

Registered Number: 3782700

EGGBOROUGH POWER LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004



Registered Office:

Barnett Way
Barnwood
GLOUCESTER
GL4 3RS

**Eggborough Power Limited
Directors' Report and Financial Statements
For the year ended 31 March 2004**

Directors and Advisers

DIRECTORS

Mike Alexander
Robert Armour
Terry Brookshaw
Neil O'Hara (appointed 3 May 2004)
Keith Lough (resigned 31 March 2004)

SECRETARY

Robert Armour

REGISTERED OFFICE

Barnett Way
Barnwood
GLOUCESTER
GL4 3RS

AUDITORS

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

SOLICITORS

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Eggborough Power Limited
Directors' Report and Financial Statements
For the year ended 31 March 2004

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2004.

PRINCIPAL ACTIVITY, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company is a member of the British Energy Group of companies (the 'Group'). The principal activity of the Company is the generation of electricity on demand to complement the electricity generated by the Group's fleet of nuclear power stations.

Note 1 to the financial statements includes a review of the business on a group basis. The Company's future developments will depend on the successful completion of the restructuring plan as outlined in note 1.

RESULTS AND DIVIDEND

The result for the year is set out in the profit and loss account on page 6. The Company's loss for the year of £47,969,000 (2003: loss £658,208,000) was transferred to reserves.

The Directors do not recommend the payment of a dividend (2003: nil).

DIRECTORS AND THEIR INTERESTS

The Directors of the Company throughout the year and at 15 June 2004 are listed on page 2.

None of the Directors had an interest in the shares of the Company during the year.

The interests of the Directors at 31 March 2004 in the ordinary shares of the ultimate holding Company, British Energy plc ('British Energy') are detailed in the accounts of that Company, except for those of Robert Armour, Keith Lough and Terry Brookshaw, which are detailed below.

Ordinary Shares

	2004	2003
Robert Armour	12,282	12,282
Keith Lough	-	10,000

Executive Share Options

	At 1 April 2003	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2004	Option exercise price £	Date from when exercisable	Expiry date
Robert Armour	11,538	-	-	-	11,538	2.6000	12.08.00	11.08.07
	19,423	-	-	-	19,423	2.6000	12.08.00	11.08.04
	11,392	-	-	-	11,392	5.0800	29.06.01	28.06.05
	25,436	-	-	-	25,436	5.2950	25.06.02	24.06.06
	43,523	-	-	-	43,523	2.4125	14.07.03	13.07.07
	<u>111,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,312</u>			
Keith Lough	9,433	-	-	-	9,433	3.1800	14.09.04	13.09.11
	116,353	-	-	-	116,353	3.1800	14.09.04	13.09.08
	<u>125,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,786</u>			

Exercise of these options is conditional on the achievement of an average annual growth in earnings per share of 3% per year ahead of inflation over three consecutive years.

Sharesave Scheme

	At 1 April 2003	Granted during the year	Exercised during the year	Options lapsed during the year	At 31 March 2004	Option exercise price	Date from when exercisable	Expiry date
Robert Armour	6,465	-	-	(6,465)	-	2.6100	01.09.04	28.02.05
Terry Brookshaw	6,465	-	-	-	6,465	2.6100	01.09.04	28.02.05
	<u>12,930</u>	<u>-</u>	<u>-</u>	<u>(6,465)</u>	<u>6,465</u>			

EMPLOYEES

The Company is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well-established formal consultation procedures.

Eggborough Power Limited
Directors' Report and Financial Statements
For the year ended 31 March 2004

The Company is committed to its equal opportunities policies, which includes promoting training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. The policy is supported by a Code of Practice on harassment which recognises that all employees have the right to be treated with dignity and respect.

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 payments with suppliers when agreeing the terms of each transaction, to ensure suppliers are made aware of these terms and to abide by the agreed terms. At 31 March 2004 the Company had no trade creditors. Suppliers were paid within an average of 40 days for the financial year (31 March 2003: 35 days).

