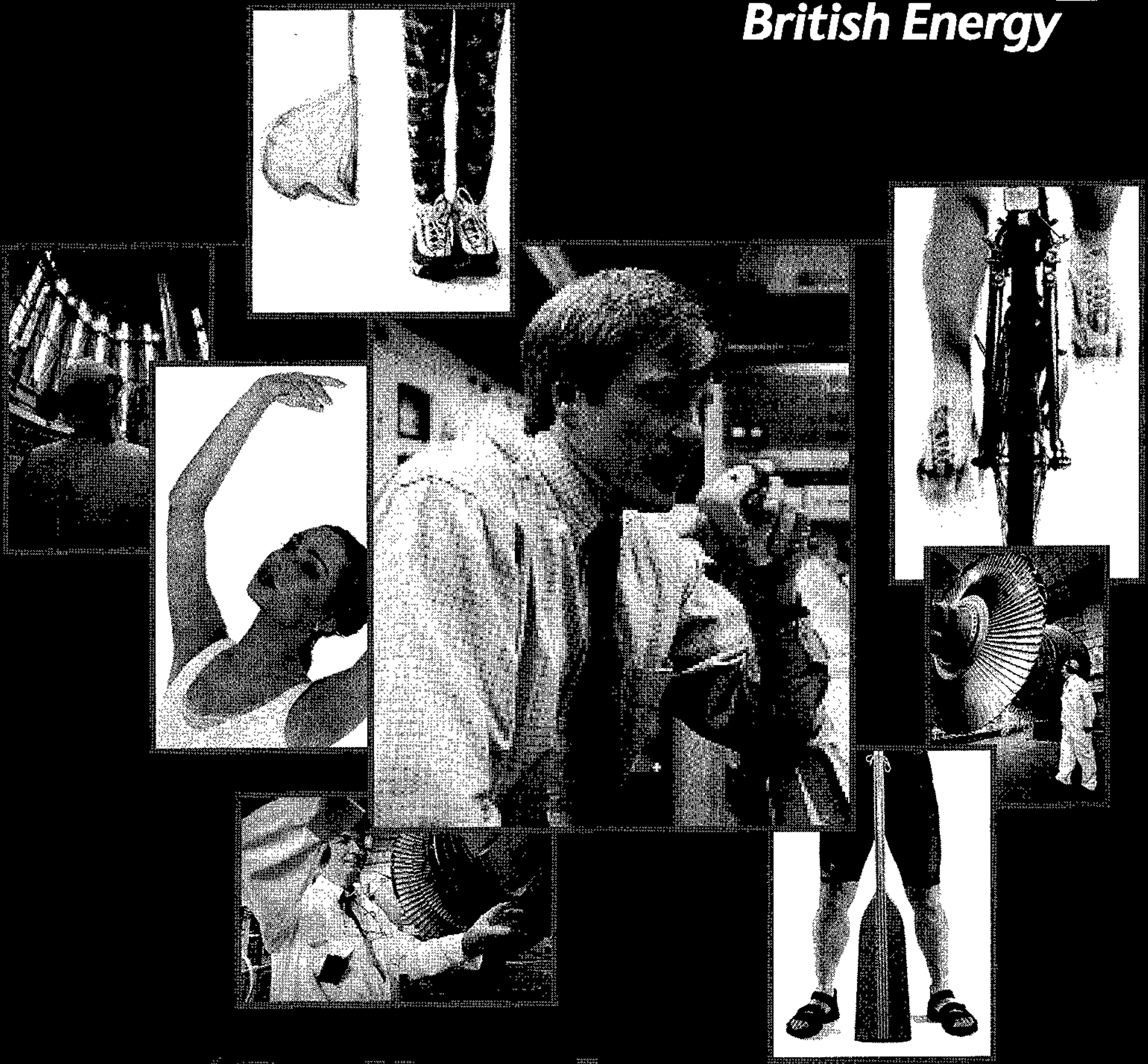
British Energy



'Delivering success'

Annual Report and Accounts 1997-98

British Energy

British Energy **is now Britain's largest electricity generator with a market share of 21%, 5,400 staff and a market capitalisation of some £4bn. We operate Britain's eight most modern nuclear power stations, and are establishing partnerships with other UK and international energy companies.**

Our Vision

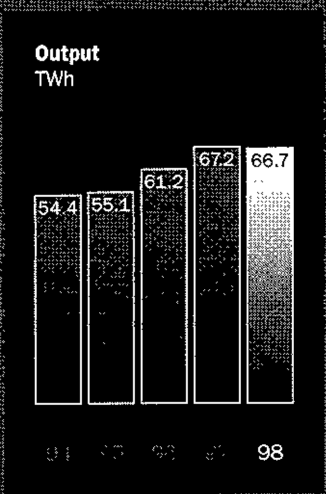
Our vision is to be a world class energy company **expanding from our UK nuclear generation base by building a portfolio of UK and international energy related businesses, increasing value for shareholders through capitalising on our skills, safety performance and commercial success.**

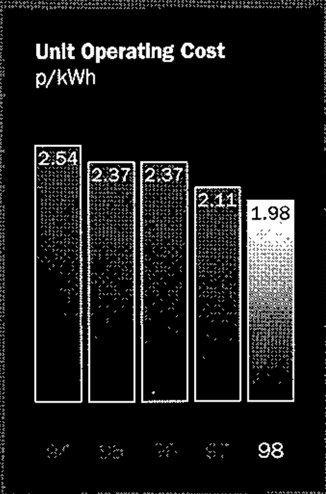
Contents

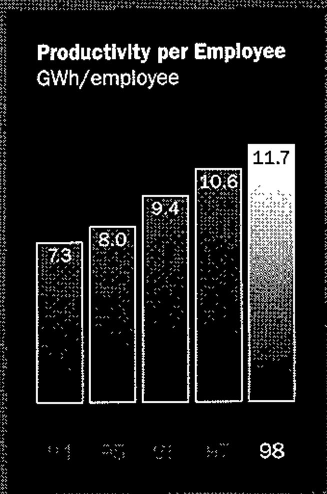
Highlights of 1997-98

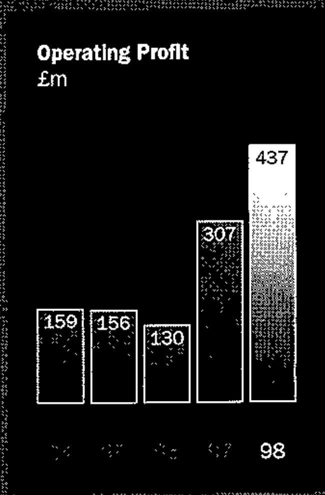
- Profit before tax increased strongly to £191m
- Dividend cover achieved for the first time
- Now Britain's largest generator
- Operating costs reduced by 6% to 1.98p/kWh
- Improved contracts with BNFL
- Net debt eliminated
- Safety standards improved still further

'An outstanding improvement all round'









Annual dividend of 14.7p per share, up 7%
Special supplementary dividend of 10p per share

The business performance figures shown above and, where appropriate, in the text have been prepared on the basis referred to in Note 1 to the Financial Statements.

This is British Energy

British Energy is now Britain's largest electricity generator, producing around a fifth of the country's electricity. It operates the eight most modern UK nuclear power stations. British Energy is also developing partnerships in the UK and overseas energy sectors.

Nuclear Generation

British Energy's core business is nuclear generation. The Company operates eight nuclear power stations with a combined capacity of 9,600 MW. In 1997-98, they produced a total output of 66.7 TWh at an average load factor of 78%.

All but one of the stations comprise twin advanced gas-cooled reactors (AGRs) brought into operation between 1976 and 1988 – a design unique to the UK. Their overall load factor in 1997-98 was 78%, confirming the AGRs' rating at the top of the world nuclear performance league for reactor types.

The eighth station is Britain's most modern nuclear power plant, Sizewell B, a development of the Westinghouse pressurised water reactor (PWR). Sizewell B, since coming into commercial operation in 1995, has performed very well by international standards operating at over 96% capacity between scheduled outages.

In 1997-98, four of our power stations – Hunterston B, Heysham 1, Hartlepool and Sizewell B – achieved their best annual generation performance.

Developing Partnerships

During the year, British Energy established a number of partnerships in the UK and international energy sectors as part of the Company's development strategy. These complement our main core generation business, capitalising on our engineering, operational and commercial experience. In the United States, we launched AmerGen, a 50/50 joint venture with PECO Energy of Philadelphia. Its target is to acquire and operate existing US nuclear power stations as the electricity market is progressively deregulated. In Ontario, in conjunction with PECO Energy we are investigating opportunities for a public/private partnership to operate Ontario's nuclear reactors.

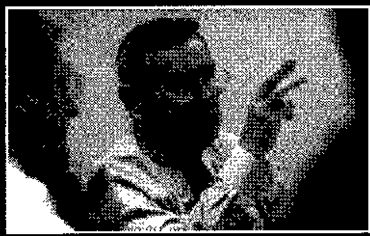
In the UK, we acquired a 12.5% stake in Humber Power, an international consortium owning and operating a large new combined cycle gas turbine power station at South Humber Bank. In November, we announced Sabre Power as a 50/50 joint venture with Southern Electric. It aims to build small "embedded generation" power plants close to selected industrial electricity users. Site investigations are underway throughout England and Wales.

British Energy at a Glance

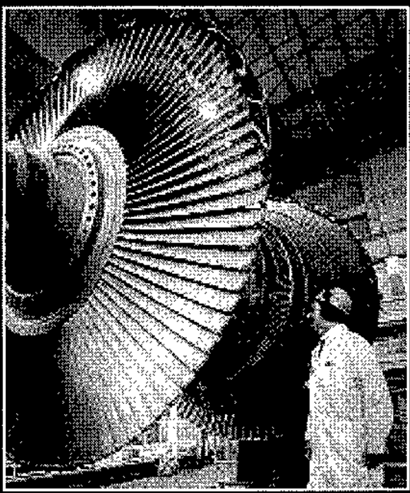
A strong

Performance

Clear vision for future



Growth



High Safety

standards

Investing in

Skills and Training

Strengthening

Environmental

and community links

Chairman's Statement

"British Energy made further excellent operational and financial progress while enhancing the Company's proven safety record."

Company performance
In the year ended 31 March 1998, British Energy made further excellent operational and financial progress while enhancing the Company's proven safety record.

Profit before tax improved from £61m to £191m and as a result of a strong cash flow the balance sheet was ungeared with net funds at the year end of £10m.

The Board recommends a final dividend of 9.8p per share making a total of 14.7p per share for the year. Our annual dividend will be covered 1.2 times by earnings excluding exceptional items and we have achieved this ahead of original expectations.

Recognising a one-off exceptional credit arising from new contracts with British Nuclear Fuels plc (BNFL), the Board intends to pay a special supplementary dividend of 10p per share. This has no implications for the entirely separate matter of our capital structure, which we will continue to review in the light of our cash flow and long-term reinvestment plans.

The strong results in our second year in the private sector would not have been achieved without the outstanding contribution of our staff at all levels within the Company. We are fortunate in having a highly skilled workforce to cope with the demands of a heavily regulated, complex industry. On your behalf, I am taking this early opportunity in my statement to extend to them our appreciation for their efforts.

An important addition to our senior management structure was the appointment of Peter Hollins as Chief Executive in February 1998. His broad industrial and international experience equips him well for the challenge of developing further British Energy's business both in the UK and overseas.

Despite there being more statutory outages the Company achieved a level of output in 1997-98 similar to the previous year and four of our eight stations set new individual records for electricity generation. The year saw us become Britain's largest generator. More importantly, these output levels were achieved without impairing our reputation for safe generation.

During the year, we announced an important agreement with BNFL covering the reprocessing or storage of all spent fuel from our AGRs as well as the supply of new AGR fuel. The contract is valued at £1.5bn and we estimate annual profits will be improved by approximately £30m. An additional benefit is that 82% of our discounted long-term fuel liabilities are now covered contractually compared with 62% previously.

Since the year end, the Board decided to extend the accounting lives of Hunterston B and Hinkley Point B power stations by five years. This followed detailed engineering studies which were endorsed by independent consultants.

Reinvestment strategy
One of the many strengths of British Energy is its robust cash flow. The longer-term prospects for the Company will be determined by how successfully this cash is deployed. As was outlined in the Prospectus in 1996, successful reinvestment by the Company is a pre-requisite for enabling it to maintain a progressive dividend policy while meeting its substantial long-term liabilities.

Although no substantial investment was concluded in 1997-98, a great deal of effort was applied to investigating opportunities both in the UK and overseas. As a result we entered into two modest UK joint ventures. The first of these was the acquisition of a 12.5% interest in Humber Power, which operates a combined cycle gas fired plant. The second investment was the formation of a 50/50 joint venture with Southern Electric plc to construct small embedded generation plant mostly in England and Wales. These plants will cost around £15m per plant but progress has been constrained to date because of the government's moratorium on new gas power stations.

Internationally, we have decided to concentrate our efforts primarily in North America where we have established joint ventures with the Philadelphia based utility PECO Energy. We are together evaluating prospects in the United States and Ontario. The principal objective behind our investigations is to establish whether we can purchase nuclear power assets and improve their performance in much the same way as has been achieved at British Energy in the last few years.

A successful reinvestment programme is a key challenge for the Company. However, I should like to reassure shareholders that investments will be made only when the Board is completely satisfied that the relevant project is capable of giving an adequate return which will lead to an improvement in shareholder value. The extensive international experience of Board members will serve shareholders well in this regard.

