BRITISH ENERGY plc

Company Number SC162273

DIRECTORS' REPORT AND ACCOUNTS

Directors' Report

for the year ended 31 March 2000

Financial Statements
The Directors present their annual report and the audited Group financial statements for the year ended 31 March 2000.

Principal Activities and Review of the Business
The Group's principal activities are the generation of electricity and sale of electricity and gas. The Review of the Year and Financial Review on pages 7 to 21 review the Group's business performance during the financial year and its future prospects. The Group also publishes a separate Health, Safety and Environment Report which is available from the Company's website at www.british-energy.com.

Share Capital
Details of shares allotted by the Company during the year and details of the return of value by the Company are included in note 27(b) on page 51. Details of British Energy shares purchased by employee share trusts, which are sponsored by the Company, are included in note 15 on page 43. On 8 December 1999 the Company listed its American Depository Receipts facility on the New York Stock Exchange.

Results and Dividends
The consolidated results for the Group are set out in the Group Profit and Loss Account on page 31. The Directors are recommending a final dividend of 2.3p, payable on 28 July 2000 to shareholders on the register on 26 May 2000, making a total dividend for the year of 8.0p per ordinary share. The retained profit for the year of £55m was transferred to reserves.

Substantial Shareholdings
As at 9 May 2000 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 (%)
Legal & General Investment Management Limited	19.0	3.1

Research and Development
During the year the Group spent £19m on research and development (1999: £21m). 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 Remuneration Report on pages 24 to 27. Details of current Directors are set out on page 6. Mr Low served on the Board from 15 July 1999 to 25 April 2000.

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 had no trade creditors at 31 March 2000. At 31 March 2000 the Group had £222m of trade creditors. Suppliers were paid on an average of 35 days for the financial year (1999: 35 days). 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 £119,000 (1999: £249,000). 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 is committed to its equal opportunities policies, which include the promotion of training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. The policy is supported by a Code of Practice on harassment, which recognises that all employees have the right to be treated with dignity and respect.

Auditors
A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors will be put to the forthcoming Annual General Meeting.

Annual General Meeting
The Company's Annual General Meeting will be held at 11am on Thursday 13 July 2000 at The Balmoral Hotel, Edinburgh. 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 22 and 23.

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

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

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

This report was approved by the Board of Directors on 9 May 2000 and signed on its behalf by:

Robert Armour
Company Secretary
9 May 2000

Report by the Auditors

to the members of British Energy plc

We have audited the financial statements on pages 31 to 53. We have also examined the information specified for our review by the Financial Services Authority which is included in the Remuneration Report on pages 24 to 27.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report. As described on page 29, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 22 and 23 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2000 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.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
9 May 2000

Pricewaterhouse Coopers.

Group Profit and Loss Account

for the year ended 31 March 2000

	Notes	2000 Total £m	Exceptional Items (Note 1) £m	2000 Business Performance £m	1999 Business Performance £m	Exceptional Items (Note 1) £m	1999 Total £m
Turnover: Group and share of joint venture		**2,092**	**–**	**2,092**	2,067	–	2,067
Less: Share of turnover in joint venture		**(34)**	**–**	**(34)**	–	–	–
Turnover: continuing activities	3	**2,058**	**–**	**2,058**	2,067	–	2,067
Operating costs	4	**(1,646)**	**(16)**	**(1,630)**	(1,594)	8	(1,586)
Operating profit: continuing activities		**412**	**(16)**	**428**	473	8	481
Share of operating profit of joint venture		**9**	**–**	**9**	–	–	–
Total operating profit: Group and share of joint venture		**421**	**(16)**	**437**	473	8	481
Financing (charges)/credits							
– revalorisation	7	**(189)**	**–**	**(189)**	(174)	36	(138)
– interest payable and similar charges	7	**(7)**	**–**	**(7)**	(1)	(66)	(67)
Profit on ordinary activities before taxation		**225**	**(16)**	**241**	298	(22)	276
Taxation on profit on ordinary activities	8	**(70)**	**5**	**(75)**	(97)	7	(90)
Share of taxation for joint venture		**(5)**	**–**	**(5)**	–	–	–
Profit for the financial year		**150**	**(11)**	**161**	201	(15)	186
Dividends							
– annual	10	**(48)**					(110)
– non-equity 'A' share dividend (relating to return of value)	10	**(45)**					–
– non-equity	10	**(2)**					–
Retained profit for the year	29	**55**					76
Earnings per share (p)							
– basic	11	**23.2**		**24.9**	29.3		27.1
– diluted	11	**22.7**		**24.4**	28.2		26.1
Dividends per share (p)							
– annual	10	**8.0**					16.0
– non-equity 'A' share dividend (relating to return of value)	10	**60.0**					–
– non-equity	10	**2.4**					–

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

Notes 1 to 35 form part of these financial statements.

Balance Sheets

as at 31 March 2000

	Notes	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Intangible assets	12	**192**	–	–	–
Tangible assets	14	**5,224**	4,743	**55**	1
Investment in joint venture:					
Share of gross assets		**222**	–	–	–
Share of gross liabilities		**(190)**	–	–	–
	15	**32**	–	–	–
Other investments	15	**172**	139	**38**	29
		5,620	4,882	**93**	30
Current assets					
Decommissioning fund	16	**360**	323	–	–
Stocks	17	**587**	558	–	–
Debtors	18	**447**	214	**3,404**	3,170
Investments – liquid funds	33	**37**	582	**37**	582
Cash at bank and in hand		–	2	–	–
		1,431	1,679	**3,441**	3,752
Creditors: amounts falling due within one year					
– borrowings	20	**(565)**	–	**(335)**	–
– other	19	**(793)**	(637)	**(50)**	(100)
		(1,358)	(637)	**(385)**	(100)
Net current assets		**73**	1,042	**3,056**	3,652
Total assets less current liabilities		**5,693**	5,924	**3,149**	3,682
Creditors: amounts falling due after more than one year					
– borrowings	20	**(408)**	(408)	**(408)**	(408)
– others	19	**(1,981)**	(2,059)	–	–
Provisions for liabilities and charges	22	**(1,991)**	(1,773)	–	–
Net assets		**1,313**	1,684	**2,741**	3,274
Capital and reserves					
Called up equity share capital	27	**277**	720	**277**	720
Share premium		**76**	76	**76**	76
Capital redemption reserve	28	**350**	–	**350**	–
Profit and loss account	29	**517**	888	**1,945**	2,478
Equity Shareholders' funds	30	**1,220**	1,684	**2,648**	3,274
Non-equity Shareholders' funds	27	**93**	–	**93**	–
Capital employed		**1,313**	1,684	**2,741**	3,274

The financial statements were approved by the Board of Directors on 9 May 2000 and signed on its behalf by:

Sir John Robb
Chairman

Mike Kirwan
Finance Director

Notes 1 to 35 form part of these financial statements.