CHARITABLE AND POLITICAL DONATIONS

There were no charitable or political donations made during the year.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

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 Company and of the profit and loss of the Company for that period. In preparing those 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 Company will continue in business. Further details of the basis of preparation of the financial statements are set out in note 1.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company 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 17 June 2004 and signed on its behalf by



ROBERT ARMOUR
Company Secretary
17 June 2004

Registered Number: 3782700
Registered Office:
Barnett Way,
Barnwood,
Gloucester GL4 3RS

Eggborough Power Limited
Independent Auditors' Report to the Members of Eggborough Power Limited
For the year ended 31 March 2004

We have audited the financial statements which comprise the profit and loss account, the balance sheet, statement of total recognised gains and losses, note of historical cost profits and losses and the related notes.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or, if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Director's report.

Basis of audit 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 Company's circumstances, 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 misstatement, 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.

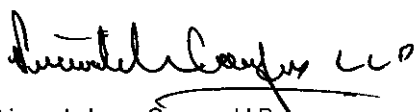
Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 concerning the preparation of the financial statements on the going concern basis. Given the reliance of the Company on the continued existence of the British Energy Group, the validity of this depends on the fulfilment of the conditions of the Proposed Restructuring and achievement of the Group's cash generation initiatives, in each case within the time scales envisaged or required and the continuation of the restructuring and standstill arrangements with certain creditors and financial assistance from the Secretary of State pursuant to the Government Facility and there being no material deterioration in the Group's cash flow position, performance or outlook. In view of the significance of the uncertainty concerning these matters we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company at 31 March 2004 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
17 June 2004

Eggborough Power Limited
Profit and Loss Account
For the year ended 31 March 2004

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 £'000	2003 £'000
Turnover	3	146,921	162,136
Operating costs	4	(111,883)	(86,499)
Exceptional items	4	(61,286)	(646,598)
Operating loss on ordinary activities before taxation		(26,248)	(570,961)
Financing charges	6	(24,992)	(37,262)
Exceptional financing credits/(charges)	6	3,271	(53,469)
Loss on ordinary activities before taxation		(47,969)	(661,692)
Taxation	7	-	3,484
Loss for the financial year transferred to reserves	18	(47,969)	(658,208)

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 £'000	2003 £'000
Loss for the year		(47,969)	(658,208)
Impairment of fixed assets	8	-	(151,300)
Reversal of impairment	8	12,669	
Total recognised gains and losses		(35,300)	(809,508)

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2004

	2004 £'000	2003 £'000
Reported loss on ordinary activities before taxation	(47,969)	(661,692)
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	11,971	11,713
Historical cost loss on ordinary activities before taxation	(35,998)	(649,979)
Historical cost loss for the year after taxation and dividends	(35,998)	(646,495)

Notes 1 to 20 form part of these financial statements.

Eggborough Power Limited
Balance Sheet
As at 31 March 2004

BALANCE SHEET AS AT 31 MARCH 2004

	Note	2004 £'000	2003 £'000
Tangible fixed assets	8	<u>150,006</u>	<u>150,006</u>
Current assets			
Stocks	9	15,448	11,588
Debtors	10	553	1,185
Investments		15,235	16,016
Cash at bank and in hand		<u>24</u>	<u>-</u>
		<u>31,260</u>	<u>28,789</u>
Creditors: amounts falling due within one year	11	<u>(259,157)</u>	<u>(157,972)</u>
Net current liabilities		<u>(227,897)</u>	<u>(129,183)</u>
Total assets less current liabilities		<u>(77,891)</u>	<u>20,823</u>
Creditors: amounts falling due in more than one year	12	<u>(388,243)</u>	<u>(433,174)</u>
Provisions for liabilities and charges	14	<u>(31,395)</u>	<u>(49,878)</u>
Net liabilities		<u>(497,529)</u>	<u>(462,229)</u>
Capital and reserves			
Called up share capital	16	1,000	1,000
Share premium account	18	55,572	55,572
Revaluation reserve	18	129,275	116,606
Profit and loss account	18	<u>(683,376)</u>	<u>(635,407)</u>
Equity shareholders' funds		<u>(497,529)</u>	<u>(462,229)</u>

Notes 1 to 20 form part of these financial statements.

The financial statements on pages 6 to 20 were approved by the Board of Directors on 17 June 2004 and signed on its behalf by:



Mike Alexander
Director
17 June 2004

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

1. BASIS OF PREPARATION

(i) Introduction

The financial statements of the Company are drawn up on a non-restructured basis, i.e. on the basis of contracts and agreements in place at 31 March 2004.