The environment

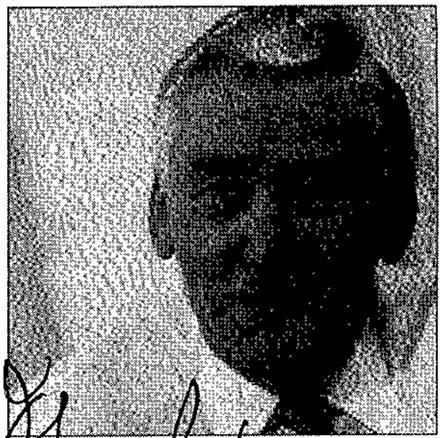
The causes of climate change and global warming were addressed by the government's greenhouse gas reduction targets and the worldwide community's commitments at Kyoto. Such action is both welcome and overdue. It is important for the decision makers to be aware that nuclear generation releases virtually no CO_2 or other gases which contribute to acid rain or the greenhouse effect.

Last year British Energy's stations avoided the release of 51m tonnes of CO_2 compared to equivalent generation from fossil fired plant. Put another way, the equivalent of almost half of the CO_2 released by road transport in the UK was avoided by our nuclear generating plant. That makes British Energy an essential component if Britain is to meet its obligations for emission reductions – a challenge we are delighted to support by increasing the efficiency of our stations and operating them over a longer lifetime. Ultimately, however, governments will have to encourage switching to climate benign energy providers such as nuclear generation through environmental instruments such as emission permits or a carbon tax. Future generations will rightly blame us if we fail to act.

Summary

The past year has been one in which British Energy has made notable progress on important corporate issues. Much, however, remains to be done particularly in regard to streamlining the corporate structure and organisation. With the appointment of Peter Hollins as Chief Executive, I am sure that progress will be made on these key issues during this financial year.

The Board is confident that sufficient opportunities exist to enable British Energy to expand further this year. We have the management strength in depth and the financial resources to ensure significant progress is made.



John Robb
Chairman
18 May 1998

Chairman's and Chief Executive's Review of the Year

British Energy aims to achieve long-term earnings growth by **expanding** its operations in the UK and internationally. We have proved our ability to operate **successfully** in a competitive electricity market. We are a quality-orientated company with a wide **skills** base and long experience of **safe, environmentally sound** plant operation.

John Robb
Chairman
18 May 1998

Peter Hollins
Chief Executive
18 May 1998

Delivering success

The strong financial results highlighted earlier in this report are based on a year of solid progress on all fronts. Major improvements were achieved in our operating and financial results; profit before tax increased, from £61m to £191m; generation sales revenues were up 3%; costs were driven down; and all these achievements took place in a year when our safety performance – our number one priority – continued to improve.

Generation performance

Total output from our eight nuclear power stations, at 66.7 TWh, confirmed that British Energy is now the country's largest generator, with a market share of 21%. Seven statutory outages – when reactors are shutdown for maintenance, inspection and repair according to regulations – were completed, compared to four the previous year. The achievement of a similar level of output, down only 0.8%, reflects considerable progress in managing outages, and in maximising production. Four power stations – Hunterston B, Heysham 1, Hartlepool and Sizewell B – achieved new output records. At Sizewell B the operating period between statutory outages has now been increased from 15 to 18 months, enhancing the station's earnings potential.

On-load refuelling – when stations refuel without shutting down – was re-introduced during the year at Heysham 2 and on one reactor at Torness, bringing to seven the number of AGR reactors which now do this routinely. On-load refuelling is worth approximately 0.3 TWh extra output per year for each reactor which achieves it.

Overall load factor was 78%. Six of our eight power stations achieved load factors of over 80%. Dungeness B (47%) was subject to two statutory outages and extended repair work, but following its Periodic Safety Review it received clearance from the Nuclear Installations Inspectorate to continue operation for a further ten years subject to completion of an agreed work programme.

Following work throughout the year on the potential for life extension we announced, early in April 1998, that we had extended the accounting lives of Hunterston B and Hinkley Point B by five years, taking their assumed closure dates from 2006 to 2011. Engineering assessment work continues for two further stations, Heysham 2 and Torness, where the technical issues are somewhat different.

Market overview

As a baseload generator, British Energy does not set prices in the electricity pool in England and Wales. In Scotland, we receive, through the Nuclear Energy Agreement, a price in line with achieved average prices in the English market. In that market we continue to use price stabilising Contracts for Differences, direct supply contracts, and other means of risk management covering the majority of our output. Although the time-weighted pool price (TWPP) fell in the first half of the year, reflecting increasing competition, over the year as a whole it increased by 7% to 2.53p/kWh – the first real increase since 1993-94.

Objectives

Our shareholders

To add value to our shareholders' investment through commercial success and continued growth.

UK Generation

To continually improve safety; maximise output; reduce costs; secure revenues; reward and invest in our staff.

New Business

To develop flexible generation capability in the UK and acquire nuclear power stations overseas, capitalising on our expertise.

Our achieved price of 2.63p/kWh represents a 4% premium over the TWPP, compared to 7% last year. Our direct sales business grew 28% to £188m, as contracts were concluded with a number of major companies including Ford Motor Company Ltd and Honda of the UK Manufacturing Ltd.

Looking forward, however, competition within the electricity market is expected to put increasing pressure on pool prices. A factor contributing to this was the ending of coal backed contracts with the other generators. Our trading arrangements with Southern Electric are an important part of our portfolio and we are continuing to develop a long-term supply alliance, taking into account OFFER's proposed limits on the extent of such arrangements.

We also have a number of other trading arrangements such as power swaps which allow us to offer customers electricity profiles which closely match their requirements. The overall aim is to obtain the optimum market price for our product in a volatile and short-term market.

Driving down costs

Our operating unit cost of 1.98p/kWh – a reduction of 6% – reflects a year in which costs have been driven down, largely in the areas of fuel, materials and services. The biggest single achievement during the year was the conclusion of our £1.5bn package of new and revised contracts with BNFL, resulting in annual savings of some £30m and reducing uncertainty by further capping our long-term liabilities. Materials and services costs decreased 6% to £416m, despite the increase in statutory outages.

Our cost reduction programme announced in 1996 is ahead of schedule. At 31 March staff numbers were 5,430, a reduction of 510 during the year, and we are well on track to achieve our objective of below 5,000 by March 2000.

"Significant improvements in our operating and financial results; costs driven down ahead of expectations; profit before tax increased strongly; British Energy now confirmed as Britain's largest generator."

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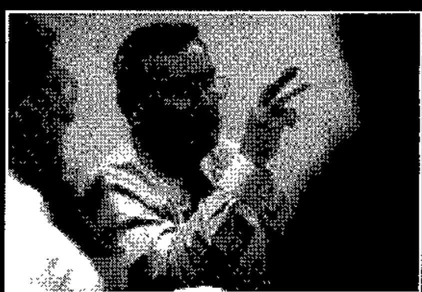

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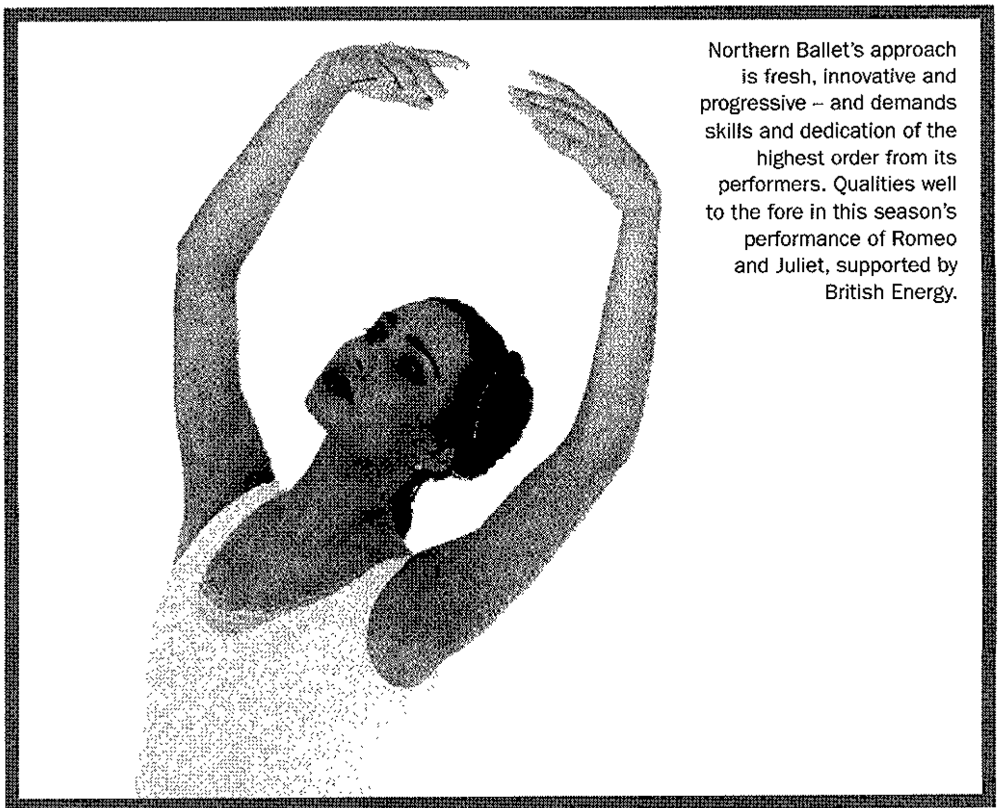
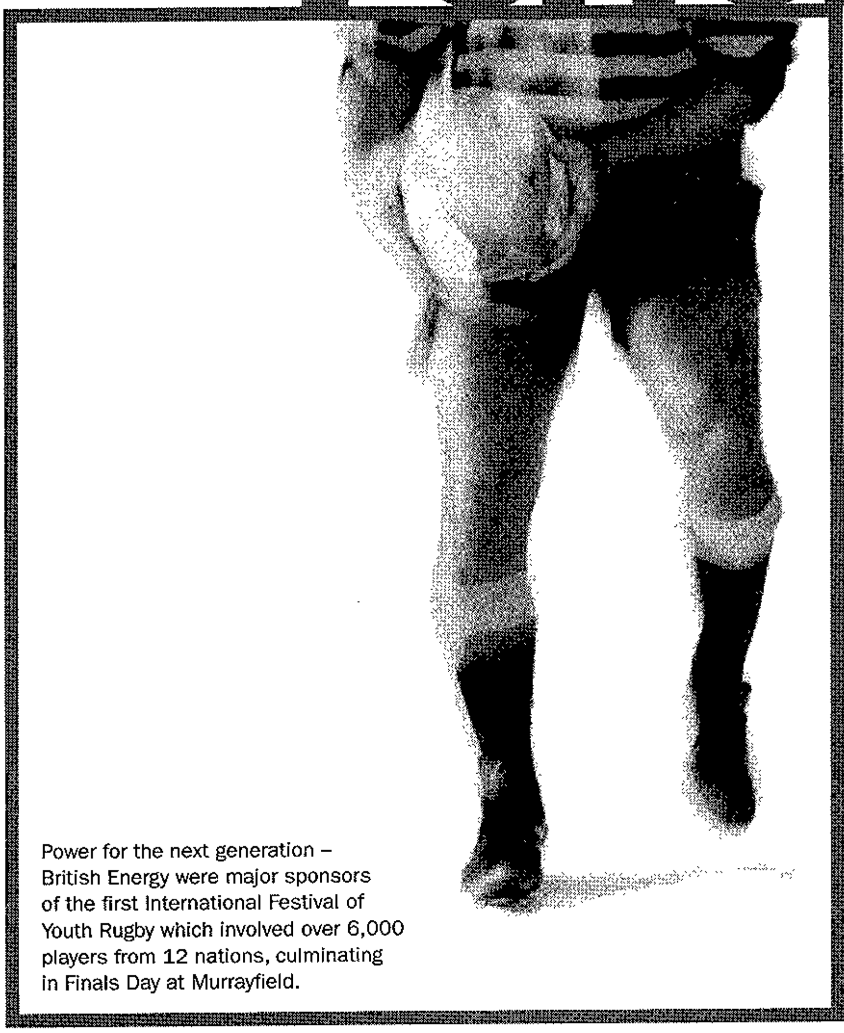


Northern Ballet's approach is fresh, innovative and progressive – and demands skills and dedication of the highest order from its performers. Qualities well to the fore in this season's performance of Romeo and Juliet, supported by British Energy.

A strong Performer in competitive markets



Power for the next generation – British Energy were major sponsors of the first International Festival of Youth Rugby which involved over 6,000 players from 12 nations, culminating in Finals Day at Murrayfield.

Our joint venture with PECO Energy – AmerGen – has made significant progress in its initial assessment of potential nuclear power station acquisitions in the US. The venture seeks to capitalise on the core skills of both companies – profitable, efficient nuclear generation in competitive deregulated markets. The prospects remain good, with attention now focusing on an initial tranche of power stations primarily in the east of the United States.

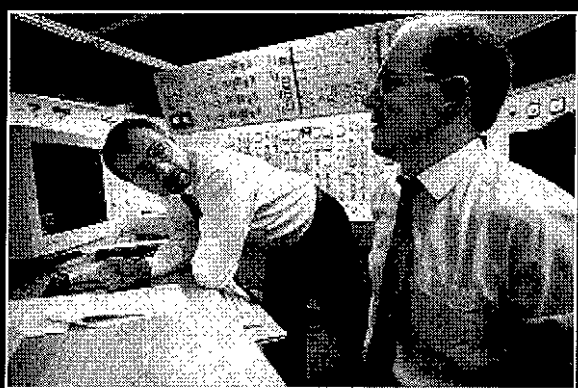
In Canada, we have completed the initial phase of a scoping exercise examining a possible public/private sector partnership in Ontario Hydro's nuclear generation business. Ontario Hydro has five nuclear stations, whose combined capacity is c. 14,000 MW. A number of its reactors are currently shut down and it is judged that considerable improvements in their management and operation are feasible. We await decisions in Ontario over the shape and timetable for restructuring of the electricity supply industry.