Group Cash Flow Statement

for the year ended 31 March 2000

	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	31	**450**	557
Interest paid		**(25)**	(33)
Interest received		**27**	32
Returns on investments and servicing of finance		**2**	(1)
Taxation paid		**(19)**	(43)
Payments to acquire tangible fixed assets		**(137)**	(78)
Payments to acquire financial investments		**-**	(5)
Receipts from sales of financial investments		**9**	-
Purchase of own shares for employee trusts		**(63)**	(25)
Capital expenditure and financial investment		**(191)**	(108)
Payment to acquire Eggborough Power Station (note 13(b))		**(636)**	-
Payment to acquire Swalec (note 13(a))		**(107)**	-
Investment in joint venture		**(32)**	-
Acquisitions and disposals		**(775)**	-
Equity dividends paid		**(108)**	(173)
Decrease/(increase) in term deposits		**545**	(232)
Management of liquid resources	33	**545**	(232)
Purchase of own shares – share buy back		**(82)**	-
Return of value		**(389)**	-
Issue of new shares		**-**	1
New loans, net of repayment of amounts borrowed		**565**	-
Financing		**94**	1
(Decrease)/increase in cash	33	**(2)**	1

Notes 1 to 35 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2000

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.

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 (xvi) below.

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

(ii) Basis of consolidation

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

(iii) Turnover

Turnover represents amounts receivable for sales of electricity and gas 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, excluding sales by the US joint venture, one geographical market, that of the UK. Income from the sale of energy by Swalec represents the invoiced value of units supplied during the year together with an estimate of the value of unbilled units, based on estimated consumption since the last meter readings. The estimated unbilled units are included in prepayments and accrued income.

(iv) Fuel costs – nuclear 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 – nuclear back end

AGR

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

PWR

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

(vi) Unburnt fuel at shutdown

Due to the nature of the nuclear 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 nuclear station on a straight line basis.

(vii) Fuel costs – coal

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

(viii) Research and development

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

2. ACCOUNTING POLICIES (continued)

(ix) 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. Differences between the amounts funded and the amounts charged to the profit and loss account are included in the balance sheet.

(x) 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. Exchange differences resulting from the translation of net investments in associated undertakings are dealt with in reserves.

(xi) Tangible fixed assets and depreciation, including decommissioning costs

Fixed assets comprise assets acquired or constructed by the Group. Expenditure of a capital nature 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 2000 were:

AGR power stations	25-35 years
PWR power station	40 years
Coal power station	20 years
Other buildings	40 years
Other assets	5 years

During the financial year the lives of two of the Group's AGR power stations were reviewed and extended to 35 years (note 4).

The estimated costs for decommissioning the Group's nuclear 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.

(xii) Fixed asset investments

Investments in subsidiaries are stated at the nominal value of shares allotted. Fixed asset investments are stated at cost less amortisation or 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 vesting periods of the options.

(xiii) Stocks of fuel, stores and spares

Stocks of 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)).

(xiv) Deferred taxation

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

Notes to the Financial Statements

for the year ended 31 March 2000

2. ACCOUNTING POLICIES (continued)

(xv) Nuclear liabilities

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

(a) fuel costs – back end

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

(b) decommissioning of nuclear power stations

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

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

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 annum to take account of the timing of payments. Each year the financing charges in the profit and loss account include the revalorisation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

(xvi) 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 £20m (1999: £17m) and net assets by £66m (1999: £46m).

(xvii) 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.

(xviii) Financial instruments and derivatives

Financial instruments and derivatives are used to hedge interest rate, foreign exchange and trading risks. Profits and losses on financial instruments and derivatives are reported in the profit and loss account in the period to which they relate. Short-term debtors and creditors have been excluded from the disclosures made under FRS 13 "Derivatives and other financial instruments".

(xix) Goodwill

Goodwill arising on acquisition represents the excess of the fair value of the consideration at acquisition compared to the fair value of the identifiable net assets acquired. Goodwill is capitalised as an intangible asset on the balance sheet and amortised on a straight-line basis over its estimated useful life.

(xx) Joint ventures

The Group's share of the results of joint ventures is included in the consolidated financial statements based on the latest audited accounts of the joint ventures, except where the accounting reference date is not coterminous with the parent company, where management accounts are used.

3. TURNOVER

	2000 TWh	1999 TWh
Output	**63.7**	69.1
	£m	£m
UK electricity generation	**1,632**	1,839
Energy supply	**378**	219
Miscellaneous	**48**	9
	2,058	2,067

The Group's turnover almost entirely arises in the United Kingdom. The turnover, operating profits and net assets of the Group's joint venture, Amergen, relate entirely to activities in the United States of America. Acquisitions have not had a material effect on the results for the year.

Electricity generation represents the sale of electricity generated through the England and Wales Electricity Pool and to Scottish Power plc and Scottish & Southern Energy plc. The amounts reflect sums receivable less payable under Contracts for Differences. Energy supply represents the sale of electricity and gas direct to domestic, commercial and industrial customers.