(ii) Background to proposed restructuring

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

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

- (a) the Standstill Agreement between British Energy and its subsidiaries and the bank syndicate that provided financing for the Eggborough coal fired power station (the 'Eggborough Banks'), The Royal Bank of Scotland plc ('RBS') as provider of a letter of credit to the Eggborough Banks, our significant trade creditors, Teesside Power Limited ('TPL'), TotalFinaElf Gas and Power Limited (now Total Gas & Power Limited) ('Total') and Enron Capital & Trade Europe Finance LLC ('Enron'), (TPL, Total (which has subsequently transferred its interest to Deutsche Bank) and Enron (which has also subsequently transferred its interest to Deutsche Bank) being collectively referred to as the 'Significant Creditors') and British Nuclear Fuels plc ('BNFL'); and
- (b) the Bondholder Restructuring Agreement between British Energy, British Energy Generation Limited ('BEG'), British Energy Generation (UK) Limited ('BEGUK') and certain holders of British Energy bonds due in 2003, 2006 and 2016 (the holders of those bonds being referred to collectively as the 'Bondholders').

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

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

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

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

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

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

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

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

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

(iii) Terms of the Proposed Restructuring

The terms of the Proposed Restructuring are set out in:

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

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

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

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

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

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

The principal features of the Proposed Restructuring include:

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

Creditor Restructuring Agreement

Conditions

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

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

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

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

Creditor allocations

Under the terms of the Creditor Restructuring Agreement the creditors have agreed (subject to certain conditions) to extinguish their existing claims against the Group in exchange for £275m of new bonds, £150m of bond-equivalent payments by means of the CTA Global Bond and at least 97.5% of the issued ordinary shares of the new parent company of the Group ('Newco 1').

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

Standstill arrangements

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

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

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

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

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

Mechanics for implementation and shareholder allocation

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

British Energy proposes to cancel its existing ordinary shares of 44²⁸/₄₃ pence each and A shares of 60 pence each under a scheme of arrangement with its shareholders (the 'Members' Scheme'), and issue to shareholders: (i) new ordinary shares in Newco 1 equal to 2.5% of the issued share capital of Newco 1 immediately following implementation of the Proposed Restructuring, and (ii) warrants to subscribe for a maximum of 5% of the thereby diluted ordinary issued share capital of Newco 1 (excluding, amongst others, the impact of conversion of the NLF Cash Sweep Payment (see section entitled 'Government Restructuring Agreement' below)) immediately following implementation of the Proposed Restructuring. The subscription price under the warrants is £28.95m in aggregate, equivalent to an equity market capitalisation of the Group of £550m following implementation of the Proposed Restructuring. This will result in a very significant dilution of the holdings of the existing shareholders.

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

Government Restructuring Agreement

The Government Restructuring Agreement provides for the circumstances in which the Secretary of State will support the Proposed Restructuring, including entering into the agreements with the Group and, in certain cases, the NLF, which affect the proposals regarding the manner in which the decommissioning and other uncontracted liabilities of the Group are to be funded and the agreements relating to the funding of certain of the contracted nuclear liabilities of the Group (the 'Nuclear Liabilities

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

Agreements'). It also affects some further amendments to the Government Facility. As noted above the Government Facility will terminate (unless previously extended) on the Final Maturity Date.

Conditions

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

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

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

Nuclear Liabilities Agreements

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

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

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

(iv) Principles Underlying Going Concern Assumption

Since the Company's liabilities exceed its assets, the Company is reliant on the financial support of British Energy and other British Energy group companies. As such, the Company is reliant on British Energy and other British Energy group companies to continue as a going concern.

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

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

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

2. ACCOUNTING POLICIES

(i) Basis of Accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of fixed assets, and in accordance with applicable accounting standards.

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

In accordance with FRS18 the Directors have reviewed the Group's accounting policies and confirm that they continue to be the most appropriate. A number of the policies require the Group to use a variety of estimation techniques. Significant factors considered when assessing the carrying value of assets include future prices, expected annual output, remaining station life and discount rates.

The effect of the proposed restructuring on the Company, as noted above, will be significant and will result in, among other matters, the reassessment of estimates and assumptions which have been used to prepare these financial statements.

The Company's results are consolidated within British Energy plc which produces publicly available financial statements which include a cash flow statement. Accordingly the Company has elected to utilise the exemption provided by FRS1, Cash Flow Statements (Revised) and has not provided a cash flow statement.

(ii) Turnover

Turnover represents amounts receivable from British Energy Power and Energy Trading Limited (BEPET) under the Capacity and Tolling Agreement, net of value added tax.