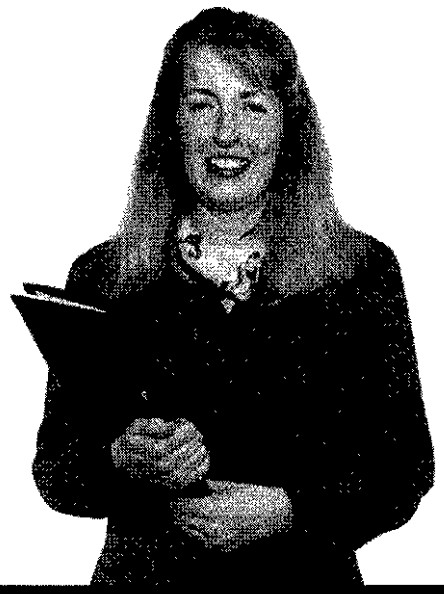
British Energy is in a strong position to capitalise on any potential opportunities.

One of our primary objectives is to diversify our plant and fuel mix. Early in the year, we announced the acquisition of a 12.5% share of Humber Power, which is building and operating a combined cycle gas turbine station at South Humber Bank. 750 MW of a planned 1,260 MW is already in operation giving British Energy valuable experience in this sector of the market. Our joint venture with Southern Electric, Sabre Power, has been formed to develop small (up to 50 MW) "embedded generation" plants at a number of sites around England and Wales. Using modern gas turbine technology, and in some cases combined heat and power techniques, these plants will directly serve local customers, and operate in the mid-merit and peaking sectors of the market, enhancing our overall generation and earnings profile.

Integration throughout the British Energy Group is a key target – and we are continuing to drive towards this in order to produce further business benefits. As a reflection of this, we have also launched a single British Energy identity throughout the Group. This sets the pattern of the way we will work in the future.

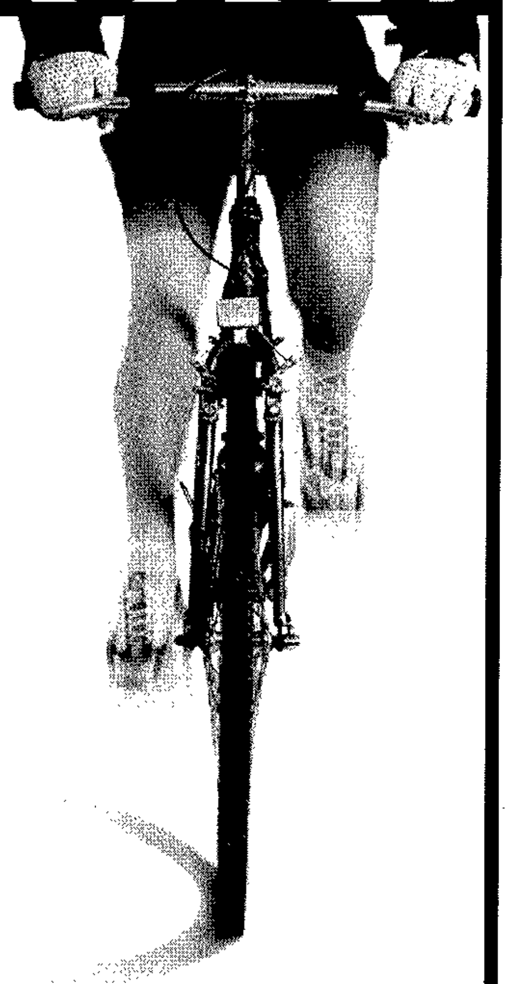
"Integration throughout the British Energy Group is a key target – and we are continuing to drive towards this in order to produce further business benefits."





Deanna O'Grady is a training officer in the Human Resources team – "My job is people – and I have no doubt that British Energy has staff of a very high calibre. I'm impressed with their commitment, and pleased with the Company's vision and foresight in investing in its people."

A clear Vision and Direction



Deanna's own commitment is equally clear. In February, supported by British Energy and others, she undertook a sponsored cycle ride across the Negev Desert in Israel to raise funds for MENCAP which seeks to help children with learning disabilities.

"Our excellent Health and Safety record has been improved still further ... all seven AGR stations received RoSPA Gold Awards."

Investing in People

British Energy recognises the vital contribution that our employees make to our success. We are committed to maximising the potential and ability of every employee through comprehensive training, education and development schemes. The majority of our sites are accredited with the Investors In People award.

Year 2000 Compliance

British Energy has made satisfactory progress in dealing with year 2000 system issues. A phased three-year, £30m programme is on track, with essential and business critical work due to be completed by the end of December 1998. This involves investigation, testing and where necessary modifying or replacing safety and business systems. We continue to discuss our safety assurance programme with our regulators. A number of our reactors are not due for an extended statutory outage before the year 2000, and these were early priority targets in a programme phased to ensure minimum disruption to our business. The programme has been subjected to external review, which has reported favourably. We are working with our suppliers, contractors and others to ensure their systems are also compliant – and we are playing a leading role in contingency planning for the UK utility sector as a whole.

Health and Safety

Our excellent Health and Safety record has been improved still further throughout 1997-98. No British Energy station exceeded its authorised radioactive discharge limits during the year. All our power stations aim to beat stringent targets for nuclear safety performance measured against international benchmarks, and once again there was no incident at any of our stations rated above level one (procedural variations) on the seven point International Nuclear Event Scale.

In industrial safety terms, we had another satisfactory year. For the first time, all seven of our AGR stations received Gold Awards from the Royal Society for the Prevention of Accidents (RoSPA). Four stations – Heysham 1, Heysham 2, Hunterston B and Torness – received Gold Medals in recognition of five or more successive Gold Awards.

One key internationally-accepted measure of industrial safety is the Accident Frequency Rate (AFR). British Energy's overall AFR is low and continuing to decrease although the comparison with the best in industry shows that we still have some way to go. Our aim is to be amongst the leading industrial companies in the UK for industrial safety.

Safety will always be our number one priority.

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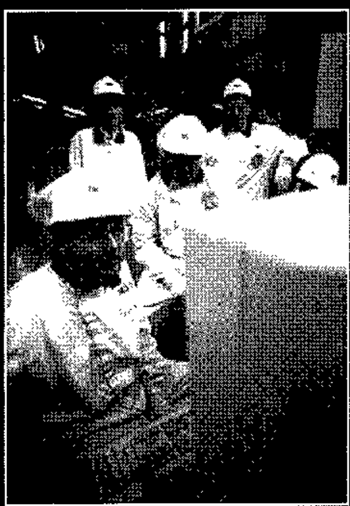

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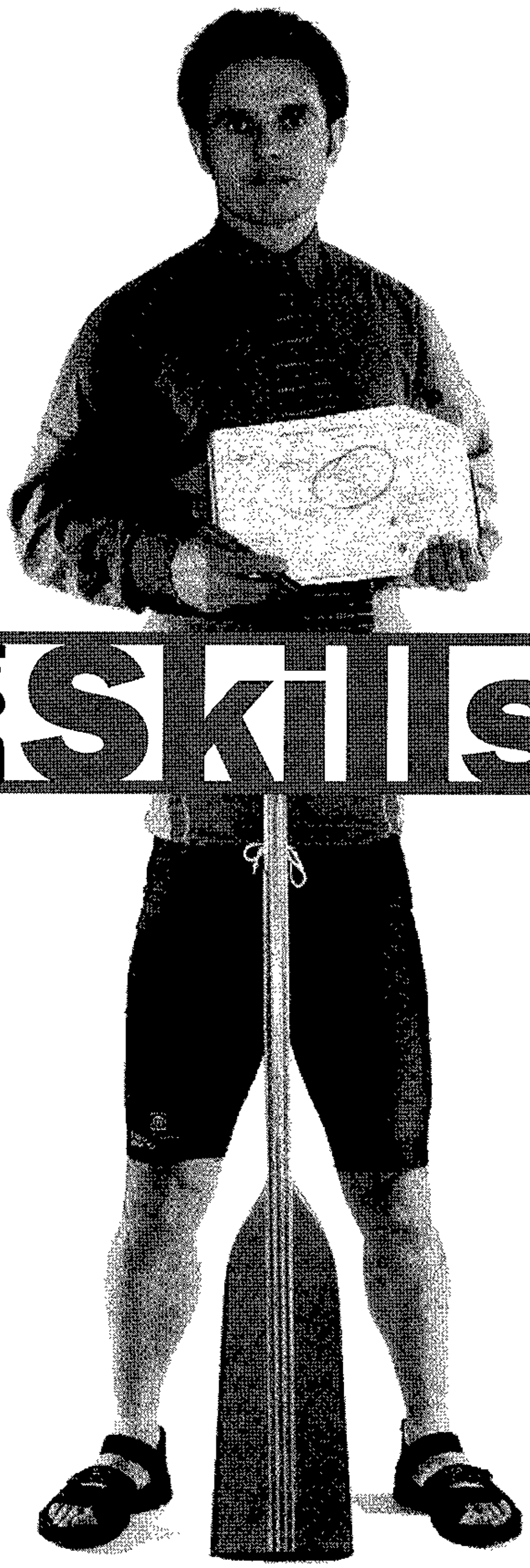
David Price is the Communications Officer at Hartlepool: "...we are committed to maximising the potential and ability of every employee through comprehensive training, education and development schemes."



Investing in Skills and Training

Dave is one of the internationally successful British Energy Dragon Boat team. Already UK champions, the Hartlepool power men, rowing for Great Britain, won the 1997 American International Open title at Cedar Rapids, Iowa. Skills, training and teamwork in action.

Waste and decommissioning

Following the previous government's decision to refuse permission for further development of a potential Nirex long-term deep waste repository at Sellafield, the present government is undertaking a review of long-term nuclear waste disposal policy. An underground waste repository offers the most environmentally sustainable long-term solution. However, there is no doubt that surface storage is a demonstrably safe option and allows flexibility in timing to develop the best long-term solution.

We continue to dispose of or store our nuclear waste in accordance with government policy, while making provision for permanent deep underground disposal, to ensure that the eventual outcome of the review will not have a negative impact on our business. Decommissioning our power stations after the fuel has been removed is projected to be fully covered by the independent decommissioning fund to which we continue to contribute £16m per annum.

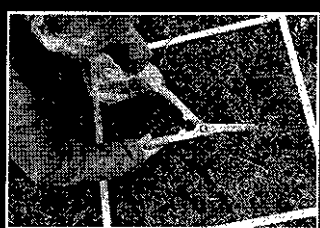
Community involvement

British Energy is pledged to a culture of openness. We produce full public information programmes including monthly output statements issued to the national press and the Stock Exchange, and regular station newsletters to local communities. At each of our power stations, Local Liaison Committees meet regularly to discuss matters of concern to the community. All our power stations have visitor centres and exhibition programmes, and last year the total number of visitors was over 300,000.

In keeping with our commitment to openness, we have extended the British Energy web site and were pleased when it was awarded top prize in its category by the Investor Relations Society for its presentation of last year's annual report. We encourage you to visit the web site – **www.british-energy.com.**

During a year of greater community involvement, we have sponsored a number of projects consistent with our values, with the emphasis on safety, the environment, teamwork and the key role to be played by the next generation. We funded a mobile first aid unit for the St Andrew's Ambulance Association, and a number of arts projects including Northern Ballet's Edinburgh season. The British Energy Hartlepool Dragon Boat achieved victories in international competition for Great Britain. We also sponsored the first International Festival of Youth Rugby at Murrayfield, involving over 6,000 players from 12 nations.