4. OPERATING COSTS

	2000 Total £m	Exceptional Items £m	2000 Business Performance £m	1999 Business Performance £m	Exceptional Items £m	1999 Total £m
Fuel	**346**	**(17)**	**363**	418	(23)	395
Materials and services	**426**	**–**	**426**	454	–	454
Staff costs	**256**	**33**	**223**	227	15	242
Depreciation and amortisation	**260**	**–**	**260**	278	–	278
	1,288	**16**	**1,272**	1,377	(8)	1,369
Energy purchases for supply	**358**	**–**	**358**	217	–	217
	1,646	**16**	**1,630**	1,594	(8)	1,586

On 11 May 1999 the Board decided to extend the accounting lives of Heysham 2 and Torness power stations by five years with effect from 1 April 1999. The accounting lives of these stations have therefore increased from 30 years to 35 years, changing the assumed closure dates for accounting purposes from 2018 to 2023. As a result of the life extensions there were one-off exceptional credits of £17m to fuel. In accordance with FRS 12 the one-off reductions in decommissioning liabilities were credited directly against the decommissioning assets within the power station assets, rather than credited to the profit and loss account (note 14).

During 1998-99 the accounting lives of Hinkley Point B and Hunterston B power stations were increased by five years from 30 years to 35 years. As a result of these life extensions there were one-off exceptional credits of £23m to fuel and £36m to revalorisation (note 7).

4. OPERATING COSTS (continued)

The exceptional staff costs of £33m comprise restructuring costs of £22m in respect of an overhead reduction initiative announced in November 1999 and £11m of costs in respect of shares issued in 1997-98 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 subscription for shares in the Company, at the then market price of £4.83 (note 15). 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 (note 27). The difference between the Sharesave Scheme option prices and the subscription price paid by the QUEST is being charged to the profit and loss account over the minimum lives of the options as follows.

	£m
1997-98	**25**
1998-99	**15**
1999-00	**11**
2000-01	**8**
2001-02	**3**
2002-03	**–**
	62

	2000 £m	1999 £m
Operating costs are stated after charging:		
Research and development	**19**	21
"Year 2000" costs	**6**	10

Total "Year 2000" costs were £20m.

	£'000	£'000
Auditors' remuneration		
– statutory audit (Company: £35,000; 1999: £35,000)	**235**	180
– other services	**1,377**	1,574

It is the Group's policy to engage PricewaterhouseCoopers on assignments where their expertise and experience with the Group are important, or where they win work on a competitive basis. The non-audit work principally related to tax services, potential investments and audit related services including the listing of the Company's ADRs on the New York Stock Exchange.

5. EMPLOYEE INFORMATION

(a) Staff costs

	2000 £m	1999 £m
Salaries	**193**	197
Social security costs	**18**	17
Pension costs (note 26)	**11**	21
Amortisation of share option costs (note 15)	**10**	2
Amounts capitalised	**(9)**	(10)
Business performance staff costs	**223**	227
Exceptional item (note 4)	**33**	15
Total staff costs	**256**	242

5. EMPLOYEE INFORMATION (continued)

(b) Employee numbers

	2000 Number	1999 Number
Average number of employees during the year	**5,247**	5,389

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

	Number	Number
Power stations	**3,830**	3,957
Engineering, technical and corporate support	**1,326**	1,396
Retail markets	**34**	–
North America	**32**	10
	5,222	5,363

6. SUMMARY OF DIRECTORS' EMOLUMENTS

	2000 £'000	1999 £'000
Total emoluments, including pension contributions		
As Directors	**335**	363
For management services:		
– salaries and other benefits	**851**	827
– performance related bonuses	**129**	189
– pension contributions	**66**	71
	1,381	1,450
– compensation for loss of office	**–**	253
	1,381	1,703

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

7. FINANCING CHARGES/(CREDITS)

	2000 £m	1999 £m
Revalorisation of nuclear liabilities (note 23):		
– changes in price levels	**99**	79
– discharge of one year's discount	**110**	112
	209	191
Revalorisation of decommissioning fund (note 16)	**(20)**	(17)
Revalorisation charge before exceptional items	**189**	174
Exceptional item (see below)	**–**	(36)
Revalorisation charge	**189**	138
Interest:		
Interest on amounts repayable within five years	**8**	11
Interest on loans repayable in five years or more	**18**	22
Accrual for change in bond principal	**–**	1
Interest receivable	**(19)**	(33)
Net interest payable before exceptional items	**7**	1
Exceptional item (see below)	**–**	66
Interest payable and similar charges	**7**	67

The exceptional revalorisation credit of £36m in 1999 resulted from the extension of the accounting lives at Hinkley Point B and Hunterston B power stations. An exceptional interest charge of £66m in 1999 resulted from the repayment and reissue of the long-term bonds.

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2000 £m	1999 £m
UK Corporation tax	9	–
Deferred taxation on UK business performance profit before tax	60	97
Exceptional deferred tax credit	(5)	(7)
UK deferred tax charge for the year (note 25)	55	90
Overseas tax	6	–
	70	90

9. PROFIT OF THE COMPANY

The profit of the Group includes a loss of £12m (1999: profit of £2,055m) attributable to the Company. Following a reorganisation of the Group's legal structure the profit and loss account reserve of the Company includes an amount of £1,145m (1999: £1,772m) which is currently not distributable. As permitted under Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account.

10. DIVIDENDS

	2000 p per share	1999 p per share	2000 £m	1999 £m
Annual dividend per ordinary share				
Interim paid	5.7	5.3	35	36
Final proposed	2.3	10.7	13	74
Total annual	8.0	16.0	48	110
Non-equity 'A' share dividend (relating to return of value)	60.0	–	45	–
Non-equity dividend	2.4	–	2	–

The British Energy Employee Share Trust and the QUEST have elected to waive their entitlement to receive dividends for the year.

11. EARNINGS PER SHARE

The basic total earnings per share and basic business performance earnings per share for the year have been calculated on the basis of the profit on ordinary activities after taxation and non-equity dividends of £148m (1999: £186m) for the total figures and £159m (1999: £201m) for the business performance figures; and by reference to a weighted average of 639 million ordinary shares (1999: 687 million ordinary shares). The 'A' share dividends relate to the return of value and because of their capital nature have not been deducted from earnings in calculating earnings per share.

For the purposes of calculating diluted earnings per share, the shares held by the British Energy Employee Share Trust and the QUEST (note 15) have been included from the date from which the options were granted, taking into account the option price. The weighted average of ordinary shares used for calculating the diluted total earnings per share and diluted business performance earnings per share is 651 million (1999: 712 million). The increase of 12 million shares (1999: 25 million shares) from the basic weighted average number of shares is due to the dilutive effect of outstanding employee share options.

