

BRITISH ENERGY PLC
Form 6-K
December 10, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934

For the month of December 2004

BRITISH ENERGY PLC

3 Redwood Crescent, Peel Park
East Kilbride, G74 5PR
Scotland

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in the Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____ .

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BRITISH ENERGY PLC
QUARTER ENDED SEPTEMBER 30, 2004

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Introduction

In this quarterly report, except as otherwise specified, British Energy, the British Energy Group, the Group, the Company, we, us or our British Energy plc and its subsidiaries and any of their respective predecessors in business, as the context may require. We were incorporated under the United Kingdom Companies Act 1985, as amended (the Companies Act) on December 13, 1995.

Our registered office is located at 3 Redwood Crescent, Peel Park, East Kilbride, G74 5PR, Scotland, and our telephone number is 011 44 1355 262000. Our website address is www.british-energy.com. The information on our website is not a part of this quarterly report.

Exchange Rates

We publish our financial statements in pounds sterling. In this quarterly report, references to pounds sterling, £, pence or p are to UK currency. References to US dollars, US\$ or \$ are to US currency and references to Canadian dollars, or C\$ are to Canadian currency.

Technical Terms

This quarterly report refers to certain technical terms used to measure output of electricity and the production of electricity over time. The basic unit for the measurement of electricity output is a kilowatt (kW). The basic unit for the measurement of electricity production is a kilowatt-hour (kWh); that is, one hour of electricity production at a constant output of one kilowatt. One thousand kilowatts are a megawatt (MW) or, in terms of production, a megawatt-hour (MWh). One thousand megawatts are a gigawatt (GW) or, in terms of production, a gigawatt-hour (GWh). One thousand gigawatts are a terawatt (TW) or, in terms of production, a terawatt-hour (TWh).

Information Regarding Forward-Looking Statements

This quarterly report contains certain forward-looking statements as defined in Section 21E of the US Securities Exchange Act of 1934. Such forward-looking statements include, among others:

statements concerning our Proposed Restructuring and the effect of our Proposed Restructuring on our business and financial condition or results of operations;

the anticipated development of the UK electricity industry, the future development of regulation of the UK electricity industry, the effect of these developments on our business, financial condition or results of operations; and

other matters that are not historical facts concerning our business operations, financial condition and results of operations.

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These forward-looking statements involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results or performance to differ materially from those expressed or implied by such forward-looking statements. For a discussion of some of the risks associated with these forward-looking statements, see the section entitled **Item 3. Key Information Risk Factors** in the Form 20-F for the year ended March 31, 2004 dated September 30, 2004. Due to the uncertainties and risks associated with these forward-looking statements, which speak only as of the date hereof, we are claiming the benefit of the safe harbor provision contained in Section 21E of the US Securities Exchange Act of 1934.

Non-GAAP Financial Measures

Realized Price

We calculate our realized price for electricity by dividing revenue (net of energy supply costs and miscellaneous income) by total output. Realized price is not derived in accordance with accounting principles generally accepted in the United States (**US GAAP**) and should not be exclusively relied upon when evaluating our business. Realized price constitutes a Non-GAAP financial measure because we eliminate energy supply costs (i.e. the cost of transmitting electricity to our customers) and miscellaneous income from total turnover. We make these adjustments to turnover because we believe that they allow our management team and our investors to better understand the net price that customers are paying for our electricity.

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EBITDA and EBITDA excluding joint venture and business disposals

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. EBITDA and EBITDA excluding joint venture and business disposals are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, US GAAP. EBITDA and EBITDA excluding joint venture and business disposals are not measurements of our financial performance or liquidity under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

We present EBITDA and EBITDA excluding joint venture and business disposals because we believe that they are used by certain of our investors and other interested parties in evaluating our financial performance. EBITDA and EBITDA excluding joint venture and business disposals can facilitate comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and booked depreciation, amortization of assets (affecting relative depreciation and amortization of expense) and joint venture and business disposals.