We were also major sponsors of the first Global Environment Conference on the Internet – Environment '97 – which is accessible through our web site. We are already committed to sponsoring Safety '98 on the internet which among other things emphasises key energy and environment issues including the role of nuclear power in combating global warming.



values

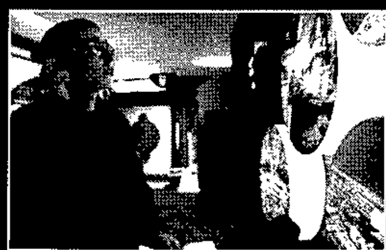
Safety first

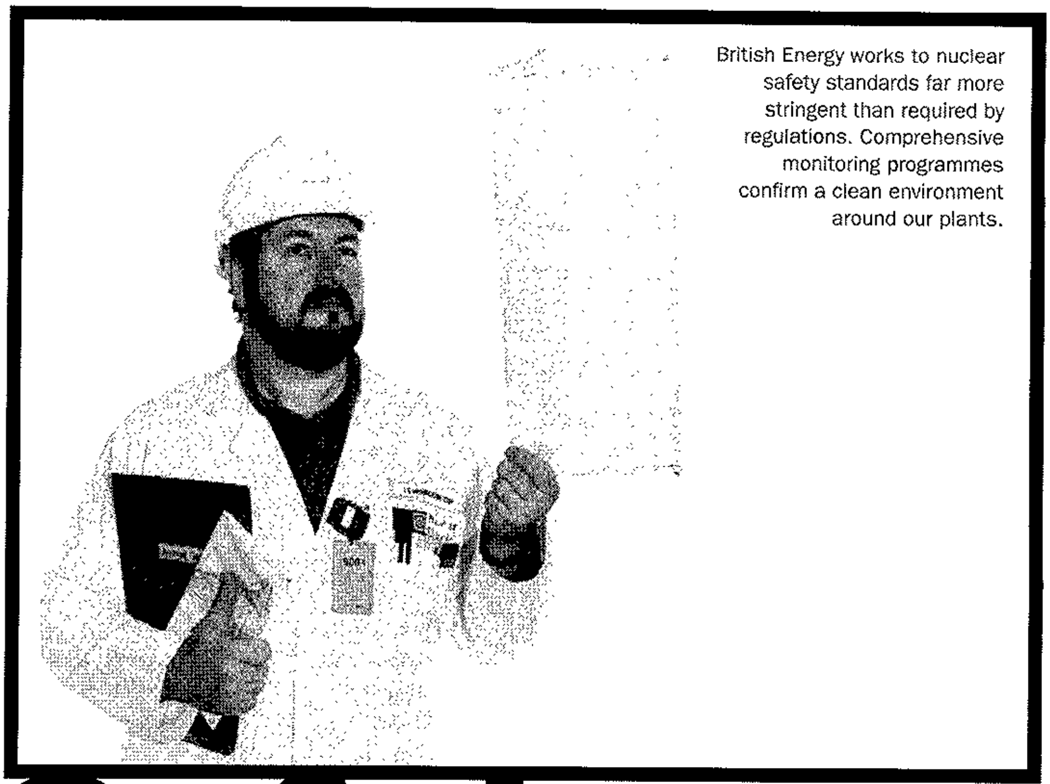
Profit through progress

Respect and recognition

Professional and personal integrity

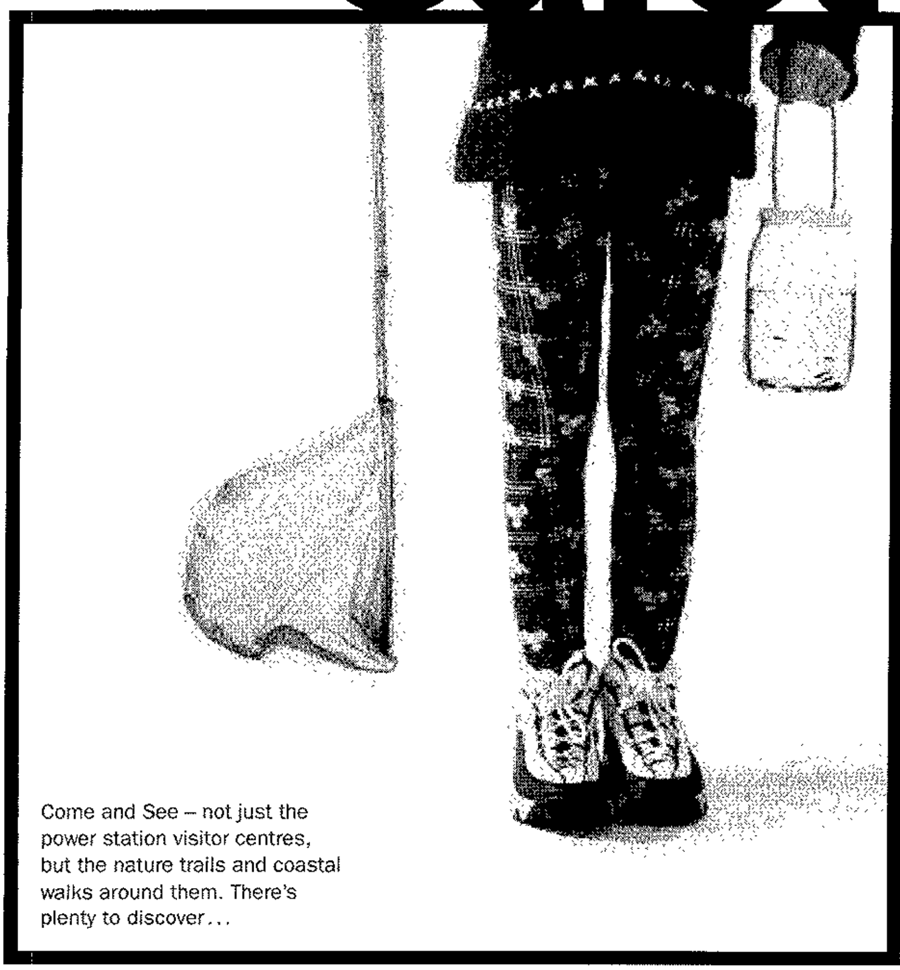
Openness





British Energy works to nuclear safety standards far more stringent than required by regulations. Comprehensive monitoring programmes confirm a clean environment around our plants.

Effective **Safety** management in our Community



Come and See – not just the power station visitor centres, but the nature trails and coastal walks around them. There's plenty to discover...

Our Environmental Policy

British Energy recognises it has a duty to care for the environment and will seek to continually improve its environmental performance by:

Reducing the environmental effect of its activities to a practicable minimum by the prevention of pollution, reduction of waste and the efficient use of resources.

Playing our part in the world...

In the wake of the World Environment Summit in Kyoto, has come a new realisation that the effects of global warming must be countered. Nuclear power – and British Energy – have a key role to play. Because our power stations produce negligible amounts of CO_2 and effectively no acid rain gases, they are a major factor in achieving environmental balance, counteracting the effects of burning fossil fuels. Together with international partners, we put forward the nuclear industry's case at Kyoto and are participating in the growing debate on how to solve this worldwide problem.

Our efforts are enabling the UK to achieve the CO_2 reduction targets to which the UK government is committed. We are very much part of the solution, and well placed to benefit from any future change designed to mitigate the effects of fossil fuel burning, such as carbon taxes or tradable emissions permits.

British Energy

...and in the community

Our claims to be environmentally friendly can only be sustained if we deliver consistently high standards in our day-to-day operations and in managing the environmental impact of our power stations, the transport of our materials, and in the treatment, storage and disposal of our waste products.

Our annual Health, Safety and Environment Report will allow those interested to see and assess the overall impact of British Energy's approach and critically appraise our performance.

Air, water and soil sampling confirms a clean environment around our power stations. Particular attention is paid to the food chain.

Environmental management

British Energy views safety and environmental protection as fundamental to the way we do business. We operate quality management systems (QMS), encompassing all key areas of business, including health, safety and the environment. Environmental management of all our power stations is based on the principles of the new international standard ISO14001. To date, six of our eight stations and our major operational offices have been externally audited and certified to this standard. During 1997 Sizewell B became the first nuclear power station to be accredited to the new European Eco Management Audit Scheme (EMAS).

British Energy actively works with its regulators, partners, contractors, customers and staff to enhance environmental awareness and, where appropriate, to audit environmental practice. There are tangible business benefits – for example in identifying British Energy as their electricity supplier, Honda of the UK Manufacturing Limited took into consideration a number of elements including cost competitiveness and environmental awareness, both key items in helping them to achieve their own business objectives.

As far as impact on the environment is concerned, British Energy's policy is to strive for best practice. Our power stations contribute much less than a thousandth of the overall radiation dose to the UK population – most of which comes from natural "background" sources such as granite rocks.

Indeed, our power stations typically discharge less radioactivity than equivalent coal-fired power stations – however the radiological impact of both is negligible.

Comprehensive environment monitoring programmes undertaken by British Energy and independently by the regulatory bodies around all our power stations confirm that our operations have negligible impact on the environment.

Each British Energy site – whether a power station or an office – has a programme of environmental objectives, ranging from management and reduction of waste, increasing recycling, minimising car usage and reducing paper usage. Reviews of volumes and types of waste produced identify ways of further reducing it, while recycling programmes now embrace office paper, scrap metal, oil, aluminium and plastic cups. Full details will be published in our Health, Safety and Environment Report.

Promoting the efficient use of energy.

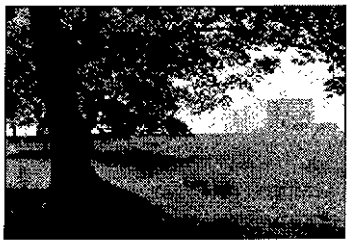
Continued development of a sense of environmental responsibility among staff and contractors.

Openly reporting performance against environmental targets.

and the Environment

We recognise and respect the reservations which the public has about the nuclear process, and we accept fully the responsibilities which that imposes on us to run our operations safely and cleanly. We therefore operate a rigorous environmental policy, which includes working to radiological standards much more stringent than international regulations require. At the heart of our business is the doctrine that safety will always be placed ahead of commercial gain. We are committed to a continuing programme of environmental improvement; to reducing the environmental impact of our activities; to promoting environmental responsibility among our staff and contractors; and to openly reporting our safety and environmental performance against published targets and independently recognised standards. We have clear targets, clear accountabilities, and a clear way forward.

Hunterston B – a familiar part of the Firth of Clyde scenery for over 20 years – sits between inshore fishing grounds and dairy cattle pastures.



All British Energy's power stations are on the coast, where the sea provides an abundant supply of cooling water for the steam turbines which produce the electricity...

...and, of course, the opportunity to look at a minnow or two.

Financial Review

"Further significant improvements in the year ended 31 March 1998. Profit before tax increased to £191m; net debt eliminated; unit operating costs down 6% to 1.98p/kWh.

We are pleased to report that the annual dividend is covered for the first time by profit after tax from our underlying business performance."

The year ended 31 March 1998 saw further significant improvements in British Energy's financial position: profit before tax, excluding exceptional items, increased to £191m from £61m in the previous year; the Group moved into a net funds position; and new and revised contracts negotiated with BNFL for the reprocessing and storage of spent fuel resulted in a reduction of £1.1bn in projected payments for spent fuel and waste liabilities.

Except where otherwise indicated, the commentary below refers to the "business performance" results which exclude the impact of exceptional items and the nuclear premium.

Turnover

Despite a small reduction in power station output, turnover increased by 4% to £1,954m mainly due to higher prices and an increase in our direct supply business.

	£m
Increased generation sales:	
– due to higher prices (average 2.63p/kWh, 3.5% up)	59
– less output reduction of 0.5 TWh (1%)	(13)
Net increase in generation sales	46
– Increase in direct supply business and miscellaneous sales	38
Total increase in turnover	84

British Energy's average achieved selling price was 4% higher than the average time-weighted pool price of 2.53p/kWh. This premium was due to a combination of three factors: the timing of statutory outages during summer when prices are generally lower; prices secured through Contracts for Differences and other instruments designed to protect the income earned by our six English stations against fluctuations in pool prices; and the effect of the Nuclear Energy Agreement pricing formula for electricity generated by our Scottish stations.

Operating Costs

Continued management pressure on costs resulted in an overall reduction in operating costs, excluding electricity purchases for direct sales, of £96m representing a 6% reduction in unit costs to 1.98p/kWh.

The largest savings were in back end fuel costs which fell by £38m, primarily as a result of the new and revised contracts with BNFL which came into effect from 1 April 1997. Materials and services costs fell by £28m (6%) reflecting a more focused use of the Group's resources. Staff costs decreased by £8m (3%). Productivity improved by 10% over last year to 11.7 GWh/employee.

Operating Profit

The progress outlined above resulted in an improvement in operating profit of 42% from £307m to £437m. The operating margin reached 22% of turnover, compared with 16% last year.

Financing Charges

Financing charges, comprising revalorisation and interest, were unchanged in total at £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. A similar revalorisation credit arises from restatement of the decommissioning fund assets. Taken together, the net revalorisation charge for the year at £224m was £28m higher, based on an inflation rate of 3.5% compared with 2.6% in the previous year.

Net interest payable fell by £28m to £22m, primarily reflecting the lower average net debt level.

Profit before tax and exceptionals was £191m, an increase of £130m over the previous year. It was also an improvement of £31m over the forecast of "not less than £160m" that we announced in March 1998, the biggest single cause of which was the March RPI of 3.5% turning out lower than our forecast.

Taxation

The tax charge for the year was £65m, an effective tax rate of 34%. The reduction in the effective tax rate from 41% in the previous year reflects both improved profitability which reduced the impact of costs that are disallowed for tax purposes, and the reduction in the basic rate of corporation tax from 33% to 31%.

Proposals for accounting for deferred taxation in the UK remain under review. In the event that full provision for deferred tax is required we continue to support the view that such provision should be discounted in line with our long-term nuclear liabilities. If the Group's full potential liability at 31 March 1998 was discounted, the total provision would be in the region of £300m.

Exceptional Items

Exceptional items totalled £85m pre-tax, comprising a £110m credit in respect of the BNFL contracts less a £25m charge in respect of employee share options. The £110m BNFL credit was a retrospective adjustment to back end fuel provisions made in previous years, due to price reductions in the new and revised contracts.

The employee share option charge is a result of issuing 19.5m shares to the British Energy Qualifying Employee Share Trust, to satisfy the exercise of options granted to employees under the Sharesave Scheme. These shares will not rank for dividend or be included for earnings per share purposes until the options are exercised between 1999 and 2002. The difference of £62m between the Trust's subscription price of £4.83 (the then market price) and the option exercise prices of £1.60 and £1.95, is accounted for as a tax deductible charge to the profit and loss account over the minimum option periods. £25m was charged in 1997-98, including a backlog charge for 1996-97 and the remaining £37m will be charged over the next four years. The scale of the profit and loss account charge reflects the increase in the share price since the options were granted.

Mike Kirwan
Finance Director

Earnings and Dividends

Profit after tax but before exceptionals increased by £90m to £126m. The corresponding earnings per share before exceptionals for the year were 18.1p compared with 5.1p in 1996-97. After exceptionals, profit after tax and earnings per share were £185m and 26.6p respectively.

