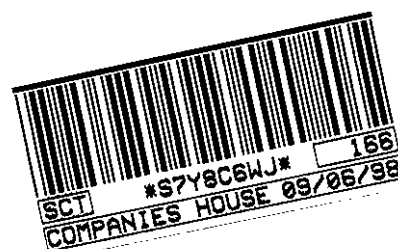


SCOTTISH NUCLEAR LIMITED
Registered Number SC 117121

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998



SCOTTISH NUCLEAR LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998

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SCOTTISH NUCLEAR LIMITED

COMPANY INFORMATION

DIRECTORS

Robin Jeffrey (Chairman and Chief Executive)
Neil Stewart (Finance and Commercial Director)
David Anderson (Technical Director)
Sir Michael Livesay KCB (Independent Director)
John S Moreland OBE (Independent Director)
Peter D Stevenson (Independent Director)

Robin Jeffrey resigned as Chairman and Chief Executive on 18 May 1998. Peter Hollins was appointed as Chairman and David Anderson as Chief Executive from this date.

Secretary

Jean MacDonald

Registered Office

3 Redwood Crescent
Peel Park
East Kilbride
GLASGOW G74 5PR

Bankers

Royal Bank of Scotland plc
5-10 Great Tower Street
LONDON EC3P 3HX

Auditors

Price Waterhouse
Albany House
58 Albany Street
EDINBURGH EH1 3QR

Solicitors

MacRoberts
152 Bath Street
GLASGOW G2 4TB

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998

The directors present their report and accounts for the year ended 31 March 1998.

Principal activities and review of the business

Scottish Nuclear's principal business is to generate and sell electricity. The Company operates Hunterston B and Torness AGR nuclear power stations. The output from these power stations is sold to ScottishPower and Scottish Hydro-Electric in the proportions of 74.9 per cent and 25.1 per cent respectively in accordance with the terms of the Nuclear Energy Agreement between the Company, ScottishPower and Scottish Hydro-Electric.

Results and dividends

The profit for the year was £63 million (1997 £22 million). The directors recommend a final dividend of £26 million (1997 £24 million) and the balance of £37 million has been transferred to reserves.

Post balance sheet event

On 2 April 1998 the directors decided to extend the accounting life of Hunterston B power station by five years. Further details are included in note 22 on page 25.

Directors and their interests

The directors who served the Company throughout the year are listed on page 1. No directors had any interest in the share capital of the Company during the year. Robin Jeffrey and Peter Stevenson are also directors of British Energy plc and certain disclosures in respect of their interests in the parent company's share capital and their emoluments are disclosed in the accounts of that company. The beneficial interest in the share capital of British Energy plc of the directors who were not also directors of the parent company were as follows:

	Ordinary Shares		Sharesave Options		Executive Share Options
	1998	1997	1998	1997	1998
Sir Michael Livesay KCB	-	-	-	-	-
John S. Moreland	495	495	-	-	-
Neil Stewart	5,461	5,461	6,093	6,093	64,615
David Anderson (appointed 1 June 1997)	1,984	1,984	10,781	6,093	64,615

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

All Sharesave options held by Executive Directors are exercisable within six months of 1 September 1999 at an exercise price of £1.60. Executive Share Options were first granted in August 1997 and are exercisable at a price of £2.60 in July 2000.

No director has any material interest in a contract which was significant to the business of the Company.

Research and development

The Company promotes nuclear research activities directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities. Research and development is carried out in-house and on a collaborative basis with other organisations in the UK nuclear industry.

Year 2000 costs

During the year £1 million was spent on software modifications and future expenditure is estimated to be in the region of £5 million.

Policy on payment of creditors

The Company supports the Prompt Payers' Code of the Confederation of British Industry. At 31 March 1998, the Company's creditors totalled £9 million which equates to 40 days value of suppliers invoices. The supplier purchases used in the calculation exclude payments to the Company's principal supplier, BNFL, which are made against an agreed contract profile.

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 abide by the agreed terms.

Charitable donations

During the year donations made by the Company for charitable purposes amounted to £86,050 (1997 £94,650). No political donations were made.

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

Employees

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

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

AUDITORS

Price Waterhouse have expressed their willingness to continue as auditors of the Company. A resolution for their appointment will be proposed at the Annual General Meeting.

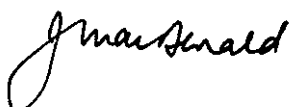
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:-

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps to prevent and detect fraud and other irregularities.