Nevertheless, EBITDA and EBITDA excluding joint venture and business disposals have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our financial condition or results of operations, as reported under US GAAP. Some of these limitations are:

EBITDA and EBITDA excluding joint venture and business disposals measures do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

EBITDA and EBITDA excluding joint venture and business disposals measures do not reflect changes in, or cash requirements for, our working capital needs;

EBITDA and EBITDA excluding joint venture and business disposals measures do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and EBITDA excluding joint venture and business disposals measures do not reflect any cash requirements for such replacements;

EBITDA and EBITDA excluding joint venture and business disposals measures do not reflect certain non-cash items; and

other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and EBITDA excluding joint venture and business disposals should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our US GAAP results and using EBITDA and EBITDA excluding joint venture and business disposals only as supplemental measures.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****BRITISH ENERGY****CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

(In millions, except per-share amounts)

	Three Months Ended September 30, 2004	Six Months Ended September 30, 2004	Year Ended March 31, 2004
Operating Revenues			
Operating revenues	£ 351	£ 723	£ 1,516
Operating Expenses			
Fuel	(158)	(313)	(489)
Loss from movements in derivative contracts	(251)	(342)	(90)
Staff costs	(76)	(154)	(272)
Operating and maintenance expense	(132)	(243)	(475)
Depreciation and amortization	(24)	(53)	(101)
Energy supply costs	(72)	(142)	(260)
Total operating expenses	(713)	(1,247)	(1,687)
Operating Loss	(362)	(524)	(171)
Joint venture			47
Net interest expense	(22)	(37)	(64)
Loss Before Income Tax Benefit	(384)	(561)	(188)
Income Tax Benefit	134	152	2,211
(Loss)/Income Before Cumulative Effect of Change in Accounting Principle	(250)	(409)	2,023
Cumulative Effect of Change in Accounting Principle upon adoption of SFAS 143, net of tax			5,539
Net (Loss)/Income	£ (250)	£ (409)	£ 7,562
Common Stock Data			
Weighted-average shares outstanding			
Basic and Diluted	602	602	602
(Loss)/Earnings per share			

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Basic and Diluted (Loss)/Earnings per share (before cumulative effect of change in accounting principle)	£	(0.42)	£	(0.68)	£	12.56
Basic and Diluted Earnings per share (arising from cumulative effect of change in accounting principle)	£	(0.42)	£	(0.68)	£	3.36
Basic and Diluted	£		£		£	9.20
	£	(0.42)	£	(0.68)	£	12.56

See the accompanying notes to Consolidated Financial Statements.

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Table of Contents**BRITISH ENERGY****CONSOLIDATED BALANCE SHEETS (unaudited)**

(In millions)

	<u>September 30, 2004</u>	<u>March 31, 2004</u>
ASSETS		
Current Assets		
Cash and cash equivalents	£ 126	£ 276
Restricted cash	355	297
Receivables, net	249	273
Inventory	95	97
	<u>825</u>	<u>943</u>
Property, Plant and Equipment		
Cost	13,835	13,789
Less accumulated depreciation and amortization	(12,656)	(12,623)
	<u>1,179</u>	<u>1,166</u>
Investments	464	444
	<u>464</u>	<u>444</u>
Total Assets	£ 2,468	£ 2,553
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Long-term debt due within one year	£ 220	£ 197
Accounts payable	163	180
Accruals	194	199
Asset retirement obligations due within one year	558	554
Other creditors	739	395
	<u>1,874</u>	<u>1,525</u>
Total current liabilities	1,874	1,525
Long-term Debt	642	662
Deferred Credits and Other Liabilities		
Asset retirement obligations	1,591	1,468
Pension obligation	160	152
Other long-term obligations	64	215
	<u>1,815</u>	<u>1,835</u>
Total deferred credits and other liabilities	1,815	1,835
Shareholders' Equity		
Common stock	277	277
Additional paid in capital	499	499
Non-equity share capital	93	93
Retained losses	(2,459)	(2,050)

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Treasury stock	(159)	(159)
Accumulated other comprehensive income	(114)	(129)
	<u> </u>	<u> </u>
Total shareholders' equity	(1,863)	(1,469)
	<u> </u>	<u> </u>
Total Liabilities and Shareholders' Equity	£ 2,468	£ 2,553
	<u> </u>	<u> </u>

See the accompanying notes to Consolidated Financial Statements.

Table of Contents**BRITISH ENERGY****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(In millions)

	Six	Year Ended
	Months Ended September 30, 2004	March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)/income	£ (409)	£ 7,562
Adjustments to reconcile net (loss)/income to net cash (used)/provided by operating activities:		
Depreciation and amortization (including amortization of nuclear fuel)	53	101
Cumulative effect of change in accounting principle		(5,539)
Income from joint venture		(200)
Net (gains)/losses on sales of equity investments and other assets	(4)	118
Deferred tax	(152)	(2,209)
Pension expense	20	53
Employee severance provision	8	
Loss from movements in derivative contracts	341	85
Accretion of nuclear liabilities	160	244
Liabilities discharged	(58)	(75)
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(30)	27
Other liabilities	(5)	(53)
Inventory	2	(8)
Other assets	(9)	18
Other debtors	24	34
	<u>(59)</u>	<u>158</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments	4	171
Amounts placed on restricted use term deposit	(58)	(88)
Purchase of investment securities	(5)	(19)
Capital expenditure	(32)	(70)
	<u>(91)</u>	<u>(6)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Movement in book overdraft		(7)
		<u>(7)</u>
Net cash used in financing activities		(7)
Net (decrease)/increase in cash and cash equivalents	(150)	145
Cash and cash equivalents at beginning of period	<u>276</u>	<u>131</u>
Cash and cash equivalents at end of period	£ 126	£ 276

See the accompanying notes to Consolidated Financial Statements.