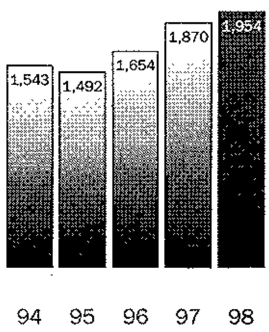
The Board is recommending a final dividend of 9.8p per share bringing the total dividend for 1997-98 to 14.7p per share, an increase of 7% over last year. The proposed annual dividend is covered for the first time by profit after tax from our underlying business performance. The Board is also recommending a special supplementary dividend of 10p per share.

Cash Flows and Funding

Net operating cashflow after capital expenditure and liability payments was £461m, an improvement of £57m (14%) on a like-for-like basis after excluding 1996-97's non-recurring items. At 31 March 1998 the Group held net funds of £10m, including term deposits and commercial paper, an improvement of £272m during the year.

A medium-term bank loan of £225m and bonds of £108m were repaid in the year. Debt at 31 March 1998 comprised £341m of bonds. The bonds mature between 2003 and 2016 and have interest rates which range between 8.2% and 8.9%.

Turnover
£m



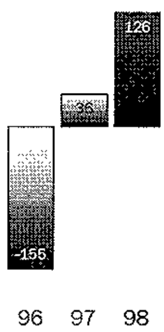
Nuclear Liabilities and Decommissioning Fund

The terms of the new and revised BNFL contracts reduced the Group's total liabilities in respect of spent fuel and waste management by £1.1bn equivalent to £400m when discounted at 3% per annum for accounts purposes.

Accrued nuclear liabilities at 31 March 1998 increased by just £4m to £3,790m. The liabilities increase each year due to the additional fuel burnt in our power stations, inflation, and the removal of one year's discount; and they are reduced by cash payments made during the year, which in 1997-98 totalled £287m. In 1997-98 they were further reduced by the £110m retrospective adjustment for BNFL contracts.

Post-defuelling decommissioning costs are covered by the Nuclear Decommissioning Fund, to which the Group made contributions of £16m. The fund is administered by trustees who are independent of British Energy. The trustees review the adequacy of funding and future contribution rates at five-yearly intervals, the first review being due in 2001.

Profit/(loss) after tax
£m



Other Provisions

British Energy utilised £35m of its brought forward restructuring provisions to offset severance costs of employees who left during the year. Provisions at the year end comprise £126m in respect of severance and restructuring, including enhanced pension costs, and £14m for insurance. No additional provisions were created.

Treasury Management

Cash resources, debt finance and financial risks are managed by the centralised Treasury function operating within policies and procedures approved by the Board on the advice of the Treasury Committee. The Treasury function uses appropriate instruments, within specified limits, to manage financial risks but is not permitted to take speculative, open positions.

Following a change in the Company's policy regarding the management of foreign currency exposure, the Treasury function is no longer required to hedge foreign currency commitments arising from new fuel purchases. Existing hedging contracts are expected to be retained to maturity. Material currency commitments on non-fuel contracts will continue to be hedged.

At 31 March 1998 all of British Energy's borrowings were at fixed interest rates. Following the repayment of the £225m medium-term loan during 1997-98 our bank arrangements, which were put in place at flotation, were rationalised. The existing revolving credit facilities were replaced by new facilities totalling £300m on improved terms.

CFDs and similar instruments are used to protect against fluctuations in Pool prices. Under these arrangements 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 generally cover 6 to 18 month periods and set out agreed prices per kWh for each individual half hour period over the CFDs' duration. Some other financial instruments run for periods of up to ten 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.

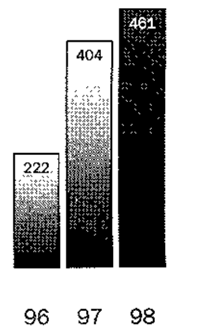
Although the majority of British Energy's income and expenditure is denominated in sterling, the Company recognises that European Economic and Monetary Union (EMU) could have a significant impact on its commercial activities. An internal team has been set up to review the potential impact of EMU on British Energy and to develop an appropriate strategy.

Capital Investment
British Energy's primary financial objective as regards capital investment is to create value for its shareholders. Detailed appraisals are carried out for all investment proposals to evaluate prospective returns and potential risks. Capital expenditure on the existing UK nuclear infrastructure fell by £32m to £78m reflecting the progress achieved in previous years on the planned programme of improvements and enhancements. In addition £16m was invested to acquire a 12.5% equity stake in Humber Power.

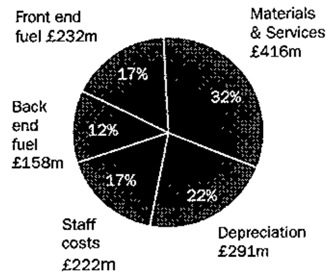
Asset Life Extension
On 2 April 1998 British Energy's Board took the decision to extend the accounting lives adopted for Hinkley Point B and Hunterston B power stations from 30 years to 35 years. This decision does not impact on the results for 1997-98 but will result in an ongoing annual improvement in profit before tax of some £20m with effect from 1998-99. There will also be a one-off exceptional credit in 1998-99 of some £50m to reduce existing fuel and decommissioning provisions.

Mike Kirwan
Finance Director
18 May 1998

Net Operating Cash Flow
£m



Operating Cost Analysis



Board of Directors

John Robb (62)+*
Chairman
Appointed Independent Chairman in 1995. Also Chairman of Logitron Holdings plc, Independent Director of Unigate plc and Chairman designate of Hewden Stuart plc. He is deputy Chairman of the Horserace Betting Levy Board. Formerly Chairman of Wellcome plc.

Sir Noel Davies (64)+*
Deputy Chairman
Appointed Independent Deputy Chairman in 1995. Currently Chairman of Powell Duffryn plc, Ricardo plc and British Energy's subsidiary Nuclear Electric Limited. He was formerly Chief Executive of VSEL plc.

Peter Hollins (50)†
Chief Executive
Appointed Chief Executive in February 1998. He was General Manager of ICI Resins BV from 1989 until 1992. Board Director responsible for the Polymers Division of European Vinyls Corporation (EVC International NV) from 1992 until 1998.

Robin Jeffrey (59)
Deputy Chairman
Appointed Deputy Chairman in 1995. He is British Energy's Executive Director, North America. Formerly, Chairman/Chief Executive of British Energy's subsidiary Scottish Nuclear Limited. Independent Director of London Transport Limited and London Underground Limited. Visiting Professor in Electrical Power Engineering at Strathclyde University.

Michael Kirwan (57)°†
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.

Peter Gray (48)†
Executive Director
Appointed Executive Director in 1996. Chief Executive of British Energy's subsidiary Nuclear Electric Limited. Also an Independent Director of PTS Group plc and an Industrial Professor at the University of Warwick. Previously Director of Norcros plc until 1994.

Sir Robin Biggam (59)+*

Independent Director

Appointed an Independent Director in 1996. Chairman of the Independent Television Commission, Electrium Limited and Fairey Group plc and an Independent Director of British Aerospace plc and Foreign & Colonial German Investment Trust PLC.

John Bullock (64)+*°

Independent Director

Appointed an Independent Director in 1995. Currently an Independent Director of Kingfisher plc, More Group Plc and Nuclear Electric Limited. Formerly Joint Senior Partner of Coopers & Lybrand.

- \+ denotes member of the Audit Committee
- * denotes member of the Remuneration and Nominations Committee
- ° denotes member of the Pensions Supervisory Committee
- † denotes member of the Treasury Committee

Peter Stevenson (51)+*°†

Independent Director

Appointed an Independent Director in 1995. Chairman of Mackays Stores (Holdings) PLC. Also an Independent Director of Scottish Nuclear Limited since 1990.

Julia Walsh (49)+*

Independent Director

Appointed Independent Director in 1996. Chairman of AVL Holdings Limited and Independent Director of Southalls Limited. Formerly Chief Executive of ADAS.

Corporate Governance

for the year ended 31 March 1998

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

The Directors welcome the Hampel Committee's report on Corporate Governance. The Company complies with most of its recommendations. A further detailed review of its recommendations will be made when the Stock Exchange has studied the report and issues its Code of Best Practice.

The Board

The Board comprises John Robb (Independent Chairman), four Executive Directors and five Independent Directors as set out on pages 22 and 23. Between July 1997 and February 1998 John Robb assumed, at the Board's request, the responsibilities of the Chief Executive Officer and resumed his role as Independent Chairman upon the appointment of Peter Hollins in February 1998.

The Independent 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 pages 22 and 23.

Audit Committee

The Audit Committee consists solely of Independent 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 financial statements to confirm they comply with all statutory requirements. The Committee discusses with the external and internal 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 and Nominations Committee

A separate report from the Remuneration and Nominations Committee appears on pages 26 to 29.

Treasury Committee

The Treasury Committee is chaired by Peter Hollins 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 appropriate policies and procedures.

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 misstatement 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 the 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 financial statements.

John Robb
Chairman
18 May 1998

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

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 24 and 25 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by The London Stock Exchange and the 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) if not otherwise disclosed.

Basis of Opinion

We carried out our review having regard to 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 Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, the statements of the Directors on internal financial controls on pages 24 and 25 and on going concern on page 25 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, the Directors' statement on page 24 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse
Chartered Accountants
Edinburgh
18 May 1998

Report of the Remuneration and Nominations Committee

for the year ended 31 March 1998

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 the Annexes to The London Stock Exchange Listing Rules.

British Energy retains a single Committee to cover the requirements of both Nominations and Remuneration and has concluded that this meets the requirements of the Hampel Report.

Remuneration and Nominations Committee

The Committee is concerned primarily with the pay and conditions of Executive Directors. In addition, it 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 senior employees.
- Design and implement long-term incentive schemes.
- Determine and review the individual remuneration packages of the Executive Directors and other selected senior employees, including pension provision.
- Authorise the annual performance incentive plan for Executive Directors.
- Obtain external professional advice and expertise necessary for the performance of its duties.

The Committee is made up of Independent Directors identified on pages 22 and 23 and is chaired by John Robb. While fulfilling executive duties between July and February, Mr Robb handed over the chairmanship of the Committee to Sir Noel Davies.

Executive Remuneration Policy

In establishing its policy, the Committee gives full consideration to the best practice provisions set out in the Annexes 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 can attract and retain Executive Directors with the skills and experience both to develop the business and to maximise the returns to shareholders. It targets total remuneration at the middle market level of its comparator companies.

It is the policy of the Committee that:

- A significant proportion of the Executive Directors' remuneration should be variable and linked to performance.
- The movement in base 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

The remuneration package comprises five elements. Each is reviewed against the market and a balance of elements is taken recognising the commercial and operational needs of the business and the policies outlined above.

The process for review draws comparisons on a job-by-job basis across a wide range of organisations, both inside and outside the energy sector. It utilises both external professional advisers and commercially available remuneration data and takes into account the specific demands of our core business.

(a) Base Salary

The Committee aims to maintain individual salaries at close to market median, taking into account experience and levels of responsibility. Analysis indicated that salaries were close to target levels in 1997-98. As a consequence, base pay increases in April 1997 were set at the same level as for other employees.

The appointment salary (£270,000) for Mr Hollins was determined by the Committee following consultation with external advisers and was fully in accordance with the principle of balancing the demands of market competitiveness with preservation of appropriate internal relativities.

(b) Annual Performance Incentive Plan

The performance related elements of the remuneration package are designed to recognise both corporate and individual success. The Committee reviewed the operation of the Annual Incentive Plan and took the view that a single scheme with common measures for each Director provided the most appropriate incentive structure for 1997-98.

In this plan, bonus 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 salary, depending on achievement against pre-set financial and safety measures. In 1997-98 cash flow, earnings and specific safety targets provided the main components in 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 1997-98, the payments under the plan ranged between 46.5% and 47.5% for each of the Executive Directors against a range of 43% to 46% in 1996-97. These rewards recognise the contribution of the Executive Directors to two highly successful years for the Company including the period during which the Company operated without a full-time Chief Executive. Bonus payments are non-pensionable.

(c) Share Option Schemes

As announced in last year's Report, the Committee agreed the grant of share options to Executive Directors equivalent in value to twice individual base salaries. The options were granted on 12 August 1997 at an option price of £2.60 per share and were granted in accordance with the rules of the No. 1 Scheme (an Approved Share Option Scheme) and the No. 2 Scheme (an Unapproved Share Option Scheme). Actual details are given on page 29. Exercise of these options is conditional on the achievement of an average annual growth in earnings per share of 3% ahead of RPI over three years.

On 5 February 1998, Mr Hollins was granted share options equivalent in value to twice his annual base salary. The option price was £4.72 per share.

Except for the above scheme and their participation in the all-employee Sharesave Scheme, no other long-term incentive schemes are available to Executive Directors.

(d) Retirement Benefits

Executive Directors have individually tailored retirement benefits as described below.

Pension arrangements for Mr Hollins provide for a pension equivalent to ⅔ final salary, taking into account pensions from all other sources, payable from age 62, his normal retirement age. A widow's pension of ⅔ of that available to Mr Hollins forms part of that arrangement.

Mr Hollins has retained benefits accrued in previous employment. He has become a member of the Scottish Nuclear Pension Scheme which provides him with 1/60 of pensionable salary for each year of service up to his normal retirement date and contributes 15% of the maximum pensionable salary determined by Inland Revenue limits. The Company will pay the balance of pension which is equivalent to ⅔ final salary (from age 62), less the pension provided from these other sources. Provision for this top-up pension will be partially unfunded.