This report was approved by the Board of Directors on 18 May 1998 and signed on its behalf by:



Jean MacDonald
Company Secretary

Price Waterhouse



SCOTTISH NUCLEAR LIMITED

**REPORT BY THE AUDITORS TO THE MEMBERS
OF SCOTTISH NUCLEAR LIMITED
FOR THE YEAR ENDED 31 MARCH 1998**

We have audited the accounts on pages 6 to 26 which have been prepared on the basis of the accounting policies set out on pages 8 to 12.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company at 31 March 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and
Registered Auditors
Edinburgh

18 May 1998

SCOTTISH NUCLEAR LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998

		1998	1997
	Notes	£ million	£ million
Turnover excluding nuclear premium	2	483	458
Nuclear premium	3	-	26
Total turnover		483	484
Operating costs before exceptional items	4	(361)	(369)
Exceptional operating costs	4	28	(10)
Operating costs	4	(333)	(379)
Operating profit		150	105
Financing	7	(68)	(75)
Profit on ordinary activities		82	30
Taxation on profit on ordinary activities	8	(19)	(8)
Profit for the financial year		63	22
Dividends proposed		(26)	(24)
Retained profit/(loss) for year		37	(2)
Retained profit brought forward		29	31
Retained profit carried forward		66	29

All of the above figures relate to continuing activities.

The Company had no recognised gains or losses other than the profit/(loss) for the financial years.

The notes on pages 8 to 26 form part of these accounts.

SCOTTISH NUCLEAR LIMITED

BALANCE SHEET AS AT 31 MARCH 1998

	Notes	1998 £ million	1997 £ million
Fixed assets			
Tangible assets	9	1,315	1,364
Investments	10	-	-
		<u>1,315</u>	<u>1,364</u>
Current assets			
Decommissioning fund	11	89	79
Stocks	12	135	154
Debtors	13	81	81
		<u>305</u>	<u>314</u>
Creditors: amounts falling due within one year	14	<u>(658)</u>	<u>(723)</u>
Net current liabilities		<u>(353)</u>	<u>(409)</u>
Total assets less current liabilities		962	955
Creditors: amounts falling due after more than one year	14	<u>(487)</u>	<u>(517)</u>
Provisions for liabilities and charges			
Nuclear provisions	15	(372)	(391)
Other provisions	16	<u>(37)</u>	<u>(18)</u>
Net assets		<u>66</u>	<u>29</u>
Capital and reserves			
Called up share capital	17	-	-
Profit and loss account		<u>66</u>	<u>29</u>
Equity shareholder's funds	18	<u>66</u>	<u>29</u>

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

N. Stewart
Director



The notes on pages 8 to 26 form part of these accounts.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998

1 ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are as follows:

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting and reporting standards.

The Company's results are consolidated within British Energy plc which produces publicly available financial statements including a cash flow statement. Accordingly, the Company has elected to utilise the exemption provided by Financial Reporting Standard 1, Cash Flow Statements (Revised), and has not provided a cash flow statement.

These accounts have been prepared on the going concern basis as the parent undertaking has indicated its intention to continue to financially support the company for the foreseeable future.

The Company has taken advantage of the exemption allowing it not to prepare group accounts as it is a wholly owned subsidiary.

The income recognised by the Company in respect of the long term rate of return of the segregated decommissioning fund is unrealised and its recognition is a departure from one of the accounting principles set out in Schedule 4 of the Companies Act 1985. An explanation of this departure is given in (12) below.

(2) Turnover

The Company's primary business is the generation of electricity by nuclear power. Turnover represents amounts receivable for sales of electricity in Scotland from power generation invoiced to customers net of value added tax.

The Directors consider there to be only one class of business and one geographical market, that of the UK.

(3) Fuel costs

Front end

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.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Unburnt fuel at shutdown provision

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

Back end

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

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

Fixed assets comprise assets acquired or constructed by the Company that are expected to have a useful life of at least five years. Expenditure incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is also capitalised. Other expenditure, including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are included in the balance sheet at cost less accumulated depreciation. Economic value is based on the discounted estimated cash flows of each power station. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

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

The principal asset lives adopted are subject to regular review and for the year ended 31 March 1998 were:

Power stations	-	30 years
Other buildings	-	40 years
Other assets	-	4 - 10 years

After the end of the financial year the life of one of the Company's power stations was reviewed and extended to 35 years (see note 22).

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Accumulated depreciation includes additional charges made where necessary to reduce net book value to economic value.