Table of Contents**BRITISH ENERGY****CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (unaudited)**

(In millions)

	<u>Total</u>	<u>Retained Losses</u>	<u>Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Additional Paid in Capital</u>	<u>Non- Equity</u>	<u>Common Stock</u>
Balance at April 1, 2003	£ (9,137)	£ (9,612)	£ (235)	£ (159)	£ 499	£ 93	£ 277
Net income	7,562	7,562					
Translation adjustments	(15)		(15)				
Pensions (net of £14m tax charge)	34		34				
Unrealized gains on securities	87		87				
Total comprehensive income	7,668	7,562	106				
Balance at March 31, 2004	(1,469)	(2,050)	(129)	(159)	499	93	277
Net (loss)	(159)	(159)					
Unrealized gains on securities	8		8				
Total comprehensive income	(151)	(159)	8				
Balance at June 30, 2004	(1,620)	(2,209)	(121)	(159)	499	93	277
Net (loss)	(250)	(250)					
Unrealized gains on securities	7		7				
Total comprehensive income	(243)	(250)	7				
Balance at September 30, 2004	£ (1,863)	£ (2,459)	£ (114)	£ (159)	£ 499	£ 93	£ 277

See the accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Basis of Preparation

(i) Introduction

These accounts have been prepared in accordance with US GAAP on the same basis as the US GAAP information provided in note 36 to the consolidated financial statements at March 31, 2004. This is the first time we have published results for a September quarter under US GAAP and therefore no comparative information is provided for the quarter ended September 30, 2003.

In the opinion of management, the accompanying unaudited consolidated financial statements of British Energy contain all adjustments including usual recording adjustments necessary to present fairly, in all material respects, the Company's consolidated balance sheets as of September 30, 2004 and March 31, 2004, the consolidated statements of income for the three-month and six-month period to September 30, 2004 and for the year ended March 31, 2004 and the consolidated statements of cash flows for the six-month period to September 30, 2004 and year ended March 31, 2004. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's annual report on Form 20-F for the year ended March 31, 2004 filed on September 30, 2004. The results of operations for the three-month and six-month period ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

(ii) Background to Proposed Restructuring

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

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

- (a) the Standstill Agreement between British Energy and its subsidiaries and the bank syndicate that provided financing for the Eggborough coal-fired power station (the Eggborough Banks), The Royal Bank of Scotland plc (RBS) as provider of a letter of credit to the Eggborough Banks, our significant trade creditors, Teesside Power Limited (TPL), TotalFinaElf Gas and Power Limited (now Total Gas &

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Power Limited) (Total) and Enron Capital & Trade Europe Finance LLC (Enron) (TPL, Total and Enron (which have subsequently transferred their respective interests to Deutsche Bank) being collectively referred to as the Significant Creditors) and British Nuclear Fuels plc (BNFL); and

- (b) the Bondholder Restructuring Agreement between British Energy, British Energy Generation Limited (BEG), British Energy Generation (UK) Limited (BEGUK) and certain holders of British Energy bonds due in 2003, 2006 and 2016 (the Bonds) (the holders of those bonds being referred to collectively as the Bondholders).

On March 7, 2003 British Energy announced that the UK Government had agreed to extend the Government Facility in the reduced amount of £200m, such that it would mature on the earliest of (1) September 30, 2004, (2) the date on which the proposed restructuring outlined in (iii) below, (the Proposed Restructuring) becomes effective, and (3) any date notified by the Secretary of State to British Energy on which repayment of amounts outstanding under the Government Facility are required as a result of a European Commission (Commission) decision or an obligation under EU law (the Final Maturity Date). In the meantime the Secretary of State may have required repayment of the Government Facility

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if she concluded that the Proposed Restructuring could not be completed in the manner or time scales envisaged. Following the receipt by the Secretary of State of notification from the Commission that as far as the Proposed Restructuring involved the grant of State aid by the Government, such aid was compatible with the Common Market, from September 22, 2004 no further drawings could be made under the Government Facility. Since no incremental collateral could be posted under the Government Facility, incremental collateral requirements are being provided by a charge over cash deposits in certain of our accounts. The Government Facility's Final Maturity Date was amended on November 29, 2004 to the earlier of: (a) the date on which the Government Restructuring Agreement will terminate pursuant to its terms; (b) any date notified by the Secretary of State to British Energy on which repayment of amounts outstanding under the Government Facility are required as a result of a decision of the Commission or any obligation under European Community law; or (c) the date upon which documentation required to effect the Proposed Restructuring has been executed and delivered and/or any schemes of arrangement have, if necessary, been sanctioned by the High Court and become effective in accordance with their terms to give effect to the Proposed Restructuring.