(iii) Fuel Costs

Fuel costs for oil are determined on a weighted average cost basis.

(iv) Pensions and Other Post Retirement Benefits

The Company continues to provide for UK pension costs in accordance with SSAP24. Contributions to the defined benefit pension scheme 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. 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 scheme, 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.

(v) Investments

Cash which is placed on term deposits which mature more than one day after the end of the financial year or invested in commercial paper, is classified under current asset investments in the balance sheet.

(vi) Interest rate swaps

Interest rate swaps are used to manage debt interest rate exposure. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to the net interest charge over the term of the contracts. Where derivatives used to manage interest rate risk or to hedge other anticipated cash flows are terminated before the underlying debt matures, the resulting gain or loss is deferred on the balance sheet and amortised to the profit and loss account to match the timing and accounting treatment of the underlying debt. If the debt is subsequently terminated any unamortised deferred gain or loss is recognised immediately in the profit and loss account. Where interest rate swaps are no longer considered effective hedging instruments, any cumulative losses relating to the fair value of the derivatives are taken to the profit and loss account in accordance with FRS 12.

(vii) Tangible Fixed Assets and Depreciation, including Decommissioning Costs

Fixed assets comprise assets acquired or constructed by the Company. The Company's principal fixed asset is the power station which is carried at Directors' valuation based on the fair value assigned by British Energy following its acquisition of the Company. This valuation is adjusted for subsequent depreciation, which includes additional charges made where necessary to reflect impairment in value.

During the year ended 31 March 2004 all capital expenditure investment that would previously have been capitalised as fixed assets was expensed as operating costs following the fixed asset impairment review carried out in the year ended 31 March 2003. This arises because it is not possible to demonstrate that this expenditure enhanced the value of the Company's fixed assets after taking account of the impairment review.

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

The carrying values of fixed assets are reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.

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 provisions for diminution in value, over their estimated useful lives.

The estimated costs for decommissioning the Company's power station are capitalised and are depreciated over the life of the station. These estimated costs are discounted having regard to the timescale whereby work will take place.

The asset lives adopted are subject to regular review and for the year ended 31 March 2004 were:

Coal power station	12 years
Computer and office equipment	5 years

(viii) Stocks of stores and spares

Stocks of stores and spares are valued at the lower of cost and net realisable value. Strategic spares are amortised over the life of the station.

(ix) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. The full amount of the provision is discounted using a discount rate similar to the current post tax rates of return on UK treasury gilts. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(x) Related party transactions

The Company has taken advantage of the exemption under FRS8 not to disclose related party transactions with fellow members of the Group. These transactions eliminate on consolidation in the Group Accounts.

3. TURNOVER

	2004	2003
	£'000	£'000
Tolling income	<u>146,921</u>	<u>162,136</u>

4. OPERATING COSTS

	2004	2003
	£'000	£'000
Fuel	2,896	2,963
Materials and services	86,901	58,653
Staff costs	10,957	10,199
Depreciation	12,669	14,684
Sundry insurance proceeds	(1,540)	-
Operating costs before exceptional items	<u>111,883</u>	<u>86,499</u>
Exceptional items	61,286	646,598
Operating Costs after exceptional items	<u>173,169</u>	<u>733,097</u>

	2004	2003
	£'000	£'000
Analysis of exceptional items		
Stock obsolescence	-	2,812
Provision for doubtful debts (note 10)	61,286	643,786
	<u>61,286</u>	<u>646,598</u>

The auditors' remuneration for audit services was £22,000 (2003: £21,000).

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

5. STAFF COSTS

The average number of employees during the period analysed by category was:

	2004 Number	2003 Number
Operations	232	221
Business Services	26	26
	<u>258</u>	<u>247</u>

Their aggregate remuneration comprised:

	2004 £'000	2003 £'000
Wages and salaries	9,011	8,466
Social security costs	807	677
Other pension costs (note 15)	1,139	1,056
	<u>10,957</u>	<u>10,199</u>

The emoluments of those Directors who are also Directors of British Energy are detailed in the Remuneration Report in the Group accounts. None of the Directors nor the British Energy Company Secretary receive emoluments for their services to this Company, since the services supplied are considered to be incidental to those to the Group. Retirement benefits accrue to two Directors under a defined benefits scheme.