The estimated costs for decommissioning the Company's power stations are provided for when stations begin operating commercially, and capitalised as part of the cost of construction and 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.

(5) Fixed asset investments

Fixed asset investments are stated at cost less provisions for diminution in value.

(6) Stocks of nuclear fuel, stores and spares

Stocks of nuclear fuel, stores and spares are valued at the lower of cost and net realisable value. Nuclear fuel stock is reduced by the provision for unburnt fuel at shutdown relating to front end fuel costs (see (3) above).

(7) 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.

(8) 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 (3) above. These accruals cover reprocessing and storage of nuclear fuel and the long term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements and 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 stated in the balance sheet at current price levels and 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.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

(b) decommissioning of nuclear power stations

The accounts include provision for the full cost of decommissioning the Company'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 cost of the station. Any subsequent variations in the provision resulting from changes in the estimate of decommissioning costs (other than inflation) are also taken to fixed assets and are depreciated over the remaining life of the station.

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

(9) Pensions

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

(10) 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.

(11) Research and development

Expenditure on tangible fixed assets used for research and development is written off over the estimated useful economic operational life of the relevant asset. All research and development expenditure is charged to the profit and loss account as incurred.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

(12) Decommissioning fund

The Company makes contributions into an independently administered fund to cover all costs of decommissioning nuclear power stations, except defuelling costs. The Company'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 Company, 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 Company 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 Company'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 £6 million (1997: £4 million) and net assets by £10 million (1997: £4 million).

2 TURNOVER EXCLUDING NUCLEAR PREMIUM

	1998	1997
	£ million	£ million
Electricity generation	466	441
Transmission income	17	17
	<hr/>	<hr/>
	483	458

Electricity generation represents the sale of electricity to ScottishPower and Scottish Hydro-Electric.

Transmission income is the recovery of the transmission charges made to the Company by ScottishPower.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

3 NUCLEAR PREMIUM

The nuclear premium has been derived from the terms of its contract with its two customers, ScottishPower and Scottish Hydro-Electric. This premium ceased with effect from the admission of the parent company's ordinary shares to the official list of the London Stock Exchange on 15 July 1996.

4 OPERATING COSTS

	1998	1997
	£ million	£ million
Operating costs before exceptional items		
Fuel - front end	78	79
- back end	55	59
Materials and services	94	99
Staff costs (note 5)	55	56
Depreciation	79	76
	<u>361</u>	<u>369</u>
Exceptional items		
Fuel - back end	(47)	-
Staff costs (note 5)	19	10
	<u>(28)</u>	<u>10</u>
Operating costs after exceptional items		
Fuel - front end	78	79
- back end	8	59
Materials and services	94	99
Staff Costs	74	66
Depreciation and asset write down	79	76
	<u>333</u>	<u>379</u>

The exceptional staff costs of £19 million include a charge of £7 million in respect of a restructuring provision and a cost of £12 million arising from a contribution to a qualifying employee share trust (QUEST) sponsored by the parent Company. The amounts contributed, together with an amount loaned to the QUEST by the parent company, have been used to fund the subscriptions for shares in the parent company at a price of £4.83. 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 1999/00 to 2002/03.

During the year the Group entered into new and revised contracts effective from 1 April 1997 with British Nuclear Fuels plc (BNFL) covering additional fuel services. The new contracts result in a reduction as at 1 April 1997 of some £272 million (£74 million when discounted at 3 per cent per annum to take account of expected timing of payments) in total projected lifetime payments at current prices, of which £47 million has been accounted for in the year as a backlog adjustment relating to fuel already burnt.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

4 OPERATING COSTS (Continued)

Operating costs are stated after charging:

	1998 £ million	1997 £ million
Research and development	11	12
"Year 2000" costs	<u>1</u>	<u>-</u>
	<u>12</u>	<u>12</u>
	£'000	£'000
Auditors' remuneration	39	70
- statutory audit	19	65
- other services		

"Year 2000" costs in future years are estimated to be in the region of £5 million.

5 STAFF COSTS

	1998 £ million	1997 £ million
Salaries	48	49
Social security costs	4	4
Pension costs	6	6
Amounts capitalised	<u>(3)</u>	<u>(3)</u>
	55	56
Redundancy and severance costs	7	10
- exceptional charge in respect of future restructuring costs	12	-
Exceptional staff costs - Quest contribution (note 4)	<u>74</u>	<u>66</u>
	Number	Number
Average number of employees during the year have been allocated as follows:	<u>1,460</u>	<u>1,579</u>
	Number	Number
Average number of full time equivalent employees by category during the year were:	35	38
- Managerial	500	521
- Technical	621	689
- Industrial	205	245
- Administrative	17	21
- Trainees	<u>1,378</u>	<u>1,514</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

6 DIRECTORS

	1998	1997
	£000	£000
Total remuneration for management services as directors		
- emoluments	750	533

The Company contributes to a defined benefits pension scheme in respect of three of its directors.