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

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

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

On December 19, 2003 Bondholders approved amendments to the trust deed relating to the Bonds to facilitate the implementation of the Proposed Restructuring and to amend the standstill arrangements under the trust deed on terms consistent with the Creditor Restructuring Agreement. Following formal amendment of the trust deed, a new standstill agreement was entered into with creditors in place of the Standstill Agreement dated February 14, 2003 in accordance with the terms of the Creditor Restructuring Agreement.

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

The Board of British Energy plc remains of the opinion that the working capital available to the Group is not sufficient for the present requirements of the Group pending the Proposed Restructuring. In light of the statements made in the circular to shareholders dated November 29, 2004 and in the prospectus of British Energy Group plc and British Energy Holdings plc which accompanied the circular to shareholders, and which were prepared on the basis that the Proposed Restructuring is completed, there is sufficient working capital to meet the Company's present requirements, that is, for at least one year following the date of the circular to shareholders.

On August 25, 2004 BEG entered into a three year trade receivables financing facility (Receivables Facility) with Barclays Bank plc under which, on utilization, BEG will sell to the financial institution on a full recourse basis receivables arising from its direct supply business. The amount of funding available to BEG under the Receivables Facility is limited to £60m and is dependent on the amount of eligible receivables available at utilization, which, in turn, is subject to, amongst other things, seasonal changes in the demand and price for electricity, certain reserving requirements that adjust over the life of the Receivables Facility agreement and to limits on customer concentrations within the

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receivables portfolio. As at September 30, 2004 and November 30, 2004 the Receivables Facility was undrawn.

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

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(iii) Terms of the Proposed Restructuring

The terms of the Proposed Restructuring are set out in:

- (a) the Creditor Restructuring Agreement dated as of September 30, 2003 and entered into by the Company, certain other Group companies, the Significant Creditors, RBS, the members of the ad hoc committee of British Energy's Bondholders and BNFL (as amended by a side letter entered into on October 31, 2003) (the "Creditor Restructuring Agreement"); and
- (b) the Government Restructuring Agreement dated October 1, 2003 and entered into between the Company, BEGUK, BEG, British Energy Power and Energy Trading Limited ("BEPET"), British Energy Investment Limited, District Energy Limited, British Energy International Holdings Limited, British Energy US Holdings Inc., British Energy L.P., Peel Park Funding Limited, the Secretary of State, the Nuclear Generation Decommissioning Fund Limited (to be renamed the Nuclear Liabilities Fund Limited ("NLF")) and the trustees of the Nuclear Trust (the "Government Restructuring Agreement").

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

- (a) Bondholders representing in aggregate with RBS 88.8% of the combined amount owing to the Bondholders and RBS had signed up to the Creditor Restructuring Agreement;
- (b) the terms of the Proposed Restructuring had been approved by the credit committee of RBS; and
- (c) all of the lenders and swap providers comprising the Eggborough Banks had signed up to the Creditor Restructuring Agreement with full credit committee approvals.

The principal features of the Proposed Restructuring include:

compromising the existing claims of Bondholders, RBS, Significant Creditors and the Eggborough Banks in exchange for new bonds and new shares and settling new arrangements for Eggborough. The claims of the Bondholders and RBS will be compromised pursuant to a scheme of arrangement to be proposed to these creditors by the Company (the "Creditors' Scheme"). In the case of the Significant Creditors and the Eggborough Banks, claims will be compromised pursuant to the terms of the Creditor Restructuring Agreement itself;

the amendment and extension of our contracts with BNFL for front-end and back-end related fuel services for the Group's advanced gas cooled reactor ("AGR") stations announced on March 31, 2003 and May 16, 2003 and the implementation of a new trading strategy;

establishing the NLF which will fund certain uncontracted nuclear liabilities and decommissioning costs in return for initial and ongoing contributions from British Energy; and

the Government funding certain contracted liabilities relating to historic spent fuel up to a specified cap and certain uncontracted nuclear liabilities and decommissioning costs to the extent of any shortfall in the NLF.