The emoluments of those Directors who are also Directors of BEPET are detailed in those accounts. These Directors do not receive emoluments for their services to this Company as the services provided are deemed to be incidental to those supplied to BEPET.

6. FINANCING CHARGES/(CREDITS)

	2004 £'000	2003 £'000
Revalorisation Charge – unwind of one year's discount	187	-
Interest payable on overdrafts and bank loans	36,869	55,839
Interest payable on amounts owed to group undertakings	2,774	762
	<u>39,643</u>	<u>56,601</u>
Interest receivable	(14,838)	(19,339)
	<u>24,805</u>	<u>37,262</u>
	<u>24,992</u>	<u>37,262</u>
Exceptional items		
- interest rate swaps	(3,271)	46,678
- borrowing costs	-	6,791
	<u>(3,271)</u>	<u>53,469</u>

At 31 March 2004, the value of the interest rate swaps were marked to market. As a result the provision required for the out of the money element was lower than the previous year and part of the provision was released in the year as an exceptional credit of £3,271,000 for the year ended 31 March 2004 (2003: £46,678,000 charge).

At 31 March 2003, an exceptional charge of £6,791,000 was recorded for the write off of borrowing costs which had previously been capitalised and were being amortised over the expected duration of the loan financing the acquisition of the Eggborough power station.

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
UK corporation tax (credit)	-	(430)
Deferred taxation on business performance profit before tax	-	200
Unwinding of discount	-	100
Charge for the year on business performance profit	-	300
Exceptional deferred tax credit	-	(3,354)
Deferred tax (credit)/charge for the year	-	(3,054)
	-	<u>(3,484)</u>

The deferred tax exceptional credit in 2003 arises mainly as a result of the write down of fixed asset carrying values.

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES (Continued)

A reconciliation of the effective tax rate for the current year tax charge is set out below.

	2004 £'000	2003 £'000
Tax credit on loss at standard rate of 30%	(14,391)	(198,508)
Deferred tax:		
Current year movement	-	2,000
Impact of discounting	(5,600)	(1,860)
Increase in deferred tax asset not recognised	5,068	-
Total deferred tax movement pre discounting	(532)	140
Expenses not deductible for tax purposes	22,188	197,508
Adjustment in respect of prior years	-	430
Group relief	(7,265)	-
Current tax (credit) for year	-	(430)

8. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
As at 1 April 2003	59,695	99,349	159,044
Reversal of impairment	12,669	-	12,669
As at 31 March 2004	72,364	99,349	171,713
Depreciation			
As at 1 April 2003	-	9,038	9,038
Charge for the year	4,940	7,729	12,669
As at 31 March 2004	4,940	16,767	21,707
Net Book Value			
As at 31 March 2004	67,424	82,582	150,006
As at 31 March 2003	59,695	90,311	150,006

If land and buildings had not been revalued they would have been included at the following amounts.

	2004 £'000	2003 £'000
Cost	9,771	9,771
Depreciation	(2,092)	(1,394)
Net book value	7,679	8,377

Freehold land, with a cost of £105,000, has not been depreciated.

At 31 March 2004 the Directors reassessed the fixed asset carrying values, in line with the requirements of FRS11, to determine whether any revisions to fixed asset carrying values were appropriate. In carrying out such a review the Directors concluded that, pending completion of the Proposed Restructuring, it was appropriate to carry out a full review of valuations rather than the more limited reviews which are sometimes permissible under FRS11. As a result of this review, the value of its fixed assets has been increased by £12,669,000 (2003: reduced by £151,300,000)

The basis of the valuation of Eggborough is unchanged from the previous year, that is net realisable value and is based on the value attributed as part of the Proposed Restructuring (note 1).

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

9. STOCKS

	2004	2003
	£'000	£'000
Spares	13,129	9,227
Oil	539	575
Consumables	1,780	1,786
	<u>15,448</u>	<u>11,588</u>

There is no material difference between the balance sheet value of stocks and their replacement value.

10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£'000	£'000
Trade debtors	553	1,185
Amounts due from group undertakings	-	-
	<u>553</u>	<u>1,185</u>

Included within the Company's amount due from group undertakings is £705m relating to amounts due from group undertakings all of which have been provided for (2003: £644m).