A reconciliation of total earnings per share to business performance earnings per share (which exclude exceptional items) is set out below.

	2000			1999		
	Profit attributable to ordinary shareholders £m	Earnings per share p/share	Diluted earnings per share p/share	Profit attributable to ordinary shareholders £m	Earnings per share p/share	Diluted earnings per share p/share
Total	148	23.2	22.7	186	27.1	26.1
Adjusted for exceptional items (notes 4 and 7)						
– operating costs	16	2.5	2.5	(8)	(1.2)	(1.1)
– revalorisation	–	–	–	(36)	(5.3)	(5.1)
– interest	–	–	–	66	9.7	9.3
Taxation on exceptional items	(5)	(0.8)	(0.8)	(7)	(1.0)	(1.0)
Business performance	159	24.9	24.4	201	29.3	28.2

12. INTANGIBLE FIXED ASSETS

Group

	Goodwill on acquisition of subsidiary undertakings £m	Goodwill on acquisition of shares in associate £m	Total goodwill £m
Cost			
As at 1 April 1999	–	–	–
Additions	189	4	193
As at 31 March 2000	**189**	**4**	**193**
Amortisation			
As at 1 April 1999	–	–	–
Charge for the year	(1)	–	(1)
As at 31 March 2000	**(1)**	**–**	**(1)**
Net book value			
As at 31 March 2000	**188**	**4**	**192**
As at 31 March 1999	–	–	–

During 1999-2000 the Company acquired 26% of the share capital of Home Directory Limited for cash consideration of £4m. The acquisition resulted in goodwill of £4m, which is being written off over five years. The goodwill relating to the acquisition of Swalec (£189m) is being written off over 20 years.

13. ACQUISITIONS

(a) On 17 February 2000 British Energy Retail Markets Limited, a wholly owned subsidiary of British Energy plc, acquired the electricity supply business and assets of South Wales Electricity plc and the entire issued share capital of Swalec Gas Limited (together "Swalec").

The total consideration comprised £107m of cash. The book value of Swalec at the date of acquisition was as follows:

	Book Value at 17 Feb 2000 £m	Fair Value Adjustment £m	Fair Value at Acquisition £m
Tangible assets	**10**	**–**	**10**
Debtors	**172**	**–**	**172**
Creditors	**(157)**	**–**	**(157)**
Provision for onerous contract (net of deferred tax asset)	**–**	**(107)**	**(107)**
Net assets acquired	**25**	**(107)**	**(82)**
Goodwill			**189**
Consideration – satisfied by cash			**107**

The provisional fair value adjustment relates to an existing contract to purchase electricity at prices which are expected to significantly exceed the future market price. The provision will be finalised in the 2000-01 accounts following a detailed review of the contract and related electricity price forecasts.

13. ACQUISITIONS (continued)

(b) On 3 March 2000 Eggborough Power (Holdings) Limited, a wholly owned subsidiary of British Energy plc, acquired the entire share capital of Boron Limited (which held the business and assets of Eggborough Power Station) from National Power plc. The total consideration comprised £646m of cash, £10m of which is deferred. The book value of Boron Limited at the date of acquisition was as follows:

	Book Value at 3 March 2000 £m	Fair Value Adjustment £m	Fair Value at Acquisition £m
Tangible assets	55	565	620
Stock	33	–	33
Debtors	16	–	16
Creditors	(23)	–	(23)
Net assets acquired	81	565	646

The fair value adjustment relates to the revaluation of Eggborough Power Station at the date of acquisition. The power station will be depreciated over its expected remaining useful life of 20 years. No goodwill arose on the acquisition.

(c) During the year British Energy's 50/50 joint venture with PECO Energy, Amergen, acquired Three Mile Island 1 and Clinton power stations in the USA. British Energy's share of the total consideration for these acquisitions was £4m. No goodwill arose on these acquisitions. The aggregate Group share of net assets in Amergen at the date of the acquisition was as follows:

	£m
Tangible assets	10
Fuel	10
Decommissioning fund	160
Debtors	7
Creditors	(23)
Decommissioning liabilities	(160)
Consideration – satisfied by cash	4

14. TANGIBLE FIXED ASSETS

Group

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 1999	9,810	47	250	10,107
Additions:				
On acquisition of subsidiaries	620	–	10	630
Others	90	–	47	137
Reclassifications	(10)	–	10	–
As at 31 March 2000	**10,510**	**47**	**317**	**10,874**
Depreciation				
As at 1 April 1999	5,173	23	168	5,364
Life extension adjustment (below)	27	–	–	27
Charge for the year	241	1	17	259
As at 31 March 2000	**5,441**	**24**	**185**	**5,650**
Net book value				
As at 31 March 2000	**5,069**	**23**	**132**	**5,224**
As at 31 March 1999	4,637	24	82	4,743

Following the accounting life extensions at Heysham 2 and Torness power stations (note 4), an adjustment of £27m has been made to depreciation at 1 April 1999 to reflect the change in carrying value of these stations' decommissioning assets.

14. TANGIBLE FIXED ASSETS (continued)

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

	2000 £m	1999 £m
Cost	**2,223**	2,223
Net book value	**1,206**	1,249

Company

	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost			
As at 1 April 1999	1	–	1
Transfers from other group companies	–	123	123
Additions	–	19	19
As at 31 March 2000	**1**	**142**	**143**
Depreciation			
As at 1 April 1999	–	–	–
Transfers from other group companies	–	74	74
Charge for the year	–	14	14
As at 31 March 2000	**–**	**88**	**88**
Net book value			
As at 31 March 2000	**1**	**54**	**55**
As at 31 March 1999	1	–	1

15. FIXED ASSET INVESTMENTS

Group

	Joint Venture £m	Loans to Nirex £m	Own Shares £m	Other Investments £m	Total £m
Cost					
As at 1 April 1999	–	42	149	33	224
Additions	23	–	86	–	109
Repayments	–	(6)	–	(5)	(11)
Disposals	–	–	(23)	(4)	(27)
Share of retained profits	9	–	–	–	9
As at 31 March 2000	**32**	**36**	**212**	**24**	**304**
Provision for diminution in value					
As at 1 April 1999	–	42	43	–	85
Charge/(credit) for the year:					
– operating costs	–	(6)	10	–	4
– exceptional items	–	–	11	–	11
As at 31 March 2000	**–**	**36**	**64**	**–**	**100**
Net book value					
As at 31 March 2000	**32**	**–**	**148**	**24**	**204**
As at 31 March 1999	–	–	106	33	139

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 for in the Group's financial statements. During the year £6m of the outstanding loans were repaid.