Creditor Restructuring Agreement

Conditions

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

there being no material adverse change (see below);

the Government Restructuring Agreement becoming unconditional;

the Creditors Scheme becoming effective; and

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the listing of the shares of British Energy Group plc (New British Energy) issued pursuant to the Proposed Restructuring (the New Shares) and the £550m 7% guaranteed bonds due 2005 to 2022 to be issued by British Energy Holding plc (Holdings plc) (the New Bonds).

For the purposes of the Creditor Restructuring Agreement, a material adverse change is defined as a material adverse change in the current or future business or operations, the financial or trading position, profits or prospects of the Group as a whole or of EPL or a change in the current or future business or operations, the financial or trading position, profits or prospects of the Group as a whole which is likely to have a material adverse effect on the value of the New Bonds, the New Shares, the Capacity and Tolling Agreement (CTA) global bond to be held by EPL to fund the £150m of New Bond-equivalent payments under the new Eggborough arrangements (as represented by the CTA Global Bond) or the new Eggborough arrangements.

The Creditor Restructuring Agreement required the Proposed Restructuring to be completed by 12 noon on January 31, 2005 (the Restructuring Long Stop Date). The Company has agreed an extension of the Restructuring Long Stop Date under the Creditor Restructuring Agreement and related amendments to other restructuring documents.

The extension of the Restructuring Long Stop Date until March 31, 2005 (subject to certain intermediate milestones), was agreed with the ad hoc committee of Bondholders (on behalf of Consenting Bondholders), Deutsche Bank AG and BNFL. Eggborough Banks (including the steering committee of Barclays and RBS) holding in excess of the required two-thirds of the debt and swap claims have agreed to this extension and RBS has extended the RBS Letter of Credit. In addition, a simple majority of the holders of the Company s Bonds due 2003, 2006 and 2016 signed written resolutions approving the extension of the standstill period under the terms of those Bonds as set out in a supplemental trust deed dated December 7, 2004.

The Secretary of State is not party to the Creditor Restructuring Agreement but, for technical reasons, her consent is required to enable that agreement to be extended in the manner contemplated; the Secretary of State has consented to the extension solely for that purpose.

The extension also preserves the possibility of an extension of the Creditor Restructuring Agreement beyond 31 March 2005 up to 31 October 2005, again subject to certain intermediate milestones. The requisite parties may object to the continuation of the extension or may not give such confirmations or agree the terms (if any) upon which they would be willing for the Proposed Restructuring to be completed after March 31, 2005.

The intermediate milestones to the extension include Bondholders and RBS passing resolutions approving the Creditors Scheme by April 15, 2005 and the Creditors Scheme becoming effective within 30 business days of grant of the Creditors Scheme order or within 15 business days of final determination of any appeal. These milestones may be extended with the agreement of those parties and majorities who have agreed the extension.

On October 12, 2004 British Energy announced that the initial conditions to the implementation of the Proposed Restructuring as set out in the Creditor Restructuring Agreement had been satisfied. In particular:

as announced on September 22, 2004, the Commission approved the Government s State aid to the Company in connection with the Proposed Restructuring, subject to certain conditions;

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the Company's new arrangements with BNFL relating to back-end and front-end fuel services had become unconditional (save only for conditions relating to completion of the Proposed Restructuring);

the new arrangements for the financing of EPL and the banks' options to acquire the Eggborough Power Station either through a share or asset purchase in 2010 had been exchanged with the relevant banks and had become unconditional (again save only for conditions relating to completion of the Proposed Restructuring);

all material Inland Revenue clearances had been obtained;

all material unsettled documents had been agreed with creditors; and

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the Financial Services Authority (FSA) had consented to the Proposed Restructuring for the purposes of British Energy Trading Services Limited's FSA authorization.

In accordance with the Creditor Restructuring Agreement, British Energy also entered into a Business Transfer Agreement whereby, if the proposed scheme of arrangement with shareholders is not approved by the relevant shareholders (or otherwise lapses), the Company's assets will be transferred to Holdings plc, which would become an intermediate holding company of the restructured British Energy group.

On November 30, 2004 British Energy announced that it had posted the following documents:

a circular to its shareholders in relation to a members' scheme of arrangement under section 425 of the Companies Act 1985 (the Members' Scheme) and a disposal of the business and assets of British Energy to Holdings plc;

a circular to certain of its creditors in relation to the Creditors' Scheme; and

a document comprising: (i) listing particulars in relation to the issue of New Shares and Warrants of New British Energy; (ii) a prospectus in relation to the issue of Warrants of New British Energy pursuant to the Disposal; and (iii) listing particulars in relation to the issue of New Bonds of Holdings plc.

