OBLIGATIONS

Details of the Group's two principal schemes are as follows:

(i) Scottish Nuclear established the Scottish Nuclear Pension Scheme with effect from 1 April 1993. The scheme is a funded arrangement which provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of Scottish Nuclear in an independently administered trust fund.

The most recent valuation of the Scottish Nuclear Pension Scheme was carried out at 31 March 1996 by an independent actuary using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the investment rate of return would be 9 per cent per annum, the rate of salary increase would be 7 per cent per annum and the rate of pension increase would be 5 per cent per annum.

The actuarial value of assets of the Scottish Nuclear Pension Scheme at 31 March 1996 was £210m. This represents 109 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. The contribution of Scottish Nuclear and contributing members are 14 per cent and 5 per cent of pensionable earnings respectively.

(ii) Nuclear Electric participates in the Electricity Supply Pension Scheme (ESPS) through the Nuclear Electric Pension Group, which was established with effect from 1 July 1996. The ESPS is a defined benefit scheme, externally funded and subject to triennial actuarial valuations. The Pension Groups are financially independent of each other. Any deficiency disclosed in the Nuclear Electric Pension Group following an actuarial valuation has to be made good by Nuclear Electric.

The most recent actuarial valuation of the ESPS scheme was carried out as at 31 March 1995 using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the investment rate of return would be 9 per cent per annum, the rate of salary increase would be 6.5 per cent per annum and the rate of pension increase would be 5 per cent per annum.

Prior to 1 July 1996 Nuclear Electric's employees participated in ESPS through the Magnox Electric Pension Group. At the date of the valuation the actuarial value of the ESPS scheme assets that relate to Magnox Electric (including amounts attributable to Nuclear Electric) was estimated at £1,590m. This represents 103.5 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. The assets transferred from the Magnox Electric Pension Group to the Nuclear Electric Pension Group on 1 October 1996 represented 53 per cent of the Magnox Electric Pension Group assets, being a "share of fund" calculated in proportion to the liabilities transferred to the Nuclear Electric Pension Group and, therefore, included a proportionate share of surplus. The contributions of Nuclear Electric and contributing members remain at 12 per cent and 6 per cent of pensionable earnings respectively.

(iii) British Energy's pension costs for the year to 31 March 1997 were £21m. At that date there was a prepayment to the Scottish Nuclear Pension Scheme of £11m and a creditor to the Nuclear Electric Pension Group of £24m.

(iv) A ruling has been made by the Pensions Ombudsman against National Grid Group relating to the use of the ESPS surplus by National Grid Group to offset the costs of providing enhanced pensions on early retirement resulting from reorganisation or redundancy. Under this ruling the Pensions Ombudsman has directed National Grid Group to pay into ESPS the amount of surplus used in the manner outlined, plus interest. The ruling is currently being challenged through the courts. If the ruling is not successfully challenged the Group may have to make additional payments into ESPS. Existing provisions for enhanced pensions are considered sufficient to meet any likely payment.

Notes to the Financial Statements

for the year ended 31 March 1997

26. CALLED UP SHARE CAPITAL

	1997		1996	
	Number	£	Number	£
Authorised				
£1 Ordinary shares	875,000,000	875,000,000	100,001	100,001
£1 Special rights redeemable preference share	1	1	–	–
	875,000,001	875,000,001	100,001	100,001
Allotted, called up and fully paid				
£1 Ordinary shares fully paid	700,000,000	700,000,000	103	103
£1 Ordinary shares partly paid	–	–	49,998	12,499
£1 Special rights redeemable preference share	1	1	–	–
	700,000,001	700,000,001	50,101	12,602

On 21 June 1996 the authorised share capital of the Company was increased to £875,000,001 by the creation of an additional 874,900,000 ordinary shares of £1 each ("ordinary shares").

On 21 June 1996 699,949,899 ordinary shares were allotted to the Secretary of State in part satisfaction of the repayment of £1,745m of non-interest bearing debt to the Secretary of State (see note 18). On the same date the Company allotted the special rights redeemable preference share of £1 to the Secretary of State for Trade and Industry and Secretary of State for Scotland jointly and paid up in full the partly paid ordinary shares held by the Secretary of State for Scotland.

On 15 July 1996 the Company's ordinary shares of £1 each were admitted to the Official List of The London Stock Exchange.