During 1999-2000 9,058,606 Ordinary Shares were purchased by British Energy Employee Share Trust at an average cost of £5.78 for a total consideration of £52m and 219,114 shares were allotted to employees at an average price of £3.38 per share for a total consideration of £1m. At 31 March 2000, 22,637,047 Ordinary Shares were held by British Energy Employee Share Trust with a total cost of £106m. These shares are held at cost less charges to write down the shares to the exercise price of the share options over the minimum life of the options.

15. FIXED ASSET INVESTMENTS (continued)
The QUEST holds 17,448,639 Ordinary Shares at cost of £106m less charges to write down the shares to the exercise price over the minimum life of the options. The shares were issued in 1997-98 at £4.83 each by the Company and purchased by the QUEST at that price for a total consideration of £94m. During 1999-2000 6,124,807 Ordinary Shares were allotted to employees for an average price of £1.60 per share for a total consideration of £10m. The QUEST purchased 4,250,000 Ordinary Shares at an average cost of £5.03 for a total consideration of £21m.

In addition, during the year the employee trusts received £13m of cash under the return of value, which has been reinvested in shares in the Company.

The market value of the shares held by the employee trusts at 31 March 2000 was £78m (1999: £174m) compared with the net book value of £148m (1999: £106m).

Company

	Subsidiary undertakings £m	Other investments £m	Total £m
Cost			
As at 1 April 1999	9	20	29
Additions	10	4	14
Repayments	–	(5)	(5)
As at 31 March 2000	**19**	**19**	**38**

There are no provisions for diminution in value of any of the Company's fixed asset investments.

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

Subsidiary undertakings

	Country of registration and operation	Class of share	Group shareholding %	Company shareholding %	Principal activity
Subsidiary undertakings					
British Energy Generation (UK) Limited	UK	Ordinary	100	100	Generation and sale of electricity
British Energy Generation Limited	UK	Ordinary	100	–	Generation and sale of electricity
British Energy Retail Markets Limited	UK	Ordinary	100	100	Sale of electricity and gas
Swalec Gas Limited	UK	Ordinary	100	–	Sale of gas
Eggborough Power Limited	UK	Ordinary	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%					
Amergen Energy LLC	US	Ordinary	50	–	Generation and sale of electricity
Home Directory Limited	UK	Ordinary	26	26	Internet property search company
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.

The accounting reference date of AmerGen Energy LLC is 31 December.

16. DECOMMISSIONING FUND

	Group £m
As at 1 April 1999	**323**
Regular contributions	**17**
Revalorisation (note 7)	**20**
As at 31 March 2000	**360**

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 real rate of return on the fund of 3.5% 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 after more than one year. The market value of the fund's investments at 31 March 2000 was £426m (1999: £363m).

17. STOCKS

	Group	
	2000 £m	1999 £m
Unburnt nuclear fuel in reactors	**459**	483
Provision for unburnt fuel at station closure	**(252)**	(249)
Net unburnt nuclear fuel in reactors	**207**	234
Other nuclear fuel	**210**	190
Coal stocks	**23**	–
Stores	**147**	134
	587	558

18. DEBTORS

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Trade debtors	**214**	187	**–**	–
Other debtors	**121**	16	**75**	69
Prepayments and accrued income	**112**	11	**3**	2
Amounts due from subsidiary undertakings	**–**	–	**3,326**	3,099
	447	214	**3,404**	3,170

19. CREDITORS

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Amounts falling due within one year				
Nuclear liabilities (note 23)	**300**	282	**–**	–
Trade creditors	**222**	21	**–**	–
Retentions	**5**	7	**–**	–
Other taxes and social security	**62**	76	**14**	9
Accruals	**189**	177	**21**	17
Proposed dividends	**15**	74	**15**	74
	793	637	**50**	100
Other creditors: amounts falling due after more than one year				
Nuclear liabilities (note 23)	**1,981**	2,059		

20. BORROWINGS

The Group's borrowings at 31 March 2000 were as follows:

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Short-term – sterling	**559**	–	**329**	–
Short-term – US dollar	**6**	–	**6**	–
Bonds – sterling	**408**	408	**408**	408
	973	408	**743**	408

All the Group's borrowings are unsecured. The short-term borrowings are at variable rates indexed to LIBOR with margins in the range of 22 to 47 basis points. The interest rate coupons on the bonds are as follows:

	2000	
	Coupon rate %	**Principal £m**
Bond 2003	**5.949**	**110**
Bond 2006	**6.077**	**163**
Bond 2016	**6.202**	**135**
		408

The interest rate risk profile of the Group's borrowings is as follows:

	Floating rate £m	**Fixed rate £m**	**Total £m**	**Weighted average interest rate %**	**Weighted average period for which the rate is fixed Years**
Sterling	**344**	**623**	**967**	**6.42**	**7.4**
US dollar	**6**	**–**	**6**	**6.60**	**–**
As at 31 March 2000	**350**	**623**	**973**		

At 31 March 2000, the effect of the Group's interest rate contracts is to classify £215m (1999: £nil) of borrowings as fixed rate in the above table.

Fair values

The fair values of the Group's borrowings at 31 March 2000 are as follows:

	2000		1999	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Short-term – sterling	**559**	**559**	–	–
Short-term – US dollar	**6**	**6**	–	–
Bonds – sterling	**408**	**385**	408	408
	973	**950**	408	408

The fair values of long-term bonds reflect their estimated market value as at 31 March 2000. The fair values of short-term debt and cash and term deposits approximate to their carrying value because of the short maturity of these instruments.