Creditor allocations

Under the terms of the Creditor Restructuring Agreement the Creditors (comprising RBS, the Bondholders, the Significant Creditors and the Eggborough Banks) have agreed (subject to certain conditions) to extinguish their existing unsecured claims against the Group in exchange for £275m of New Bonds and at least 97.5% of New Shares.

The Eggborough Banks, as creditors with security over, amongst other things, the shares in, and assets of, EPL have agreed to replace their existing secured claims with a right to receive £150m under an Amended Credit Agreement on substantially the same payment terms as the New Bonds. In addition, the Eggborough Banks will be granted: (i) options exercisable at any time prior to August 31, 2009 under which they may acquire the shares in, or assets of, EPL on March 31, 2010 in consideration for, amongst other things, £104m (subject to certain adjustments depending on the condition of the Eggborough power station) and the cancellation of the outstanding payments under an Amended Credit Agreement at such time; and (ii) options under which they may acquire the shares in, or assets of, EPL on and at any time prior to August 31, 2009 or after the occurrence of an event of default under an Amended Credit Agreement that is continuing in consideration for, amongst other things, a fee (this fee varies depending on the type of event of default) and the cancellation of the outstanding payments under an Amended Credit Agreement at such time. The Eggborough Banks will be entitled to assign and/or transfer all (but not part only) of their rights under the options to a third party, subject to a pre-emption right in favor of British Energy Group plc under which a member of British Energy Group plc may purchase such rights at 105% of the price offered to the relevant third party. The Eggborough Banks' security will secure, amongst other things, the Eggborough Banks' rights under an Amended Credit Agreement and the options.

Standstill arrangements

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The Standstill Agreement entered into on February 14, 2003 was replaced by a new standstill agreement entered into by the relevant parties on February 14, 2004. The new standstill arrangements were extended to include all Bondholders at March 24, 2003 as set out in a supplemental trust deed dated March 31, 2003.

The standstill arrangements restrict the Significant Creditors, the Eggborough Banks, RBS, each Bondholder who signs up to the Creditor Restructuring Agreement (the Consenting Bondholders) and BNFL (together the Consenting Creditors) from taking any steps to initiate insolvency proceedings or from demanding or accelerating any amounts due and payable by the Group during the period of the standstill (the Standstill Period) until the earliest of:

- (a) the Restructuring Long Stop Date;
- (b) termination following the occurrence of certain expected events (each a Termination Event) including termination of the Creditor Restructuring Agreement; or
- (c) the completion of the Proposed Restructuring.

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

Under the standstill arrangements, certain Consenting Creditors will be paid interest but not principal in respect of any claims against the Group. Interest will continue to be paid semi-annually to Bondholders and the Eggborough Banks until completion of the Proposed Restructuring. In respect of the Significant Creditors and RBS, interest was paid first on March 25, 2003 and is subsequently payable on the last business day of every six-month period thereafter based on the agreed claim amounts (except in the case of RBS where interest payments will be based on the present value of its claim amount as at February 14, 2003). Commission will also continue to be paid to RBS under the facility agreement for the letter of credit to the Eggborough Banks.

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

Mechanics for implementation and shareholder allocation

The Proposed Restructuring will involve establishing New British Energy as the new parent company of the Group and Holdings plc as a directly wholly owned subsidiary of New British Energy.

The Company proposes to cancel its existing ordinary shares of 44^{28/}₄₃ pence each (Ordinary Shares) and A shares of 60 pence each (A Shares) under the Members Scheme, and issue to shareholders: (i) New Shares equal to 2.5% of the issued share capital of New British Energy immediately following implementation of the Proposed Restructuring, and (ii) warrants to subscribe for a maximum of 5% of the thereby diluted ordinary issued share capital of New British Energy (excluding, amongst others, the impact of conversion of the NLF Cash Sweep Payment (see section entitled Government Restructuring Agreement below)) immediately following implementation of the Proposed Restructuring (the Warrants). The subscription price under the Warrants is £28.95m in aggregate, equivalent to an equity market capitalization of the Group of £550m following implementation of the Proposed Restructuring. This will result in a very significant dilution of the holdings of the existing shareholders.

If the Members Scheme is not approved by the requisite majority of shareholders or for any other reason the Members Scheme lapses, the Company will dispose of all its business and assets to Holdings plc. If the Disposal is approved by ordinary shareholders in general meeting, shareholders will receive only warrants to subscribe for a maximum of 5% of the ordinary issued share capital of New British Energy immediately following implementation of the Proposed Restructuring. If the Disposal is not approved by ordinary shareholders in general meeting, shareholders will not receive any New Shares or Warrants.