The above amounts for remuneration include the following in respect of the highest paid director.

	1998	1997
	£000	£000
- emoluments	250	244
- pension accrual	62	55

7 FINANCING CHARGES

	1998	1997
	£ million	£ million
Financing costs resulting from revalorisation of nuclear liabilities		
- changes in price levels	(34)	(28)
- release of one year's discount	(31)	(31)
	6	4
Revalorisation of decommissioning fund		
	(59)	(55)
Revalorisation charge		
Interest on loans payable within 5 years		
- on amounts due to BNFL	(2)	(2)
- others	-	(5)
- to parent undertaking	(7)	(17)
Interest on loans repayable by instalments	-	(1)
Interest receivable	-	5
Net interest payable	(9)	(20)
Total financing charges	(68)	(75)

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

8 TAXATION

The tax charge for the year comprises deferred tax (note 16).

There is no charge for UK corporation tax in the year (1997 - Nil) because of the utilisation of tax losses, brought forward from prior years.

9 TANGIBLE FIXED ASSETS

	Power stations	Other land and buildings	Other plant and equipment	Total
	£ million	£ million	£ million	£ million
Cost				
At 1 April 1997	2,456	17	17	2,490
Additions	28	-	2	30
Disposals	-	-	(2)	(2)
At 31 March 1998	2,484	17	17	2,518
Depreciation				
At 1 April 1997	1,105	4	17	1,126
Charge for year	77	1	1	79
Disposals	-	-	(2)	(2)
At 31 March 1998	1,182	5	16	1,203
Net book value				
At 31 March 1998	1,302	12	1	1,315
At 31 March 1997	1,351	13	-	1,364

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

	1998	1997
	£ million	£ million
Cost	549	549
Net book value	294	313

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

10 FIXED ASSET INVESTMENTS

	1998 £ million
Cost	
At 1 April 1997	11
Additions	<u>1</u>
At 31 March 1998	<u>12</u>
Provision for diminution in value	
At 1 April 1997	11
Provided in the year	<u>1</u>
At 31 March 1998	<u>12</u>
Net book value	
At 31 March 1998	<u><u>-</u></u>
At 31 March 1997	<u><u>-</u></u>

Loans have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided against in the Company's accounts.

Subsidiary undertakings

The Company owns the entire share capital of the following companies.

	<u>Activity</u>
Scottish Nuclear International Ltd	Consultancy Services

Hunter Limited was dissolved on 6 February 1998.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

11 DECOMMISSIONING FUND

	£ million
As at 31 March 1997	79
Regular contributions	4
Revalorisation (note 7)	6
As at 31 March 1998	89

The decommissioning fund asset in the balance sheet represents the contributions made by the Company, together with an estimated actuarially determined long-term rate of return on the fund of 3.5 per cent per annum. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account as a revalorisation credit. The decommissioning fund asset is receivable in more than one year.

12 STOCKS

	1998 £ million	1997 £ million
Nuclear fuel	162	168
- stock in reactor	(87)	(81)
- unburnt fuel provision	75	87
- other	25	30
Stores	35	37
	135	154

13 DEBTORS

	1998 £ million	1997 £ million
Trade debtors	67	63
Other debtors	1	2
Prepayments	10	12
Amounts due from group companies	3	4
	81	81

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

11 DECOMMISSIONING FUND

	£ million
As at 31 March 1997	79
Regular contributions	4
Revalorisation (note 7)	6
As at 31 March 1998	89

The decommissioning fund asset in the balance sheet represents the contributions made by the Company, together with an estimated actuarially determined long-term rate of return on the fund of 3.5 per cent per annum. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account as a revalorisation credit. The decommissioning fund asset is receivable in more than one year.