Maturity of borrowings

	2000 £m	1999 £m
Less than one year	**565**	–
Between two and five years	**110**	110
Over five years	**298**	298
	973	408

20. BORROWINGS (continued)

Borrowing facilities

At 31 March 2000 the Group had the following borrowing facilities. The 364-day facility expires within one year, the other facilities expire within two to five years.

	Drawn £m	Undrawn £m	Total £m
364-day facility	–	200	200
Revolving credit facility	230	120	350
Bilateral bank facilities	335	–	335
	565	320	885

21. FINANCIAL INSTRUMENTS AND DERIVATIVES

Derivative Financial Instruments

A summary of derivative financial instruments at 31 March 2000 is set out below.

	2000			1999		
	Contract principal amounts £m	Carrying value £m	Fair value £m	Contract principal amounts £m	Carrying value £m	Fair value £m
Foreign exchange forward contracts	89	–	(6)	125	–	(9)
Interest rate contracts	315	–	(1)	–	–	–

The principal currency of the forward exchange contracts is US dollars. The principal value of the contracts held in this currency is $110m (1999: $139m). Other forward exchange contracts are held in Dutch guilders and Deutschmarks, with principal values of 24m (1999: 49m) guilders and 24m (1999: 49m) Deutschmarks respectively.

The Group's outstanding forward exchange contracts mature between 1 April 2000 and April 2002. Fuel stock is stated after taking into account exchange movements on foreign exchange contracts associated with its purchase. The deferred loss at the year-end is included in stock and is being released to operating costs over a five-year period during which the associated fuel will be consumed.

The Group uses interest rate contracts to manage exposures to interest rate fluctuations. £265m of contracts were entered into shortly before 31 March 2000 and are deemed to have negligible fair value at that date.

A summary table of the net losses on derivative instruments is set out in the table below:

	2000 Unrecognised £m	2000 Deferred £m	1999 Unrecognised £m	1999 Deferred £m
Net losses on derivative instruments at 1 April 1999	(9)	(20)	(25)	(8)
Net losses arising in previous period included in current period profit and loss account	–	5	–	2
Net losses arising before 1 April 1999 not included in current period profit and loss account	(9)	(15)	(25)	(6)
Net gains/(losses) arising in current period not included in current period profit and loss account	2	(5)	16	(14)
Net losses on hedges at 31 March 2000	(7)	(20)	(9)	(20)
Of which:				
Net losses expected to be included in 2000-01 profit and loss account		(6)		
Net losses expected to be included in profit and loss accounts beyond 2000-01		(14)		

The fair value of the Group's derivative instruments has been calculated using the market rates in effect at the balance sheet dates.

The Group uses Contracts for Differences (CfDs) to protect against fluctuations in pool prices. The Group estimates that the fair value of CfDs outstanding at 31 March 2000 is a net liability of £50m (1999: net asset of £60m). The estimate is based on forward market prices on this date (over the period for which they are available) and the Group's forecasts of market prices thereafter. Further information about gains or losses on CfDs is not disclosed as the Directors believe such disclosure would be detrimental to the Group.

Further details of treasury and risk management are set out on page 21 of the Financial Review.

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2000 £m	Group 1999 £m
Nuclear liabilities (note 23)	**1,489**	1,421
Other provisions (note 24)	**253**	112
Deferred taxation (note 25)	**249**	240
	1,991	1,773

23. NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decommissioning £m	2000 Total £m	1999 Total £m
As at 1 April 1999	2,341	564	857	**3,762**	3,790
Life extension adjustment	–	–	(27)	**(27)**	(8)
Charged to profit and loss account					
– operating costs	126	17	–	**143**	166
– revalorisation (note 7)	130	31	48	**209**	191
– exceptional items	(6)	(1)	–	**(7)**	(45)
Payments in the year	(310)	–	–	**(310)**	(332)
As at 31 March 2000	**2,281**	**611**	**878**	**3,770**	3,762

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

	2000 £m	1999 £m
Creditors:		
– amounts falling due within one year	**300**	282
– amounts falling due after more than one year	**1,981**	2,059
Provisions for liabilities and charges	**1,489**	1,421
	3,770	3,762

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 current estimates of station lives and lifetime output projections, the following table shows, in current prices, the likely undiscounted payments, the equivalent sums discounted at 3% per 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 2000 Total £bn	Group 1999 Total £bn
Undiscounted	5.6	4.0	4.6	**14.2**	13.6
Discounted	3.6	1.0	0.9	**5.5**	5.3
Accrued to date	2.3	0.6	0.9	**3.8**	3.8

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.

23. NUCLEAR LIABILITIES (continued)

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 (xvi), the undiscounted payments in current prices are expected to become payable as follows:

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decommissioning £m	**Group 2000 Total £m**	Group 1999 Total £m
Within five years	1,331	138	86	**1,555**	1,563
6-10 years	1,051	177	187	**1,415**	1,254
11-25 years	1,896	521	325	**2,742**	2,982
26-50 years	734	442	75	**1,251**	883
51 years and over	552	2,762	–	**3,314**	3,117
	5,564	4,040	673	**10,277**	9,799

24. OTHER PROVISIONS

	Group				
	Power Purchase Agreement £m	Restructuring £m	Uninsured claims £m	**2000 Total £m**	1999 Total £m
As at 1 April 1999	–	98	14	**112**	140
Provided/(released) in year	153	22	(8)	**167**	–
Payments in the year	–	(26)	–	**(26)**	(28)
As at 31 March 2000	153	94	6	**253**	112

A provision was made on the acquisition of Swalec in respect of an onerous contract to purchase electricity over nine years at prices which are expected to significantly exceed the future market price (note 13 (a)).

The restructuring provision is a provision for redundancy and severance costs, based on the Group's existing restructuring programme, including a provision of £52m against the adverse outcome of the National Grid case (note 26). The amounts provided in the year relate to the cost reduction programme announced in November 1999.

The uninsured claims provision is in respect of compensation claims from employees for latent, non-radiation related illnesses. The provision relates to a period, prior to the Group's privatisation, when no insurance for such claims was held. A time expired element of the provision was released during the year.