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£'000	£'000
Amounts owed to group undertakings	130,382	84,893
Retentions	4,432	3,220
Other tax and social security	5,097	3,926
Accruals and deferred income	32,673	23,830
Bank loan (note 13)	86,573	41,642
Bank overdraft	-	461
	<u>259,157</u>	<u>157,972</u>

Amounts owed to Group undertakings bear no interest and are repayable on demand.

12. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2004	2003
	£'000	£'000
Bank Loan	<u>388,243</u>	<u>433,174</u>

13. BORROWINGS

The Company's borrowings in the form of bank loans at 31 March 2004 were repayable as follows:

	2004	2003
	£'000	£'000
Less than 1 year	86,573	41,642
Between 1 and 2 years	48,364	44,931
Between 2 and 5 years	168,418	156,462
Over 5 years	171,461	231,781
	<u>474,816</u>	<u>474,816</u>

Summary

The long-term project finance loan is secured on the assets of Eggborough Power Limited (EPL). Amounts owed by EPL to the lenders are not guaranteed by British Energy plc (BE) but BE guarantees the payment of amounts by British Energy Power & Energy Trading Limited (BEPET) to EPL. The contractual amounts payable by BEPET are calculated so as to cover EPL's borrowing requirements and operating costs. The final instalment of loan principal will be repaid in 2011 and the loan currently bears interest at LIBOR plus 1.25%. BE also provides a subordinated loan facility to EPL. It is proposed that these arrangements will be restructured as part of the proposed restructuring of the Group.

Maturity of borrowings

The analysis of maturity of borrowings has been prepared based on the dates when the borrowings mature under the existing contractual arrangements. However, the standstill arrangements which have been put in place have the effect of deferring the payments of certain amounts due until the Eggborough project finance loan is replaced as part of the restructuring of the Group or earlier termination of the standstill. The maturity profile of the borrowings is likely to change upon completion of the restructuring.

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax	Site Restoration	Interest rate swaps	Total
	£'000	£'000	£'000	£'000
As at 1 April 2003	-	3,200	46,678	49,878
Provided in year	-	187	-	187
Revaluation	-	-	(3,271)	(3,271)
Utilised in the year	-	-	(10,900)	(10,900)
Reclassified as other creditors	-	-	(4,499)	(4,499)
As at 31 March 2004	-	3,387	28,008	31,395

Deferred Taxation

	2004	2003
	£'000	£'000
Accelerated capital allowances	(7,989)	5,000
Short term timing differences	-	(2,000)
Corporation tax losses	-	(2,000)
Undiscounted (asset)/ provision for deferred tax	(7,989)	1,000
Discount	-	(1,000)
Asset not recognised	7,989	-
Discounted provision for deferred tax	-	-

No deferred tax asset has been recognised because there is insufficient certainty that it would be recovered in the foreseeable future.

The site restoration provision is to provide for all costs in the eventual closure of Eggborough Power Station.

The interest rate swaps provision is in respect of swap contracts which were put in place to hedge interest rate risk. The Directors have reviewed the necessity for these swaps in the context of the financial restructuring of the Group and have concluded that the swaps are no longer effective as hedges, thereby necessitating a provision of £28,008,000 (2003:£46,678,000) being the out of the money element.

15. POST RETIREMENT BENEFIT OBLIGATIONS

UK Pension Schemes

The Company operates a pension arrangement in the UK within the Electricity Supply Pension Scheme (ESPS) for its employees at Eggborough Power Station, the British Energy Combined Group (BECG). The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups.

The most recent triennial valuation of the scheme was carried out at 31 March 2001. The valuations for accounting purposes have been carried out by an independent actuary using the projected unit method. The principal assumptions adopted for this accounts valuations were that, over the long term, the investment rate of return would be 6.0% per annum for benefits already accrued, and 6.5% for the return achieved on future contributions. The rate of salary increase would be 4.0% per annum and the rate of pension increase would be 2.5% per annum. Assets were taken at market value. At the date of the valuation, the market value of assets of the scheme was £26,000,000. This represents 119.0% of the benefits that had accrued to members after allowing for expected future increases in earnings.

A formal triennial valuation of BECG pension scheme at 31 March 2004 is currently being undertaken, but the results of this valuation will not be finalised until later in 2004.

Eggborough Power Limited contributed 15.3% to the scheme for the year from 1 April 2003 to 31 March 2004. Contributing members contributed 6.0% to the plan. Any deficiency disclosed in the scheme following an actuarial valuation has to be made good by Eggborough Power Limited.