The special rights redeemable preference share is redeemable at par at any time after 30 September 2006 at the option of the Secretary of State, after consulting the Company. This share, which may only be held by a Minister of the Crown or other person acting on behalf of HM Government, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The special share confers no right to participate in the capital or profits of the Company beyond its nominal value. Certain matters, in particular, the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person having the right to have an interest in 15 per cent or more of the voting share capital), require the prior written consent of the holder of the special share.

Options outstanding at 31 March 1997, together with their exercise prices and dates of exercise, are as follows:

	Price per share £	Exercise date	Number of Ordinary Shares 1997	1996
British Energy Sharesave Scheme	1.60	1999	**7,256,314**	–
	1.60	2001	**11,274,962**	–

27. PROFIT AND LOSS ACCOUNT

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
As at 1 April 1996	**397**	237	**150**	–
Retained profit for the year	**401**	30	**448**	150
Transfer of Nuclear Electric pre-combination loss	–	136	–	–
Distribution in specie made by Scottish Nuclear before combination	–	(6)	–	–
As at 31 March 1997	**798**	397	**598**	150

The profit and loss account of the Group at 31 March 1997 includes £10m of unrealised profits (see note 2 (xvi)) (1996: £nil).

Notes to the Financial Statements

for the year ended 31 March 1997

27. PROFIT AND LOSS ACCOUNT continued

A reconciliation of the profit and loss account to the pro forma figures is set out below.

	Group	
	£m	£m
As at 1 April 1996		397
Waiver of restructuring debt (note 1)		445
Pro forma as at 1 April 1996		842
Pro forma loss for the year		(60)
Items not included in the pro forma profit and loss account in 1996/97:		
– Nuclear premium	26	
– Related taxation	(10)	
		16
As at 31 March 1997		798

28. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Group	
	1997 £m	1996 £m
As at 1 April 1996	397	367
Shares issued	700	–
Profit for the financial year	497	30
Dividends	(96)	–
As at 31 March 1997	1,498	397

29. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO OPERATING NET CASH FLOWS

	Group	
	1997 £m	1996 £m
Operating profit/(loss)	333	(967)
Nuclear premium	(26)	(899)
Exceptional operating costs	–	1,996
Pro forma operating profit	307	130
Depreciation charges	296	330
Nuclear liabilities charged to operating costs	193	179
Nuclear liabilities discharged	(346)	(642)
Other provisions credited to operating costs	–	(32)
Other provisions discharged	(33)	(19)
Regular contributions to segregated decommissioning fund	(16)	–
Decrease in stocks	147	67
Increase in other debtors	(48)	(4)
Increase in other creditors	79	24
Net cash inflow from operating activities (excluding nuclear premium)	579	33
Payments to acquire tangible fixed assets (net of disposal receipts)	(106)	(224)
Net cash inflow/(outflow) from operating activities net of capital expenditure	473	(191)

Notes to the Financial Statements

for the year ended 31 March 1997

30. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 Pro forma £m	1997 £m
Increase/(decrease) in cash in the year	**175**	**(51)**
Increase in liquid resources	**219**	**219**
Repayments of amounts borrowed, net of new loan	**31**	**31**
Restructuring (note 18)	**–**	**1,145**
Bond re-set and redemption costs	**(8)**	**(8)**
Movement in net debt in the year	**417**	**1,336**
Net debt at 1 April 1996	**(679)**	**(1,598)**
Net debt at 31 March 1997	**(262)**	**(262)**

31. ANALYSIS OF NET DEBT

	Cash at bank and in hand £m	Term deposits £m	Debt due within one year £m	Debt due after more than one year £m	Net debt £m
As at 1 April 1996	243	–	(1,833)	(8)	(1,598)
Restructuring (note 18)	–	–	1,577	(432)	1,145
Allocation to segregated decommissioning fund (note 15)	(226)	–	–	–	(226)
Pro forma as at 1 April 1996	17	–	(256)	(440)	(679)
Bond re-set and redemption costs	–	–	(8)	–	(8)
Change in maturity	–	–	(100)	100	–
Cash flows	175	219	256	(225)	425
As at 31 March 1997	192	219	(108)	(565)	**(262)**

32. RELATED PARTY TRANSACTIONS

The Company was owned by HM Government up until its flotation on 15 July 1996. During the year ended 31 March 1997 the Group entered into the following aggregated transactions with other parties owned directly or indirectly by HM Government. All transactions were undertaken on normal trading terms.