25. DEFERRED TAXATION

	Group					
	2000			1999		
	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	**1,053**	**(510)**	**543**	1,023	(506)	517
Other long-term timing differences	**(103)**	**–**	**(103)**	(54)	–	(54)
Short-term timing differences	**(32)**	**–**	**(32)**	(30)	–	(30)
Corporation tax losses	**(83)**	**–**	**(83)**	(117)	–	(117)
	835	**(510)**	**325**	822	(506)	316
ACT recoverable offset			**(76)**			(76)
			249			240

	Group £m
As at 1 April 1999	**240**
Charge for the year (note 8)	**55**
Deferred tax asset on acquisition of Swalec	**(46)**
As at 31 March 2000	**249**

The full potential liability for deferred tax has been calculated using the expected tax rate of crystallisation of 30% (1999: 30%). The Company does not have a deferred tax liability at 31 March 2000 (1999: £nil).

26. PENSION OBLIGATIONS

On 1 October 1999 the Scottish Nuclear Pension Scheme (SNPS) was integrated with the Nuclear Electric Pension Group in the Electricity Supply Pension Scheme (ESPS). As a result the assets and liabilities of the SNPS were transferred to the Nuclear Electric Pension Group in the ESPS, to form the British Energy Generation Group. The SNPS has been wound up. The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group which participates in the ESPS is financially independent from the other groups.

The British Energy Generation Group has not been subject to formal valuation since its formation. The ESPS scheme actuary has, however, confirmed that at the date of integration there were sufficient assets in both predecessor schemes to cover their liabilities.

The most recent valuation of the SNPS was carried out at 31 March 1998 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 8.75% per annum, the rate of salary increase would be 6% per annum and the rate of pension increase would be 4.5% per annum. At the date of the valuation the market value of assets of the SNPS was £323m. This represents 107% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The most recent actuarial valuation of the Nuclear Electric Pension Group in the ESPS was carried out as at 31 March 1998 using the projected unit method and the same assumptions as for the SNPS. At the date of the valuation the market value of the assets of the Nuclear Electric Pension Group in the ESPS was £1,376m. This represents 108% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Following the acquisition of Swalec on 17 February 2000 the British Energy Combined Group (Combined Group) was formed in the ESPS. The transferred employees at Swalec and Eggborough Power Station are members of the Combined Group. An actuarial valuation of the Combined Group has not been undertaken. British Energy contributes 12% to both the British Energy Generation and Combined Groups. Contributing members make normal contributions of 5% to the British Energy Generation Group and 6% to the Combined Group. Any deficiency disclosed in the British Energy Generation Group or Combined Group following an actuarial valuation has to be made good by British Energy.

British Energy's pension costs for the year to 31 March 2000 were £11m net of surplus amortisation (1999: £21m). At that date there was a prepayment of £16m (1999: £8m).

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. Although the Court of Appeal has now ruled on the High Court decision, the legal position is not yet clear. The existing provisions for additional pension contributions have, therefore, been maintained on the basis of the current ruling (note 24).

27. CALLED UP SHARE CAPITAL

	2000 £m	1999 £m
Authorised		
875,000,000 Ordinary Shares of £1 each	–	875
991,679,020 Ordinary Shares of 44²⁸⁄₄₃p each	443	–
720,339,029 'A' shares of 60p each	432	–
One special rights redeemable preference share of £1	–	–
	875	875
Allotted, called up and fully paid		
720,339,029 Ordinary Shares of £1 each	–	720
620,362,444 Ordinary Shares of 44²⁸⁄₄₃p each	277	–
80,908,247 'A' shares of 60p each	48	–
74,741,066 deferred 'A' shares of 60p each	45	–
One special rights redeemable preference share of £1	–	–
	370	720

(a) Special rights redeemable preference share of £1

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% or more of the voting share capital), require the prior written consent of the holder of the special share.

27. CALLED UP SHARE CAPITAL (continued)

(b) Return of value

On 15 June 1999 the Directors issued a circular outlining proposals for a return of value by the Company, which were approved by shareholders at an Extraordinary General Meeting on 15 July 1999. This resulted in 43 new ordinary shares of $44\frac{28}{43}$p and 48 'A' shares of 60p being issued for every 48 existing ordinary shares of £1 registered on 6 August 1999. The shareholders had the option of selling their 'A' shares to the Company for 60p per share, receiving a single dividend of 60p per 'A' share, with the 'A' share becoming an unlisted deferred share with negligible monetary value, or keeping their 'A' shares and receiving a sub-LIBOR dividend payable annually from 10 August 2000, on the principal of 60p per share.

Following the repurchase of 474,750,496 'A' shares on 13 August 1999 the Company created a Capital Redemption Reserve of £285m.

A dividend of 60p per share was paid on 6 October 1999 to the holders of 74,741,066 'A' shares who opted for the immediate dividend, and these shares became deferred shares. The deferred shares have a nil fair value at 31 March 2000.

On 29 October 1999 the Company repurchased a further 89,999,220 'A' shares at 60p per share leaving 80,908,247 'A' shares outstanding. As a result a further £54m was added to the Capital Redemption Reserve. The 'A' shares are traded on The London Stock Exchange and at 31 March 2000 had a market value of 54p per share.

The 'A' shares and deferred shares do not carry any rights to receive notice of, attend, speak or vote at any general meeting, unless, in the case of 'A' shares, the meeting is due to consider a resolution for the winding-up of the Company, or the continuing dividend remains unpaid six months or more after it fell due. On a winding-up the 'A' shares have preferential rights over the ordinary shares in respect of the distribution of capital. The 'A' shares confer no rights to participate in the capital or profits of the Company beyond their nominal value. The deferred shares do not confer any rights to participate in the capital or profits of the Company, including on a winding-up of the Company.

(c) Other share purchases

During 1999-2000 the Company purchased and subsequently cancelled 24,995,000 ordinary shares. The shares were repurchased at an average consideration of £3.27 per share. This reduced the Company's issued share capital, and increased the Capital Redemption Reserve, by £11m. The repurchase resulted in a reduction in profit and loss account reserve of £82m.