The Company contributed £1,139,000 towards the pension scheme for the year to 31 March 2004 (2003: £1,056,000).

FRS17 Disclosures

The Company has not implemented FRS17 'Retirement benefits' in the accounts for the year ended 31 March 2004. The disclosures required under the transitional arrangements for the BECG plan within FRS 17 as advised by the Company's actuaries are, however, set out below:

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

(i) UK Pension Schemes

a) Major assumptions for FRS17 disclosures at 31 March:

	2004 % pa	2003 % pa	2002 % pa
Price inflation	2.75	2.25	2.75
Rate of general increase in salaries	4.25	3.75	4.25
Rate of increase of pensions in payment	2.75	2.25	2.75
Discount rate	5.50	5.50	6.00

b) The assets and liabilities of the scheme on an FRS 17 basis and the expected rates of return at 31 March are:

	Rate of return %	Value at 31 March 2004 £'000	Rate of Return %	Value at 31 March 2003 £'000	Rate of Return %	Value at 31 March 2002 £'000
Equities	8.25	25,000	8.5	21,000	8.0	27,000
Bonds	4.75	3,000	-	-	-	-
Others	3.75	2,000	3.75	2,000	-	-
Total market value of plan assets		30,000		23,000		27,000
Present value of plan liabilities		(42,000)		(31,000)		(28,000)
Pension liability before deferred tax		(12,000)		(8,000)		(1,000)
Related deferred tax asset		-		-		300
Net pension liability		(12,000)		(8,000)		(700)

No deferred tax asset is recognisable on the pension deficit in 2004 and 2003, based on application of the deferred tax accounting policy set out in note 2.

c) Analysis of the amount that would be charged to operating profit on an FRS 17 basis:

	2004 (Gain)/loss £'000	2003 (Gain)/loss £'000
Operating profit		
Current service cost	1,000	1,000
Total charge to operating profits	1,000	1,000
Finance income		
Expected return on assets in the pension scheme	(2,000)	(2,000)
Interest on pension scheme liabilities	2,000	2,000
Net credit to finance income	-	-
Total P&L charge before tax	1,000	1,000

d) Movement in plan deficit during the year on an FRS 17 basis:

	2004 £'000	2003 £'000
Deficit in plan at beginning of the year	(8,000)	(1,000)
Contributions paid	1,000	1,000
Current service cost	(1,000)	(1,000)
Actuarial loss	(4,000)	(7,000)
Deficit in the plan at the end of the year	(12,000)	(8,000)

e) History of experience gains and losses which would have been recognised on an FRS17 basis:

	2004 (Gain)/loss £'000	2003 (Gain)/loss £'000
Consolidated statement of total recognised gains and losses		
Actual return less expected return on post employment plan assets	(4,000)	7,000
As % of plan assets at end of year	(13)%	30%
Experience losses arising on plan liabilities	4,000	-
As % of plan liabilities at end of year	9%	-
Changes in assumptions (financial & demographic)	4,000	-
As % of plan liabilities at end of year	9%	-
Actuarial loss recognisable in consolidated statement of total recognised gains and losses (before tax)	4,000	7,000
As % of plan liabilities at end of year	9%	23%

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

(ii) **Company reconciliation of net liabilities and reserves under FRS 17**

	2004 £'000 Net liabilities	2004 £'000 Profit & loss account reserve	2003 £'000 Net liabilities	2003 £'000 Profit & loss account reserve
As reported	(497,529)	(683,376)	(462,229)	(635,407)
FRS 17 pension asset	30,000	30,000	23,000	23,000
FRS 17 defined benefit liability	(42,000)	(42,000)	(31,000)	(31,000)
Including FRS 17 pension liability	<u>(509,529)</u>	<u>(695,376)</u>	<u>(470,229)</u>	<u>(643,407)</u>

No deferred tax asset is recognisable on the pension deficit in 2004 and 2003,

16. CALLED-UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised 1,000,001 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid 1,000,001 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

17. CONTINGENT LIABILITIES

These financial statements are drawn up on a going concern basis, the basis of which is explained more fully in Note 1 to these financial statements. This note describes the contingent liabilities which are applicable to the Group and the Company.

The Group has been provided with the Credit Facility by the Secretary of State. As at 31 March 2004, the Group had no drawings under the Government Facility. Also at 31 March 2004, the Group had cash and liquid investments of £573m of which £297m had been deposited as collateral to support trading and other operations.