	Income £m	Expenditure £m	Net debtor/(creditor) balance at 31 March 1997 £m
BNFL	–	483	(2,321)
Magnox Electric	32	19	1
Nirex – loans (fully provided against) (note 14)	–	3	38

In addition to the above transactions £445m of restructuring debt was waived by the Secretary of State prior to the flotation of the Company (see note 1).

Notes to the Financial Statements
for the year ended 31 March 1997

33. CONTINGENT LIABILITIES

HM Government has announced that it will impose a one-off windfall tax on the privatised utilities. Until the details have been confirmed it is not possible to predict whether it will have an impact on the Group's assets and reserves.

In addition to the above, the Group is involved in a number of claims and disputes arising in the ordinary course of business which are not expected to have a material effect on the Group's financial position.

The Company gives certain indemnities and guarantees in respect of its subsidiary undertakings in the ordinary course of business. These indemnities and guarantees are not considered to be material and no losses are anticipated to arise.

34. FINANCIAL COMMITMENTS

	1997 £m	1996 £m
Capital expenditure contracted but not provided	**14**	29

In addition to the reprocessing commitments there are commitments for fuel purchases totalling £941m, at current prices, over the next 10 years.

35. POST BALANCE SHEET EVENT

On 3 June 1997 Nuclear Electric concluded new fuel services contracts with BNFL, with a total value of around £1.5 billion at current prices. The new Nuclear Electric contracts cover the extension of AGR fuel fabrication services from 2000 to 2006 and the provision of reprocessing and storage services in respect of spent fuel arising from its stations not covered by its existing contracts. At the same time minor amendments have been made in the terms of existing contracts of Nuclear Electric and Scottish Nuclear with BNFL regarding the fuel services provided for all AGR power stations.

Following the signing of these new contracts the Group now has fixed price contracts (subject to RPI indexation) covering the bulk of spent fuel services for the whole of the remaining lives of its existing AGR power stations.

The new contracts combined with the revisions to existing contracts will result in a saving in fuel costs of some £10m in 1997/98.

Shareholder Information

For the year ended 31 March 1997

Financial Calendar

	1997
Ex-dividend date for 1996/97 final dividend	16 June
Annual General Meeting	18 July
Payment of 1996/97 final dividend to shareholders registered on 20 June	28 July
Date of posting instalment notice	22 August
Last date for dealings in interim rights	5 September
Final instalment of 98 pence per share payable	16 September
Announcement of 1997/98 interim results	12 November
Ex-dividend date for 1997/98 interim dividend	15 December
	1998
Payment of 1997/98 interim dividend to shareholders registered on 19 December 1997	28 January

Analysis of ordinary shareholders at 31 March 1997

Size of holding	Number of shareholders	%	Number of shares held (000s)	%
Less than 1,000	346,181	97.49	141,642	20.4
1,000 - 9,999	7,964	2.24	21,165	3.1
10,000 - 49,999	455	0.13	9,139	1.3
50,000 - 99,999	104	0.03	7.413	1.1
100,000 - 999,999	285	0.08	94.110	13.6
1,000,000 and over	90	0.03	418,700	60.5
	355,079	100	692,169	100

In addition 7,831,000 shares are held by the Royal Bank of Scotland plc and British Energy Trustees Limited in respect of free, matching and bonus shares granted to employees at privatisation.

Shareholder Enquiries

In the event of any enquiries such as the loss of a share certificate, dividend payments, or to notify a change of address, shareholders should write to the Company's registrars at the address on page 56.

Payment of Dividends to Bank Accounts

Shareholders who do not currently have their dividend paid directly to a bank or building society account and who wish to do so should complete the mandate instruction form accompanying your next dividend notification. Alternatively you should contact the Company's registrars who will provide you with the relevant form. Notification of the dividend to be paid and tax vouchers will still be sent to the shareholder's registered address under this arrangement.

Low Cost Share Dealing

Hoare Govett Corporate Finance Limited provides a low cost, execution only, postal share dealing service which enables investors to buy or sell shares in British Energy in a simple and economic manner. Commission is 1% with a minimum charge of £10. Further details may be obtained from Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE. Tel: 0171 601 0101.

Share Price Information

British Energy's share price is broadcast on BBC Ceefax, page 224, and on Channel 4 Teletext, page 516. It also appears in the financial columns of the national press and on the Company's web site.