On September 3, 2004 two groups of shareholders, together holding 10.22% of British Energy's ordinary shares, requisitioned an extraordinary general meeting (the Requisitioned EGM). Those groups of shareholders were Polygon Investment Partners LLP (Polygon), Brandes Investment Partners, LLC (Brandes) and their respective associates. British Energy was, as a result, obliged under the Companies Act 1985 to call the Requisitioned EGM. One of the resolutions proposed by Polygon and Brandes would have had the effect, if passed, of requiring the Company to seek shareholder approval prior to applying for the cancellation of its listings in London and New York. If British Energy were required to take steps to cancel the London listing of its shares in circumstances where shareholders did not approve the Members Scheme or the Disposal, but

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could not do so as a result of a failure to achieve such shareholder approval, the Company believed, having taken legal advice, that it would be likely to have been in breach of the Creditor Restructuring Agreement.

British Energy was informed by certain creditors to whom the Group owes significant amounts that if that happened and they could not compel the Company to perform its obligations under the Creditor Restructuring Agreement, they would take steps to terminate the Creditor Restructuring Agreement and the related standstill arrangements. Further they said

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that they would then take steps to recover amounts owing to them including taking steps to force British Energy into administration. If that had happened, British Energy believed that the other creditors who are also a party to the Creditor Restructuring Agreement would also demand payment. Therefore the Group would be required to pay approximately £1.5 billion to Creditors. The Group did not and does not have the resources to pay that amount. As a result of such breach of the Creditor Restructuring Agreement, British Energy may have been exposed to significant claims for damages for breach of contract. Moreover, because the creditors said that they would demand immediate repayment of monies which British Energy judged, for the reasons set out above, it would be unable to pay, British Energy considered that its directors would have no choice but to place British Energy into administration. For this reason, the board of British Energy decided that it should apply for the United Kingdom Listing Authority (UKLA) to cancel the listings of the ordinary shares and A shares as soon as practicable.

The Company announced on September 23, 2004 that the Requisitioned EGM would be held on October 22, 2004 and that it would be applying to the UKLA to cancel the listings of the ordinary shares and A Shares and the delisting took effect on October 21, 2004. As a consequence, and as announced on September 23, 2004, the New York Stock Exchange (NYSE) suspended trading in our American Depositary Receipts (ADRs) prior to the opening of trading on September 28, 2004. At that time, the NYSE also instituted delisting proceedings. The Company appealed the NYSE s decision. However, on December 6, 2004, the NYSE affirmed the decision to delist the Company s ADRs. Accordingly, New Shares will not be issued in the form of ADRs upon effectiveness of the Proposed Restructuring and holders of the Company s ADRs will receive the New Shares to which they are entitled, subject to the terms of the Proposed Restructuring and applicable law. British Energy has agreed to take all reasonable steps to list ADRs on the NYSE at such time following the effectiveness of the Proposed Restructuring, as it is able to satisfy the listing criteria of the NYSE. In such circumstances, however, British Energy will be required to satisfy the NYSE s listing criteria for new securities, including minimum public float and minimum shareholder eligibility requirements that it may not be able to satisfy immediately after the Proposed Restructuring becomes effective.

On September 24, 2004 the Company announced (i) the unanimous recommendation of the Board to shareholders to vote against the resolutions proposed by Polygon and Brandes at the Requisitioned EGM, (ii) that it intended to seek an extension to the Restructuring Agreement Long Stop Date of January 31, 2005 for the Proposed Restructuring and (iii) that, in accordance with the Creditor Restructuring Agreement, it would execute a business transfer agreement whereby the Company s assets would, conditional on the Proposed Restructuring becoming effective, be transferred to Holdings plc.

On September 30, 2004 Polygon announced that it would withdraw its support for the Requisitioned EGM. Polygon stated that, having considered the Company s recent circulars, they believed there was no commercial logic for it to support the resolutions to be considered at the Requisitioned EGM and consequently confirmed that they would vote against the resolutions and not further oppose the Proposed Restructuring. The Requisitioned EGM took place on October 22, 2004 and, in accordance with the unanimous recommendation of the Board, all the resolutions at the Requisitioned EGM were defeated.

Government Restructuring Agreement

The Government Restructuring Agreement provides for the circumstances in which the Secretary of State will support the Proposed Restructuring, including entering into the agreements with the New British Energy Group and, in certain cases, the NLF, which give effect to the proposals for the funding of the New British Energy Group s qualifying uncontracted nuclear liabilities and qualifying decommissioning costs and certain contracted liabilities for historic spent fuel.