Dr Jeffrey is a member of the Scottish Nuclear Pension Scheme, which provides 1/60 of base salary for each eligible year of service up to the normal retirement age of 63 and which includes widow's pension provision of one ½ of that available to Dr Jeffrey. The scheme requires a contribution of 5% of salary. Due to the date he joined the Scheme, Dr Jeffrey's pension is not capped.

The following sets out the relevant figures for Dr Jeffrey:

Age at 31 March 1998	59
Years of service at 31 March 1998	23, including service credits from a previous transfer into the Scheme
Additional annual pension earned during the year	£6,013
Accrued annual entitlement at 31 March 1998	£62,483 (£54,560 at 31 March 1997)

Mr Kirwan and Mr Warry are not members of any of the Company pension schemes. However, they received annual allowances in 1997-98 in accordance with a previously agreed schedule for their own pension and life assurance as follows:

	Company Pension Contribution £	Life Assurance Contribution £
Mr Kirwan	23,759	2,033
Mr Warry	21,000	1,000

(i) Mr Kirwan receives his contribution as a taxable supplement to salary.

(ii) Mr Warry participates in a personal pension plan into which the Company makes the maximum Inland Revenue age related contributions.

(e) Other Benefits

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

- A Company car and fuel
- Medical, PHI and dental insurance
- Reimbursement of telephone rental and a mobile phone
- Subscription to professional bodies
- Eligibility for the Company Sharesave Scheme

Service Contracts

Mr Hollins was appointed Chief Executive with effect from 1 February 1998. His appointment is for an initial two years and thereafter, his Contract requires twelve months notice of termination. He is required to give the Company six months notice.

All other Executive Directors now have a twelve months rolling contract.

The service contract of Dr Hawley, the former Group Chief Executive, ended on 30 June 1997. His termination package comprised:

(i) Compensation of £470,626 which represented the period outstanding on his contract and included accrued bonus from 1 April 1997 to his date of leaving.

(ii) A pension payable from 23 July 1999, the date of Dr Hawley's 60th birthday, at the rate of £13,925 per annum less the notional value of his personal pension annuity and which also provides for a widow's pension at the rate of one half of the pension payable to him immediately prior to his death. The pension provision is index linked up to a maximum of 10%. The capital cost of his augmented pension is estimated to be £95,000.

Independent Directors

The remuneration of Independent Directors is determined by the Board, without the participation of the Directors concerned. They do not have service contracts, they are not eligible for any of the Company Share Schemes and do not receive any pension provision from the Company. Remuneration levels were increased in line with those for Company employees in April 1997.

Mr Robb took on additional responsibilities whilst the Company was without a Chief Executive Officer. He received an additional fee for the time that the Company was without a Chief Executive Officer. Levels of fees paid during the year are given on page 29.

Individual Remuneration

The remuneration of Directors was as follows:

Year ended 31 March	Salary and Fees 1998 £	Salary and Fees 1997 £	Bonus 1998 £	Bonus 1997 £	Accommodation/ Relocation 1998 £	Accommodation/ Relocation 1997 £	Other Benefits 1998 £	Other Benefits 1997 £	Total Emoluments excluding Pension 1998 £	Total Emoluments excluding Pension 1997 £	Pension Contributions 1998 £	Pension Contributions 1997 £
J Robb	**178,957**	100,000	–	–	–	–	–	–	**178,957**	100,000	–	–
P Hollins	**45,000**	–	**21,375**	–	**23,692**	–	**2,218**	–	**92,285**	–	**1,960**	–
Sir Noel Davies	**98,400**	95,000	–	–	–	–	**6,530**	6,469	**104,930**	101,469	–	–
Dr R Jeffrey	**163,000**	147,212	**75,795**	87,082	–	–	**6,900**	6,606	**245,695**	240,900	**22,820**	21,554
M Kirwan	**168,500**	162,495	**80,038**	97,968	**63,976**	10,686	**15,523**	15,606	**328,037**	286,755	**23,759**	22,912
P Warry	**172,000**	66,248	**81,700**	30,401	–	–	**7,046**	3,255	**260,746**	99,904	**21,000**	8,201
Sir Robin Biggam	**20,700**	20,000	–	–	–	–	–	–	**20,700**	20,000	–	–
J Bullock	**31,100**	30,000	–	–	–	–	–	–	**31,100**	30,000	–	–
P Stevenson	**31,100**	30,000	–	–	–	–	–	–	**31,100**	30,000	–	–
Dr J Walsh	**20,700**	20,000	–	–	–	–	–	–	**20,700**	20,000	–	–
Total emoluments for current Directors	**929,457**	670,955	**258,908**	215,451	**87,668**	10,686	**38,217**	31,936	**1,314,250**	929,028	**69,539**	52,667
Dr R Hawley	**53,625**	207,000	–	122,730	**8,267**	31,914	**10,527**	22,522	**72,419**	384,166	**29,400**	28,770
Total emoluments	**983,082**	877,955	**258,908**	338,181	**95,935**	42,600	**48,744**	54,458	**1,386,669**	1,313,194	**98,939**	81,437
Compensation for loss of office: Dr R Hawley	–	–	–	–	–	–	–	–	**470,626**	–	–	–

(i) Mr Robb's basic fee for 1997-98 was £103,600. He was awarded an additional fee of £10,000 per month during the period from 1 July 1997 to 16 February 1998 when he undertook an executive role in the absence of a Chief Executive.

(ii) Mr Hollins joined the Company on 1 February 1998. The salary, bonus and other benefits shown for 1998 is for the two months to 31 March 1998. The salary shown equates to an annual salary of £270,000. The pension contribution shown represents only the payment made to the Trustees of the Scottish Nuclear Pension Scheme and is the maximum permitted within Inland Revenue limits. The costs of the top-up pension provision are expected to be around £46,000 p.a. for the funded portion and around £30,000 p.a. in respect of the unfunded portion. These costs are in addition to the costs in respect of the Scottish Nuclear pension provision.

(iii) Mr Warry was appointed as an Executive Director with effect from 7 November 1996. The salary, bonus and other benefits shown for 1997 are for a part year only. The 1997 salary shown equates to an annual salary of £166,000.

(iv) The accommodation/relocation costs include tax and national insurance payable by the Company as follows: Mr Hollins £5,477, Mr Kirwan £21,590 (1997: £3,703) and Dr Hawley £3,644 (1997: £14,083).

Shares and Share Options

	Ordinary Shares 1998	1997	Sharesave Options 1998	1997	Executive Share Options 1998
J Robb	26,387	20,000	–	–	–
P Hollins	–	–	–	–	114,406
Sir Noel Davies	420	420	–	–	–
Dr R Jeffrey	5,969	5,476	6,093	6,093	125,384
M Kirwan	25,497	20,555	6,093	6,093	129,615
P Warry	1,460	1,460	6,093	6,093	132,307
Sir Robin Biggam	20,000	10,000	–	–	–
J Bullock	10,000	10,000	–	–	–
P Stevenson	3,930	3,930	–	–	–
Dr J Walsh	–	–	–	–	–

All Sharesave options held by Executive Directors are exercisable within six months of 1 September 1999 at an exercise price of £1.60.

Executive Share Options were first granted in August 1997.

Executive Share Options for Mr Hollins are exercisable from 5 February 2001, subject to the achievement of the performance condition, at an option price of £4.72 per share. Of these options, 108,051 must be exercised on or before 4 February 2005. The remainder of 6,355 must be exercised on or before 4 February 2008. Executive Share Options for the remainder of the Directors are exercisable from 12 August 2000, subject to the achievement of the performance condition. Of these options, 352,692 must be exercised on or before 11 August 2004. The remainder of 34,614 must be exercised on or before 11 August 2007.

Directors' Report

for the year ended 31 March 1998

Financial statements

The Directors present their annual report and the audited Group financial statements for the year ended 31 March 1998.

Principal activities and review of the business

The Group's principal activity is the generation and sale of electricity. The Review of the Year and Financial Review on pages 6 to 21 review the Group's business performance during the financial year and its future prospects. The Group publishes a separate Health, Safety and Environment Report which is available from the Company Secretary.

Share capital

Details of shares allotted by the Company during the year are included in note 25 on page 53. Details of British Energy shares purchased by employee share trusts, which are sponsored by the Company, are included in note 13 on page 45.

Results and dividends

The consolidated results for the Group are set out in the Group Profit and Loss Account on page 33. The Directors are recommending a final dividend of 9.8p, payable on 28 July 1998 to shareholders on the register on 1 June 1998, making a total dividend for the year of 14.7p per ordinary share. The Directors are also recommending a special supplementary dividend of 10p per share payable on 28 July 1998 to shareholders on the register on 1 June 1998. The retained profit for the year of £14m was transferred to reserves.

Post balance sheet event

On 2 April 1998, the Directors decided to extend the accounting lives of two of the Group's power stations by five years. Further details are included in note 34 on page 56.

Substantial shareholdings

As at 18 May 1998 the Company had been notified of the following interests in 3% or more of the issued ordinary share capital of the Company:

Name	Shareholding m	% Shares Held
Templeton Investment Management acting on behalf of Franklin Resources Inc.	48.5	6.7

Research and development

During the year the Group invested £22m in research and development (1997: £20m). This is primarily scientific and engineering research activity which is directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities.

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 Report of the Remuneration and Nominations Committee on pages 26 to 29.

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 1998. At 31 March 1998 the Group had £37m of trade creditors which equates to 35 days value of supplier purchases for the financial year. The supplier purchases exclude payments to BNFL, the Group's principal supplier, which are made against an agreed contract profile.

Charitable and political contributions

The Group made charitable donations of £217,000 (1997: £220,000). No political donations were made.

Employees
The Group 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.

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
Binder Hamlyn resigned as one of the Company's joint auditors during the year and Price Waterhouse became sole auditors. A resolution proposing that Price Waterhouse be re-appointed as auditors of the Company will be put to the Annual General Meeting.

Annual General Meeting
The Company's Annual General Meeting will be held at 11 am on Tuesday 21 July 1998 at the Edinburgh International Conference Centre. A letter from the Chairman detailing the business to be considered at the meeting, together with a Notice of 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 by the Directors on Corporate Governance matters is set out in a separate report on pages 24 to 25.

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 18 May 1998 and signed on its behalf by:

Robert Armour
Company Secretary

Report by the Auditors

to the members of British Energy plc

We have audited the financial statements on pages 33 to 56 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 36 to 39. 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 and Nominations Committee on pages 26 to 29.

Respective responsibilities of Directors and auditors

As described on page 31, 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 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.

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 1998 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.

Price Waterhouse

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
Edinburgh
18 May 1998

Group Profit and Loss Account

for the year ended 31 March 1998

	Notes	1998 Total £m	Exceptional Items (Note 1) £m	1998 Business Performance £m	1997 Business Performance £m	Exceptional Items (Note 1) £m	1997 Total £m
Turnover: continuing activities	3	**1,954**	–	**1,954**	1,870	26	1,896
Operating costs	4	**(1,432)**	**85**	**(1,517)**	(1,563)	–	(1,563)
Operating profit: continuing activities		**522**	**85**	**437**	307	26	333
Financing (charges)/credits							
– revalorisation	7	**(224)**	–	**(224)**	(196)	–	(196)
– net interest (payable)/receivable	7	**(22)**	–	**(22)**	(50)	445	395
Profit on ordinary activities before taxation		**276**	**85**	**191**	61	471	532
Taxation on profit on ordinary activities	8	**(91)**	**(26)**	**(65)**	(25)	(10)	(35)
Profit for the financial year		**185**	**59**	**126**	36	461	497
Dividends							
– annual	10	**(102)**					(96)
– special supplementary	10	**(69)**					–
Retained profit for the year	27	**14**					401
Earnings per share (p)	11	**26.6**		**18.1**	5.1		71.0
Dividends per share (p)							
– annual	10	**14.7**					13.7
– special supplementary	10	**10.0**					–

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

Notes 1 to 34 form part of these financial statements.

Balance Sheets

as at 31 March 1998

	Notes	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Fixed assets					
Tangible assets	12	**4,945**	5,158	**1**	1
Investments	13	**126**	10	**25**	9
		5,071	5,168	**26**	10
Current assets					
Decommissioning fund	14	**289**	254	**–**	–
Stocks	15	**566**	615	**–**	–
Debtors	16	**227**	221	**1,488**	1,655
Investments – liquid funds		**350**	219	**350**	219
Cash at bank and in hand		**1**	192	**1**	192
		1,433	1,501	**1,839**	2,066
Creditors: amounts falling due within one year					
– borrowings	17	**–**	(108)	**–**	(108)
– others	19	**(768)**	(684)	**(196)**	(105)
		(768)	(792)	**(196)**	(213)
Net current assets		**665**	709	**1,643**	1,853
Total assets less current liabilities		**5,736**	5,877	**1,669**	1,863
Creditors: amounts falling due after more than one year					
– borrowings	17	**(341)**	(565)	**(341)**	(565)
– others	19	**(2,116)**	(2,063)	**–**	–
Provisions for liabilities and charges	20	**(1,672)**	(1,751)	**–**	–
Net assets		**1,607**	1,498	**1,328**	1,298
Capital and reserves					
Called up share capital	25	**720**	700	**720**	700
Share premium	26	**75**	–	**75**	–
Profit and loss account	27	**812**	798	**533**	598
Equity Shareholders' funds	28	**1,607**	1,498	**1,328**	1,298

The financial statements were approved by the Board of Directors on 18 May 1998 and signed on its behalf by:

John Robb
Chairman

Mike Kirwan
Finance Director

Notes 1 to 34 form part of these financial statements.