(d) Share option schemes

Details of Share Option schemes are set out on pages 25 and 26 of the Report of the Remuneration Committee. Options outstanding at 31 March 2000, together with their exercise prices and dates of exercise, are as follows:

	Exercise price per share £	Earliest exercise date	No. of Ordinary Shares 2000	1999
British Energy Sharesave Scheme	1.60	1999	**7,068**	5,873,519
	1.60	2001	**9,817,557**	10,223,952
	1.95	2000	**1,331,060**	1,420,160
	1.95	2002	**1,376,383**	1,420,075
	4.44	2001	**642,448**	808,982
	4.44	2003	**837,765**	978,801
	4.39	2002	**1,654,365**	–
	4.39	2004	**1,167,395**	–
Employee Share Scheme	2.60	2000	**8,020,462**	8,220,629
	4.08	2000	**629,561**	668,561
	5.08	2001	**4,558,417**	4,635,633
	5.29	2002	**4,796,000**	–
Senior Management Share Scheme	2.60	2000	**2,308,950**	2,480,059
	3.95	2000	**22,264**	22,264
	4.72	2001	**114,406**	114,406
	5.08	2001	**965,118**	1,011,259
	6.67	2002	**19,865**	19,867
	6.49	2002	**21,263**	21,263
	5.29	2002	**1,032,404**	–
	3.57	2002	**34,952**	–

28. CAPITAL REDEMPTION RESERVE

	Group £m	Company £m
As at 1 April 1999	-	-
Created following return of value (note 27 (b))	**339**	**339**
Created following purchase and cancellation of own shares (note 27 (c))	**11**	**11**
	350	**350**

29. PROFIT AND LOSS ACCOUNT

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
As at 1 April 1999	**888**	812	**2,478**	533
Retained profit/(loss) for the year	**55**	76	**(107)**	1,945
Reduction due to return of value	**(344)**	–	**(344)**	–
Reduction due to other share purchases	**(82)**	–	**(82)**	–
As at 31 March 2000	**517**	888	**1,945**	2,478

The profit and loss account of the Group at 31 March 2000 includes £66m of unrealised profits (note 2(xvi)) (1999: £46m).

The profit and loss account of the Company at 31 March 2000 includes £1,145m of undistributable profits (note 9) (1999: £1,772m).

30. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Group	
	2000 £m	1999 £m
As at 1 April 1999	**1,684**	1,607
Shares issued	-	1
Profit for the financial year	**150**	186
Ordinary dividend	**(48)**	(110)
'A' share dividend (relating to return of value)	**(45)**	–
Reduction due to return of value	**(344)**	–
Reduction due to share buy back	**(82)**	–
Creation of non-equity shares	**(93)**	–
Non-equity dividend	**(2)**	–
As at 31 March 2000	**1,220**	1,684

31. RECONCILIATION OF OPERATING PROFIT TO OPERATING NET CASH FLOWS

	Group	
	2000 £m	1999 £m
Operating profit including exceptional items	**412**	481
Exceptional items	**16**	(8)
Business performance operating profit	**428**	473
Depreciation charges	**260**	278
Nuclear liabilities charged to operating costs	**141**	166
Nuclear liabilities discharged	**(310)**	(332)
Other provisions discharged/released	**(34)**	(28)
Regular contributions to decommissioning fund	**(17)**	(17)
Decrease in stocks	**4**	8
(Increase)/decrease in debtors	**(54)**	13
Increase/(decrease) in creditors	**32**	(4)
Net cash inflow from operating activities	**450**	557
Payments to acquire tangible fixed assets	**(137)**	(78)
Net cash inflow from operating activities net of capital expenditure	**313**	479

32. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2000 £m
Decrease in cash in the year	**(2)**
Decrease in liquid resources	**(545)**
Increase in debt	**(565)**
Increase in net debt in the year	**(1,112)**
Net funds at 1 April 1999	**176**
Net debt at 31 March 2000	**(936)**

33. ANALYSIS OF NET FUNDS/(DEBT)

	Cash at bank and in hand £m	Term deposits £m	Debt due in less than one year £m	Debt due after more than one year £m	Net funds/ (debt) £m
Net funds at 1 April 1999	2	582	–	(408)	176
Cash flows	(2)	(545)	(565)	–	(1,112)
Net debt at 31 March 2000	**–**	**37**	**(565)**	**(408)**	**(936)**

Cash not immediately required for business purposes is invested in fixed rate term deposits and commercial paper. At 31 March 2000 these instruments were due to mature within one month and earned interest at an average rate of 5.6%.

34. 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.

35. FINANCIAL COMMITMENTS

	2000 £m	1999 £m
Capital expenditure contracted but not provided	**38**	7

In addition to the reprocessing commitments there are commitments for fuel purchases totalling £1,275m, at current prices, over the next ten years.

Five Year Financial Summary

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Business Performance Results (excluding exceptional items)					
Turnover	**2,058**	2,067	1,954	1,870	1,654
Operating profit	**428**	473	437	307	130
Profit/(loss) before tax	**241**	298	191	61	(155)
Earnings	**161**	201	126	36	(155)
Operating cash flow (net of capital expenditure)	**313**	479	461	404	(191)
Results (including exceptional items)					
Turnover	**2,058**	2,067	1,954	1,896	2,553
Operating profit/(loss)	**412**	481	522	333	(967)
Profit before tax	**225**	276	276	532	130
Earnings	**150**	186	185	497	30
Ordinary dividends	**(48)**	(110)	(102)	(96)	–
Supplementary dividends	**–**	–	(69)	–	–
Balance Sheet					
Net assets	**1,313**	1,684	1,607	1,498	1,542
Net current assets	**73**	1,042	665	709	359
Nuclear liabilities (discounted)	**3,770**	3,762	3,790	3,786	3,733
Capital expenditure	**(137)**	(78)	(81)	(106)	(224)
Net (debt)/funds	**(936)**	176	10	(262)	–
Ratios					
Dividends per ordinary share (p/share)	**8.0**	16.0	14.7	13.7	–
Special supplementary dividend (p/share)	**–**	–	10.0	–	–
Earnings per share (p/share)	**23.2**	27.1	26.6	71.0	4.3
Business performance earnings per share (p/share)	**24.9**	29.3	18.1	5.1	(22.1)
Dividend cover (based on business performance)	**3.3**	1.8	1.2	0.4	–