The following security has been granted for obligations under the Credit Facility made available by the Secretary of State:

- an all monies debenture creating fixed security (by way of assignment and/or fixed charge) over certain intra-group receivables and special accounts and a floating charge between the Secretary of State and certain Group companies;
- fixed charges in relation to the UK nuclear power stations; and
- pledge and mortgage of shares in certain Group subsidiaries in favour of the Secretary of State.

Amounts owing by EPL to the Eggborough Banks are not guaranteed by British Energy. However, British Energy guarantees the payment of amounts by BEPET to EPL, calculated to cover EPL's borrowing and operating costs. In addition British Energy also provides a subordinated loan facility to EPL.

On 1 October 2003, British Energy announced that it had entered into the Creditor Restructuring Agreement with certain significant creditors (including the Eggborough Banks) and BNFL relating to the standstill, recognition and compromise of their claims. However, while the British Energy Directors believe that the amounts of the agreed claims currently reflect the amounts legally claimable, in the event of the Proposed Restructuring not being completed different amounts may be calculated as being claimable.

On 25 September 2002 the Nuclear Generation Decommissioning Fund Limited (the 'NDF') served a default notice relating to the solvency of British Energy, BEG and BEGUK. Unless the default is cured to the satisfaction of the NDF, or waived, the NDF has the right to require accelerated payment of all of the contributions due to the NDF prior to the next quinquennial review in Autumn 2005. Annual payments are in the region of £18m. The NDF has agreed not to take enforcement action without further notice while the Group progresses satisfactorily towards achieving the Proposed Restructuring. If the conditions to the Proposed Restructuring are satisfied, the NDF and others will enter into a Deed of Termination whereby the NDF agrees that it shall take no action to enforce its rights pursuant to the default notice.

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

The claim relating to the condition of the plant is based upon alleged erosion of some of the steam generator support plates, through which boiler tubes pass, which it is alleged resulted in an extended outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C\$64.5m. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. British Energy has rejected the claim and expects to defend it if it is pursued further.

Eggborough Power Limited
Notes to the Financial Statements
For the year ended 31 March 2004

17. CONTINGENT LIABILITIES (Continued)

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

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

The Group has given certain indemnities and guarantees in respect of the disposal of its investment in AmerGen.

Following an accounting adjustment made by Exelon to the value of nuclear fuel contained in Amergen's balance sheet dated 21 December 2003 (as a result of which British Energy may be required to make a payment to Exelon of up to \$13.7m) British Energy served a Dispute Notice on Exelon on 4 June 2004 to preserve its right to commence litigation. The agreement with Exelon for the sale of Amergen requires that, prior to instituting any litigation or other dispute resolution procedure, the companies will in good faith seek to resolve any dispute. If unresolved in this way it may subsequently be referred to an independent accounting firm for determination.

As noted in the Group financial statements, the Group's interest in AmerGen was sold for US\$277m, subject to adjustment, allowing the Government Facility to be fully repaid. Part of the adjustment mechanism relates to the value of nuclear fuel.

The Group is involved in a number of other claims and disputes arising in the normal course of business which are not expected to have a material effect on the Group's financial position.

The Group has given certain indemnities and guarantees in respect of its subsidiary undertakings. No losses are anticipated to arise under these indemnities and guarantees, provided relevant subsidiary undertakings continue as going concerns.

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Share Premium £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
As at 1 April 2003	1,000	55,572	116,606	(635,407)	(462,229)
Loss for year	-	-	-	(47,969)	(47,969)
Reversal of impairment	-	-	12,669	-	12,669
As at 31 March 2004	<u>1,000</u>	<u>55,572</u>	<u>129,275</u>	<u>(683,376)</u>	<u>(497,529)</u>

19. COMMITMENTS

At 31 March 2004 the Company had capital commitments of £6,914,247 (2003 : £18,803,214) The Company had no lease commitments.

20. ULTIMATE PARENT COMPANY

The Directors consider that the immediate parent undertaking is Eggborough Power (Holdings) Limited. The results of the Company have been consolidated within the accounts of its ultimate holding company, and ultimate controlling party, British Energy. Copies of the Group accounts are available from the Company Secretary at the registered office: British Energy plc, 3 Redwood Crescent, Peel Park, East Kilbride, G74 5PR.