Group Cash Flow Statement

for the year ended 31 March 1998

	Notes	1998 £m	1997 £m
Net cash inflow from operating activities (excluding nuclear premium)	29	**542**	579
Nuclear premium income		**–**	26
Movement in nuclear premium debtor		**–**	13
Net cash inflow from operating activities		**542**	618
Interest paid		**(45)**	(62)
Interest received		**26**	19
Returns on investments and servicing of finance		**(19)**	(43)
Taxation paid		**(24)**	–
Payments to acquire tangible fixed assets		**(81)**	(110)
Receipts from sales of tangible fixed assets		**–**	4
Payments to acquire financial investments		**(18)**	(10)
Purchase of own shares		**(30)**	–
Capital expenditure and financial investment		**(129)**	(116)
Equity dividends paid		**(98)**	(32)
Increase in term deposits		**(131)**	(219)
Management of liquid resources	30	**(131)**	(219)
Issue of new shares		**1**	–
Repayment of amounts borrowed, net of new loans		**(333)**	(31)
Financing	30	**(332)**	(31)
Initial endowment of decommissioning fund		**–**	(228)
Decrease in cash	30	**(191)**	(51)

Notes 1 to 34 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 1998

1. BASIS OF PREPARATION

To assist shareholders to compare the underlying financial performance of the Group, "business performance" profit and loss account figures are shown which exclude exceptional items and the premium for nuclear generation in Scotland up to flotation in July 1996.

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 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 (xv) below.

(ii) Basis of consolidation

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.

(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.

2. ACCOUNTING POLICIES (continued)

(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 charged to the profit and loss account 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 reflect permanent impairment in value. 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 their 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 for the year ended 31 March 1998 were:

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

After the end of the financial year the lives of two of the Group's AGR power stations were reviewed and extended to 35 years (see note 34).

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.

2. ACCOUNTING POLICIES (continued)

(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.

Own shares purchased in respect of the employee share option and Sharesave option schemes are held at cost less charges to write down the shares to the option exercise prices over the minimum lives of the options.

(xii) 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 (note 2 (vi)).

(xiii) 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.

(xiv) 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.

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.

(xv) 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 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 by £19m (1997: £10m) and net assets by £29m (1997: £10m).

(xvi) Liquid funds

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 and the movement in liquid funds is disclosed under management of liquid resources in the cash flow statement.

(xvii) 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.

Notes to the Financial Statements

for the year ended 31 March 1998

3. TURNOVER

	1998 TWh	1997 TWh
Output	**66.7**	67.2

	1998 £m	1997 £m
Electricity generation	**1,752**	1,706
Direct supply sales	**188**	147
Miscellaneous income	**14**	17
Business performance turnover	**1,954**	1,870
Nuclear premium	**–**	26
Total turnover	**1,954**	1,896

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

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

The Group ceased to be eligible for a premium for nuclear power generation in Scotland with effect from the admission of British Energy Ordinary Shares to the Official List of The London Stock Exchange on 15 July 1996.

4. OPERATING COSTS

	1998 Total £m	Exceptional Items £m	1998 Business Performance £m	1997 Business Performance £m	Exceptional Items £m	1997 Total £m
Fuel						
– front end	**232**	**–**	**232**	249	–	249
– back end	**48**	**(110)**	**158**	196	–	196
Materials and services	**416**	**–**	**416**	444	–	444
Staff costs (note 5)	**247**	**25**	**222**	230	–	230
Depreciation	**291**	**–**	**291**	296	–	296
	1,234	**(85)**	**1,319**	1,415	–	1,415
Electricity purchases for direct supply sales	**198**	**–**	**198**	148	–	148
	1,432	**(85)**	**1,517**	1,563	–	1,563

During the year the Group entered into new and revised contracts effective from 1 April 1997 with BNFL covering additional fuel services. The new contracts result in a reduction as at 1 April 1997 of some £1,100m (£400m when discounted at 3 per cent per annum to take account of expected timing of payments) in total projected lifetime payments at current prices, of which £110m has been accounted for in the year as a backlog adjustment relating to fuel already burnt.

4. OPERATING COSTS (continued)

The exceptional staff costs of £25m arise in respect of shares issued to the British Energy Qualifying Employee Share Trust ("the QUEST") which is sponsored by the Company. Contributions and loans from the Group have been used by the QUEST to fund the subscription for shares in the Company, at the then market price of £4.83 (see note 25). The QUEST has entered into arrangements to meet the options granted to employees under the British Energy plc Sharesave Scheme at prices of £1.60 and £1.95, exercisable in the years 1999-2000 to 2002-03 (see note 25). The difference between the Sharesave Scheme option prices and the subscription price paid for the Company's shares by the QUEST, is being charged to the profit and loss account over the minimum lives of the options as follows. The 1997-98 charge includes a backlog element from the date the options were originally granted in 1996-97.

	£m
1997-98	**25**
1998-99	**15**
1999-2000	**11**
2000-01	**8**
2001-02	**3**
2002-03	**–**
	62

	1998 £m	1997 £m
Operating costs are stated after charging:		
Research and development	**22**	20
"Year 2000" costs	**3**	1
	£'000	£'000
Auditors' remuneration		
– statutory audit (Company: £35,000; 1997: £86,000)	**180**	310
– other services	**667**	526

The non-audit work principally consisted of services regarding potential investments, tax compliance and audit related services. "Year 2000" costs in future years are estimated to be in the region of £25m.

5. EMPLOYEE INFORMATION

(a) Staff costs

	1998 £m	1997 £m
Salaries	**196**	204
Social security costs	**16**	17
Pension costs (note 24)	**19**	21
Amortisation of share option costs (note 13)	**1**	–
Amounts capitalised	**(10)**	(12)
Business performance staff costs	**222**	230
Exceptional item (note 4)	**25**	–
Total staff costs	**247**	230

Notes to the Financial Statements

for the year ended 31 March 1998

5. EMPLOYEE INFORMATION (continued)

(b) Employee numbers

	1998 Number	1997 Number
Average number of employees during the year	**5,724**	6,366

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

	Number	Number
Managerial	**159**	157
Engineering	**2,277**	2,538
Industrial	**2,220**	2,471
Administrative	**960**	1,071
Trainees	**56**	73
	5,672	6,310

6. SUMMARY OF DIRECTORS' EMOLUMENTS

	1998 £'000	1997 £'000
Total emoluments, including pension contributions		
As Directors	**312**	301
For management services:		
– salaries and other benefits	**816**	674
– performance related bonuses	**259**	338
– pension contributions	**99**	81
	1,486	1,394
Compensation for loss of office	**471**	–
	1,957	1,394

Full details of the remuneration and share interests of the Directors are set out in the Report of the Remuneration and Nominations Committee on pages 26 to 29.

Notes to the Financial Statements

for the year ended 31 March 1998

7. FINANCING CHARGES/(CREDITS)

	1998 £m	1997 £m
Revalorisation of nuclear liabilities:		
– changes in price levels	**131**	96
– discharge of one year's discount	**112**	110
	243	206
Revalorisation of decommissioning fund	**(19)**	(10)
Revalorisation charge	**224**	196
Interest:		
Interest on amounts repayable within five years	**26**	31
Accrual for change in bond principal	**1**	8
Interest on loans repayable in five years or more	**22**	32
Interest receivable	**(27)**	(21)
Net interest before exceptional items	**22**	50
Exceptional item – waiver of restructuring debt	**–**	(445)
Net interest payable/(receivable)	**22**	(395)

For the year ended 31 March 1997 an exceptional credit of £445m was recognised following a waiver of restructuring debt by the Secretary of State on the flotation of the Company.

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the year comprises deferred tax (see note 23). 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 1998 exceptional items are taxable. The exceptional credit of £445m arising from the waiver of the restructuring debt by the Secretary of State on the flotation of the Company was not taxable.

9. PROFIT OF THE COMPANY

The profit of the Group includes £106m (1997: £544m) 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.

10. DIVIDENDS

	1998 p per share	1997 p per share	1998 £m	1997 £m
Annual dividend per ordinary share				
Interim paid	**4.9**	4.6	**34**	32
Final proposed	**9.8**	9.1	**68**	64
Total annual	**14.7**	13.7	**102**	96
Special supplementary dividend per ordinary share – proposed	**10.0**	–	**69**	–

Notes to the Financial Statements

for the year ended 31 March 1998

11. EARNINGS PER SHARE

The earnings per share for the year have been calculated on the basis of the profit on ordinary activities after taxation of £185m (1997: £497m); and by reference to a weighted average of 696 million ordinary shares (1997: 700 million ordinary shares). For the purposes of the calculation it has been assumed that 700 million ordinary shares were issued on 1 April 1996. The business performance earnings per share were based on a profit after tax of £126m (1997: £36m).

For earnings per share purposes, the shares held by the British Energy Employee Share Trust and British Energy Qualifying Employee Share Trust (see note 13) have been excluded as they will not rank for dividends until the options are exercised.

12. TANGIBLE FIXED ASSETS

Group

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 1997	9,694	43	215	9,952
Additions	61	2	15	78
Disposals	(2)	–	–	(2)
As at 31 March 1998	**9,753**	**45**	**230**	**10,028**
Depreciation				
As at 1 April 1997	4,638	21	135	4,794
Charge for the year	273	1	17	291
Disposals	(2)	–	–	(2)
As at 31 March 1998	**4,909**	**22**	**152**	**5,083**
Net book value				
As at 31 March 1998	**4,844**	**23**	**78**	**4,945**
As at 31 March 1997	5,056	22	80	5,158

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

	1998 £m	1997 £m
Cost	**2,225**	2,223
Net book value	**1,307**	1,358

Company

The Company owns other land and buildings of £1m.

13. FIXED ASSET INVESTMENTS

	Loans to Nirex £m	Own Shares £m	Other Investments £m	Group Total £m	Company Total £m
Cost					
As at 1 April 1997	38	–	10	48	9
Additions	3	124	18	145	16
As at 31 March 1998	**41**	**124**	**28**	**193**	**25**
Provision for diminution in value					
As at 1 April 1997	38	–	–	38	–
Charge for the year:					
– operating costs	3	1	–	4	–
– exceptional items	–	25	–	25	–
As at 31 March 1998	**41**	**26**	**–**	**67**	**–**
Net book value					
As at 31 March 1998	**–**	**98**	**28**	**126**	**25**
As at 31 March 1997	–	–	10	10	9

Loans 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.

Investment in own shares includes 9,135,842 £1 Ordinary Shares held by British Energy Employee Share Trust at cost less charges to write down the shares to the exercise price of the share options over the minimum life of the options. The shares were purchased at an average price of £3.31 per share for a total consideration of £30m.

The British Energy Qualifying Employee Share Trust holds 19,500,000 £1 Ordinary Shares at cost less charges to write down the shares to the exercise price over the minimum life of the options. The shares were issued at £4.83 each by the Company and purchased by the British Energy Qualifying Employee Share Trust at that price for a total consideration of £94m.

During the year British Energy purchased a 12.5 per cent equity stake for £16m in Humber Power Limited, a company which is building and operating a combined cycle gas turbine power station in Humberside. The Company's insurance subsidiary purchased a further £2m of investments.

Notes to the Financial Statements

for the year ended 31 March 1998

13. FIXED ASSET INVESTMENTS (continued)

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 shareholding %	Company shareholding %	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
British Energy Inc	US	Ordinary	100	–	Holding company
Other holdings of more than 10 per cent					
AmerGen Energy LLC	US	Ordinary	50	–	Generation and sale of electricity
Sabre Power Limited	UK	Ordinary	50	50	Generation and sale of electricity
Humber Power Limited	UK	Ordinary	12.5	12.5	Generation and sale of electricity
United Kingdom Nirex Limited	UK	Ordinary	10.8	–	Disposal of nuclear waste

Included in the Group accounts are the assets of British Energy Employee Share Trust and the assets of British Energy Qualifying Employee Share Trust, which are trusts set up to hold shares purchased on behalf of the Group's employees under the Employee Share Scheme and the British Energy Sharesave Scheme respectively.

14. DECOMMISSIONING FUND

	Group £m
As at 1 April 1997	254
Regular contributions	16
Revalorisation (see note 7)	19
As at 31 March 1998	**289**

The decommissioning fund asset in the balance sheet represents the contributions made by the Group, together with an estimated actuarially determined long-term post-tax rate of return on the fund of 3.5 per cent per annum. 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 decommissioning fund asset is receivable in more than one year.

Notes to the Financial Statements

for the year ended 31 March 1998

15. STOCKS

	Group	
	1998 £m	1997 £m
Unburnt nuclear fuel in reactors	**469**	464
Provisions for unburnt fuel at station closure	**(242)**	(220)
Net unburnt nuclear fuel in reactors	**227**	244
Other nuclear fuel	**211**	237
Stores	**128**	134
	566	615

16. DEBTORS

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Trade debtors	**198**	181	**–**	–
Other debtors	**18**	10	**74**	26
Prepayments	**11**	30	**–**	2
Amounts due from subsidiary undertakings	**–**	–	**1,414**	1,627
	227	221	**1,488**	1,655

17. BORROWINGS

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

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Creditors:				
– amounts falling due within one year	**–**	108	**–**	108
– amounts falling due after more than one year	**341**	565	**341**	565
	341	673	**341**	673

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

	Bonds £m	Medium-term bank loan £m	Total £m
As at 1 April 1997	448	225	673
Repayments in year	(108)	(225)	(333)
Accrual for change in bond principal	1	–	1
As at 31 March 1998	**341**	**–**	**341**

17. BORROWINGS (continued)

The Group's borrowings are all unsecured. All borrowings are held directly by the Company.