Shareholder Information Continued

Registered offices and Advisers for the year ended 31 March 1997

Internet

British Energy's web site on the internet www.british-energy.com contains information on its activities as well as financial information.

Crest

As indicated in the Notice which accompanied the Half Year Review 1996, the Company's Ordinary Shares have been entered into the CREST system for settling share purchases and sales. British Energy is considering establishing arrangements with its Registrar, the Royal Bank of Scotland, to offer a special CREST service for British Energy shareholders which will allow them to hold shares through CREST while still receiving company information. Further details about this service will be provided to shareholders when the service becomes available. Additional information on CREST can be obtained from CrestCo Limited, Trinity Tower, 9 Thomas More Street, London E1 9YN.

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Robert Hawley
Sir Noel Davies
Robin Jeffrey
Michael Kirwan
Peter Warry
Sir Robin Biggam
John Bullock
Peter Stevenson
Julia Walsh

Company Secretary
Robert Armour

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Edinburgh EH12 9DF

Financial Adviser
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Glossary of Commonly Used Terms

AGR (advanced gas-cooled reactor)
the second generation of gas-cooled nuclear reactor built in the UK. An AGR uses enriched uranium dioxide fuel clad in stainless steel, and operates at higher temperatures and efficiency than the Magnox reactor from which the design was developed

base load generation
mode of operation of a power station at a constant high level of output for a sustained period of time to assist in meeting minimum national demand

BNFL
British Nuclear Fuels plc

CCGT (combined cycle gas turbine)
a type of generating plant in which exhaust gases, typically from the combustion of natural gas, are used to drive a turbine directly and then routed through a boiler to produce steam to drive a second turbine

CFDs (Contracts for Differences)
financial contracts designed to reduce exposure to volatility in Pool prices which are typically entered into between a generator and a distributor

decommissioning
the process whereby a nuclear power station is shut down at the end of its economic life and eventually dismantled, and the site made available for other purposes

GW (gigawatt); GWh (gigawatt-hour)
one gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1GW

kW (kilowatt); kWh (kilowatt-hour)
a kilowatt is a unit of power, representing the rate at which energy is used or produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1 kW

LLW, ILW, HLW (Low, Intermediate, High Level Waste)
radioactive waste is classified as low, intermediate or high level waste according to its heat generating capacity and radioactivity. LLW comprises slightly radioactive materials such as discarded protective clothing and used wrapping materials. ILW comprises more radioactive materials, including sludges and resins from the cleaning of fuel storage pond water, fuel cladding and other materials arising from the reprocessing of spent fuel and some radioactive components arising from the decommissioning of plant. HLW comprises nuclear waste products separated out from uranium and plutonium during the reprocessing of spent nuclear fuel

load factor
the electricity produced by a power station expressed as a percentage of the electricity it could have produced if operating at maximum output in a fixed time period, usually one year

MW (megawatt); MWh (megawatt-hour)
one megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW

NII (HM Nuclear Installations Inspectorate)
a part of the Nuclear Safety Division of the Health and Safety Executive, which administers a nuclear site licence

Nirex
United Kingdom Nirex Limited

OFFER
The Office of Electricity Regulation

on-load refuelling
refuelling operations conducted while the reactor is operating and pressurised

outage (planned and unplanned)
a period during which a reactor is shut down. The periodic shutdown of a reactor including for maintenance, inspection and testing or, in some cases, for refuelling is known as a planned outage. In the UK, some planned outages are known as statutory outages and are required by the conditions attached to the nuclear site licence needed to operate the station. Unscheduled shutdown of a reactor for a period is known as an unplanned outage

Pool
the market for bulk trading of electricity in England and Wales

Pool Purchase Price
the time-weighted average pool purchase price which forms the basis of payments by distributors for purchases of electricity from baseload generators through the pool

PWR (pressurised water reactor)
the most recent type of nuclear reactor to be constructed in the UK which uses pressurised water as both the coolant and the moderator

revalorisation
refer to definition on page 17

segregated decommissioning fund
an independently administered fund into which the Group makes contributions to cover all costs of decommissioning nuclear power stations, except de-fuelling costs

TW (terawatt); TWh (terawatt-hour)
one terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1TW

British Energy

A year of real achievement. Restructuring and privatisation were major milestones achieved on time and the Group moved from loss into profit while maintaining high safety standards and improving the performance of our power stations. An encouraging start to life in the private sector.

John Robb
Chairman

Dr Robert Hawley
Chief Executive