Conditions

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Under the Government Restructuring Agreement, the obligations of the Secretary of State to support the Proposed Restructuring and of the parties to the Nuclear Liabilities Agreements to enter into them are conditional on, among other things:

the Creditor Restructuring Agreement becoming unconditional in all respects by the Restructuring Long Stop Date;

the Secretary of State not having determined and notified British Energy in writing that, in her opinion, the Group (including New British Energy and Holdings plc) will not be viable in all reasonably foreseeable

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conditions without access to additional financing (other than financing which the Secretary of State is satisfied has been committed and will continue to be available when required);

there being no continuing event of default under the Government Facility;

receipt by the Secretary of State of copies of letters giving the confirmations relating to working capital referred to in the terms of Rule 2.18 of the UKLA Listing Rules without qualification (whether or not New British Energy is to be listed on the Official List of the UKLA);

the representations and warranties given by the members of the Group being true, accurate and not misleading when given and if repeated at the effective date of the Proposed Restructuring; and

there being no breach of any undertaking given by any member of the Group pursuant to the Government Restructuring Agreement which, in the opinion of the Secretary of State, is or is likely to be material in the context of the Proposed Restructuring.

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

In the context of the extension to the Restructuring Long Stop Date, the Secretary of State has agreed to extend the long stop date for completion of the Government Restructuring Agreement to April 30, 2005. In the context of meeting its overarching objectives at this time of nuclear safety, security of electricity supplies and value for money for the taxpayer, the Government has stated that it believes that continuity and stability in the management of British Energy's business in the immediate future is desirable. It has also sought and received assurances from British Energy's management that any measures taken to manage the Group's working capital will not adversely affect safety or security of supply. The extension of the Government Restructuring Agreement is therefore subject to conditions relating to those two issues. The agreement of the Secretary of State will be required to extend the Government Restructuring Agreement beyond April 30, 2005.

Nuclear Liabilities Agreements

Under the Nuclear Liabilities Agreements to be entered into pursuant to the Government Restructuring Agreement between the Company and the Secretary of State, among others, dated October 1, 2003, the NLF will fund qualifying uncontracted nuclear liabilities and qualifying costs of decommissioning the Group's nuclear power stations. The Secretary of State has provided an undertaking to fund any future shortfall in the NLF's ability to fund these qualifying uncontracted nuclear liabilities and qualifying decommissioning costs and also to meet certain of the Group's contracted liabilities relating to historic spent fuel up to a specified cap. In consideration for the assumption of these liabilities, Holdings plc will issue £275m in New Bonds to the NLF. In addition, members of the Group will make the following payments to the NLF: (i) fixed decommissioning contributions of £20m per annum (stated in March 2003 values and indexed to RPI) but tapering off as the nuclear power stations are currently scheduled to close; (ii) £150,000 (stated in March 2003 values and indexed to RPI) for every tonne of uranium in PWR fuel loaded into Sizewell B, our Pressurized Water Reactor nuclear power station, after the Proposed Restructuring becomes effective; and (iii) an annual contribution equal to a percentage of the New British Energy Group's adjusted free cash flow (initially 65%, subject to adjustment, but not to exceed 65%) (the NLF Cash Sweep Payment).

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The NLF will have the right from time to time will have the right to convert all or part of the NLF Cash Sweep Payment into an equity shareholding in New British Energy equal to the same percentage of the thereby enlarged issued share capital. The terms of the convertible shares into which such entitlement will convert will limit the voting rights attaching to such shares equal to the maximum amount which can be held by the NLF without triggering a mandatory offer under the City Code on Takeovers and Mergers, being currently 29.9% of the voting rights in New British Energy (and, for this purpose, taking into account the voting rights attributable to any other ordinary shares held or acquired by any person acting in concert with the NLF). The voting restriction applies for so long as the convertible shares are held by the NLF.

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The convertible shares will be converted into ordinary shares in New British Energy on their transfer by the NLF to a third party but are not convertible at the election of the NLF.

In addition, under the Nuclear Liabilities Agreements, British Energy is required to fund cash reserves out of its net cash flow in order to support the New British Energy Group's collateral and liquidity requirements post-restructuring (the Cash Reserves). The initial target amount for the Cash Reserves is £490m plus the amount by which cash employed as collateral exceeds £200m.

The above is a summary only and investors and others are strongly advised to read the entire announcements issued by the Company on October 1, 2003 and on November 30, 2004, which contain additional important information not included in this summary.

(iv) Principles Underlying Going Concern Assumption

Notwithstanding the statements within the Liquidity section of the Management's Discussion and Analysis, the