The interest rate coupons on the bonds are as follows:

	At 31 March 1998	
	Coupon rate %	Principal £m
Bond 2003	8.194	102
Bond 2006	8.461	144
Bond 2016	8.883	106
		352

Following the renegotiation of lower bond coupon rates during 1996-97 a further amount of £11m is to be accrued over the remaining lifetime of the bonds as the benefits of the lower coupon rates are received, giving a total principal to be repaid of £352m.

Maturity of Borrowings

	1998 £m	1997 £m
Within one year	**–**	108
Between 1 and 2 years	**–**	56
Between 2 and 5 years	**100**	169
Over 5 years	**241**	340
Total	**341**	673

18. FINANCIAL INSTRUMENTS AND DERIVATIVES

Derivatives

The summary below of derivative instruments at 31 March 1998 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	193	–	(25)

The Group's outstanding forward exchange contracts mature between 1 April 1998 and 29 September 2001.

Notes to the Financial Statements

for the year ended 31 March 1998

19. OTHER CREDITORS

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Amounts falling due within one year				
Nuclear liabilities (note 21)	**301**	282	**–**	–
Trade creditors	**37**	36	**–**	–
Retentions	**9**	9	**–**	–
Other taxes and social security	**110**	103	**43**	24
Pensions	**–**	2	**–**	–
Accruals	**174**	188	**16**	17
Proposed dividends	**137**	64	**137**	64
	768	684	**196**	105

	Group	
	1998 £m	1997 £m
Amounts falling due after more than one year		
Nuclear liabilities (note 21)	**2,116**	2,039
Retentions	**–**	2
Pensions	**–**	22
	2,116	2,063

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	1998 £m	1997 £m
Nuclear liabilities (note 21)	**1,373**	1,465
Other provisions (note 22)	**140**	175
Deferred taxation (note 23)	**159**	111
	1,672	1,751

Notes to the Financial Statements

for the year ended 31 March 1998

21. NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decommissioning £m	**1998 Total £m**	1997 Total £m
As at 1 April 1997	2,321	664	801	**3,786**	3,733
Impact of BNFL contract negotiations	118	(118)	–	**–**	–
Charged to profit and loss account					
– operating costs	129	29	–	**158**	193
– revalorisation	157	33	53	**243**	206
– exceptional items	(21)	(89)	–	**(110)**	–
Payments in the year	(287)	–	–	**(287)**	(346)
As at 31 March 1998	**2,417**	**519**	**854**	**3,790**	**3,786**

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

	1998 £m	1997 £m
Creditors:		
– amounts falling due within one year	**301**	282
– amounts falling due after more than one year	**2,116**	2,039
Provisions for liabilities and charges	**1,373**	1,465
	3,790	3,786

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 and the storage and disposal of PWR spent fuel 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.

Projected payment details

Based on year end 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 per annum to the balance sheet date and the amounts accrued to date.

	Back end fuel costs contracted £bn	Back end fuel costs uncontracted £bn	Decommissioning £bn	**Group 1998 Total £bn**	Group 1997 Total £bn
Undiscounted	5.3	3.6	4.4	**13.3**	14.0
Discounted	3.6	0.8	0.9	**5.3**	5.6
Accrued to date	2.4	0.5	0.9	**3.8**	3.8

21. NUCLEAR LIABILITIES (continued)

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 decommissioning fund arrangements described in note 2 (xv), 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	Decommissioning £m	**Group 1998 Total £m**	Group 1997 Total £m
Within 5 years	1,444	86	83	**1,613**	1,572
6-10 years	1,037	145	113	**1,295**	1,530
11-25 years	1,960	467	430	**2,857**	2,845
26-50 years	394	439	51	**884**	1,330
51 years and over	427	2,490	–	**2,917**	3,165
	5,262	3,627	677	**9,566**	10,442

22. OTHER PROVISIONS

	Group			
	Restructuring £m	Insurance £m	**1998 Total £m**	1997 Total £m
As at 1 April 1997	161	14	**175**	208
Payments in the year	(35)	–	**(35)**	(33)
As at 31 March 1998	126	14	**140**	175

The restructuring provision is a provision for redundancy and severance costs, based on the Group's existing restructuring programme, including provisions for the cost of enhanced pensions on early retirement.

23. DEFERRED TAXATION

	Group					
	1998			1997		
	Full potential liability £m	**Amounts unprovided £m**	**Liability/ (asset) recognised £m**	Full potential liability £m	Amounts unprovided £m	Liability/ (asset) recognised £m
Accelerated capital allowances	**1,001**	**(505)**	**496**	1,064	(562)	502
Other long-term timing differences	**(54)**	–	**(54)**	(56)	–	(56)
Short-term timing differences	**(30)**	–	**(30)**	(62)	–	(62)
Corporation tax losses	**(186)**	–	**(186)**	(249)	–	(249)
	731	**(505)**	**226**	697	(562)	135
ACT recoverable offset			**(67)**			(24)
			159			111

23. DEFERRED TAXATION (continued)

	Group 1998 £m
As at 1 April 1997	111
Charge for the year	91
ACT recoverable offset	(43)
As at 31 March 1998	**159**

The full potential liability for deferred tax has been calculated using the expected tax rate of crystallisation of 30 per cent (1997: 33 per cent). The Company does not have a deferred tax liability at 31 March 1998 (1997: £nil).

24. 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.

24. PENSION OBLIGATIONS (continued)

(iii) British Energy's pension costs for the year to 31 March 1998 were £19m. At that date there was a prepayment to the Scottish Nuclear Pension Scheme of £9m (1997: prepayment to the Scottish Nuclear Pension Scheme of £11m and a creditor to the Nuclear Electric Pension Group of £24m).

(iv) The High Court has overturned the ruling 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 re-organisation or redundancy. However, as leave to appeal to the Court of Appeal was granted, the existing provisions for enhanced pensions have been maintained.

(v) Actuarial valuations of the Group's pension schemes as at 31 March 1998 are currently being undertaken. The results of these valuations will not be finalised until later in 1998.

25. CALLED UP SHARE CAPITAL

	1998 £m	1997 £m
Authorised		
875,000,000 (1997: 875,000,000) Ordinary Shares of £1 each	**875**	875
One special rights redeemable preference share of £1	**–**	–
	875	875
Allotted, called up and fully paid		
719,800,146 (1997: 700,000,000) Ordinary Shares of £1 each	**720**	700
One special rights redeemable preference share of £1	**–**	–
	720	700

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.

During the year 19,500,000 Ordinary Shares were allotted for cash of £4.83 per share to the British Energy Qualifying Employee Share Trust under the Company's Sharesave Scheme arrangements (see note 4) and 300,146 shares were allotted to individual employees for cash of £1.60 per share.

25. CALLED UP SHARE CAPITAL (continued)

Details of Share Option schemes are set out on pages 26 to 29 of the Remuneration and Nominations Committee Report. Options outstanding at 31 March 1998, together with their exercise prices and dates of exercise, are as follows:

	Exercise price per share £	Exercise date	No. of Ordinary Shares 1998	1997
British Energy Sharesave Scheme	1.60	1999	**6,303,332**	7,256,314
	1.60	2001	**10,629,099**	11,274,962
	1.95	2000	**1,525,560**	–
	1.95	2002	**1,432,988**	–
Employee Share Scheme	2.60	2000	**8,399,309**	–
	4.08	2000	**680,161**	–
Senior Management Share Scheme	2.60	2000	**2,622,366**	–
	3.95	2000	**22,264**	–
	4.72	2001	**114,406**	–

26. SHARE PREMIUM ACCOUNT

	Group £m	Company £m
As at 1 April 1997	–	–
Shares issued	75	75
As at 31 March 1998	**75**	**75**

The Company issued 19,500,000 shares during the year at a premium of £3.83 per share. The remaining 300,146 shares were issued at a premium of £0.60 per share.

27. PROFIT AND LOSS ACCOUNT

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
As at 1 April 1997	**798**	397	**598**	150
Retained profit/(loss) for the year	**14**	401	**(65)**	448
As at 31 March 1998	**812**	798	**533**	598

The profit and loss account of the Group at 31 March 1998 includes £29m of unrealised profits (see note 2 (xv)) (1997: £10m).

28. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Group	
	1998 £m	1997 £m
As at 1 April 1997	1,498	397
Shares issued	95	700
Profit for the financial year	185	497
Dividends	(171)	(96)
As at 31 March 1998	1,607	1,498

29. RECONCILIATION OF OPERATING PROFIT TO OPERATING NET CASH FLOWS

	Group	
	1998 £m	1997 £m
Operating profit including exceptional items	522	333
Nuclear premium	–	(26)
Exceptional items	(85)	–
Business performance operating profit	437	307
Depreciation charges	291	296
Nuclear liabilities charged to operating costs	158	193
Nuclear liabilities discharged	(287)	(346)
Other provisions discharged	(35)	(33)
Regular contributions to decommissioning fund	(16)	(16)
Decrease in stocks	49	147
Increase in debtors	(6)	(48)
(Decrease)/increase in creditors	(49)	79
Net cash inflow from operating activities (excluding nuclear premium)	542	579
Payments to acquire tangible fixed assets (net of disposal receipts)	(81)	(106)
Net cash inflow from operating activities net of capital expenditure	461	473
Adjustments for non-recurring items:		
Non-recurring stock sale	–	(87)
Backlog payments to BNFL	–	53
Working capital adjustments relating to Magnox Electric split	–	(35)
Net cash inflow from operating activities net of capital expenditure and excluding non-recurring items	461	404

Notes to the Financial Statements

for the year ended 31 March 1998

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

	1998 £m
Decrease in cash in the year	**(191)**
Increase in liquid resources	**131**
Repayments of amounts borrowed	**333**
Accrual for change in bond principal	**(1)**
Decrease in net debt in the year	**272**
Net debt at 1 April 1997	**(262)**
Net funds at 31 March 1998	**10**

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 funds/ (debt) £m
As at 1 April 1997	192	219	(108)	(565)	(262)
Accrual for change in bond principal	–	–	–	(1)	(1)
Cash flows	(191)	131	108	225	273
As at 31 March 1998	**1**	**350**	–	**(341)**	**10**

32. CONTINGENT LIABILITIES

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.

33. FINANCIAL COMMITMENTS

	1998 £m	1997 £m
Capital expenditure contracted but not provided	**10**	14

In addition to the reprocessing commitments there are commitments for fuel purchases totalling £1,264m, at current prices, over the next 10 years.

34. POST BALANCE SHEET EVENT

On 2 April 1998 the Board decided to extend the accounting lives of Hinkley Point B and Hunterston B power stations by five years with effect from 1 April 1998. As a result, the accounting lives of these stations will each increase from 30 years to 35 years, changing the assumed closure dates for accounting purposes from 2006 to 2011. Together the asset life extensions will result in an ongoing improvement in profit before tax of approximately £20m per annum, with effect from 1998–99. In addition there will be a one-off exceptional credit of approximately £50m in 1998-99 in respect of fuel and decommissioning provisions.

Shareholder Information

For the year ended 31 March 1998

Financial Calendar

	1998
Ex-dividend date for 1997-98 final and special supplementary dividends	26 May
Annual General Meeting	21 July
Payment of 1997-98 final and special supplementary dividends to shareholders registered on 1 June 1998	28 July
Announcement of 1998-99 interim results	11 November
Ex-dividend date for 1998-99 interim dividend	23 November

	1999
Payment of 1998-99 interim dividend to shareholders registered on 23 November 1998	28 January

Analysis of ordinary shareholders at 31 March 1998

Size of holding	Number of shareholders	%	Number of shares held	%
Less than 1,000	279,201	97.07	116,515,344	16.19
1,000-9,999	7,396	2.57	16,918,187	2.35
10,000-49,999	397	0.14	8,720,382	1.21
50,000-99,999	136	0.05	9,741,731	1.35
100,000-999,999	387	0.13	124,974,631	17.36
1,000,000 and over	106	0.04	442,929,871	61.54
Total	287,623	100	719,800,146	100

Shareholder enquiries

The Royal Bank of Scotland has, with effect from 13 March 1998, transferred its registration business to Computershare Services PLC, who are now the Company's Registrars.

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 58.

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. Some building society accounts however are not suitable for direct payment dividends, in which case the tax voucher will be sent direct to the building society together with the shareholder's dividend voucher.

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 and forms may be obtained from the Company's Registrars Tel: 0131 523 6666.

Registered offices and Advisers for the year ended 31 March 1998

Share price information

British Energy's share price is broadcast on BBC Ceefax, page 224 and on Channel 4 Teletext, page 511. It also appears in the financial columns of the national press and on the Company's web site.

Internet

British Energy's web site on the Internet – www.british-energy.com – contains information on its activities as well as financial information. During the year, British Energy was awarded first prize for the presentation of its 1996-97 Annual Report on its web site in the Investor Relations Society's competition sponsored by The London Stock Exchange.

CREST

In conjunction with its registrars, British Energy has established arrangements 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 are available through the Registrars. Additional information on CREST can be obtained from CrestCo Limited, Trinity Tower, 9 Thomas More Street, London E1 9YN.

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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

baseload 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

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

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 1MW

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 shut down 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

[illegible]
refer to definition on page 19

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

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British Energy

"A year of notable progress on all fronts. Major improvements were achieved in our operating and financial results. We have the management strength in depth and the financial resources to meet the key challenges and opportunities ahead."

John Robb
Chairman

Peter Hollins
Chief Executive