12 STOCKS

	1998 £ million	1997 £ million
Unburnt nuclear fuel in reactors	162	168
Provision for unburnt fuel at station closure	(87)	(81)
Net unburnt nuclear fuel in reactors	75	87
Other nuclear fuel	25	30
Stores	35	37
	135	154

13 DEBTORS

	1998 £ million	1997 £ million
Trade debtors	67	63
Other debtors	1	2
Prepayments	10	12
Amounts due from group companies	3	4
	81	81

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

14 CREDITORS

Amounts falling due within one year:

Nuclear liabilities (note 15)	121	108
Trade creditors	14	11
Retentions	1	1
Other creditors including taxation and social security	25	24
Accruals	47	62
Amounts owing to parent undertaking	424	493
Dividends payable	26	24

1998	1997
£ million	£ million
121	108
14	11
1	1
25	24
47	62
424	493
26	24
658	723

The loan from the parent undertaking is unsecured,
and is repayable on demand
Interest at 8.18% is payable on £90 million of loan

Amounts falling due after more than one year

Nuclear liabilities (note 15)

1998	1997
£ million	£ million
487	517

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

15 NUCLEAR LIABILITIES

	1998		
	Back end fuel costs contracted	Back end fuel costs uncontracted	Decommissioning
	£ million	£ million	£ million
At 1 April 1997	625	179	212
Impact of BNFL contract negotiations	50	(50)	-
	675	129	212
Charged to profit and loss account			
- exceptional	(47)	-	-
- operating costs	49	7	-
- revalorisation	41	10	14
	(110)	-	-
Payments in year			
Balance at 31 March 1998	608	146	226
	980		

The uncontracted back end fuel provisions comprise mainly provision for long term storage and disposal of waste.

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

	1998	1997
	£ million	£ million
Creditors due within one year	121	108
Creditors due after more than one year	487	517
Provisions for liabilities and charges	372	391
	980	1,016

Fuel cost - back end

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

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

15 NUCLEAR LIABILITIES (Continued)

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 company's decommissioning strategy.

Projected payment details

Based on year end estimates of station lives and lifetime output projections, the following table shows the undiscounted payments, in current prices, the equivalent sums discounted at 3% 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	1998 £'bn	1997 £'bn
Undiscounted	1.5	0.9	1.2	3.6	3.8
Discounted	1.0	0.3	0.2	1.5	1.5
Accrued to date	0.6	0.2	0.2	1.0	1.0

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

Under the terms of the contracts with BNFL referred to above and the projected pattern of payments for decommissioning and other liabilities, taking account of the segregated decommissioning fund arrangements described in note 1, the undiscounted payments in year end prices are expected to become payable as follows:

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

15 NUCLEAR LIABILITIES (Continued)

	At 31 March 1998				
	Back end fuel costs contracted	Back end fuel costs uncontracted	Decommissioning	1998 Total	1997 Total
	£ million	£ million	£ million	£ million	£ million
Within 5 years	560	17	21	598	601
6 - 10 years	249	65	48	362	365
11 - 25 years	392	186	83	661	617
26 - 50 years	94	94	-	188	369
51 years and over	200	507	-	707	812
	<u>1,495</u>	<u>869</u>	<u>152</u>	<u>2,516</u>	<u>2,764</u>

16 OTHER PROVISIONS

	Restructuring	Insurance	Deferred tax	Total
	£ million	£ million	£ million	£ million
Balance at 1 April 1997	9	1	8	18
Charged to profit and loss account	7	-	19	26
Payments in year	(7)	-	-	(7)
Balance at 31 March 1998	<u>9</u>	<u>1</u>	<u>27</u>	<u>37</u>

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

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

16 OTHER PROVISIONS (Continued)

Deferred taxation

	1998			1997		
	Full potential liabilities	Amounts unprovided	Liabilities/ (assets) recognised	Full potential liabilities/ (assets)	Amounts unprovided	Liabilities/ (assets) recognised
	£ million	£ million	£ million	£ million	£ million	£ million
Accelerated capital allowances	321	(168)	153	361	(166)	195
Short term timing differences	(3)	-	(3)	(7)	-	(7)
Corporation tax losses	(123)	-	(123)	(180)	-	(180)
	<u>195</u>	<u>(168)</u>	<u>27</u>	<u>174</u>	<u>(166)</u>	<u>8</u>
				<u>1998</u>		
				£ million		
As at 1 April 1997				8		
Charge for year (note 8)				<u>19</u>		
As at 31 March 1998				<u>27</u>		

The full potential liability for deferred tax has been calculated using the expected tax rate of crystallisation of 30 per cent (1997 33 per cent).

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

17 CALLED UP SHARE CAPITAL

	1997 and 1998	
	Number	£
Ordinary shares of £1 each, authorised, allotted and fully paid	100	100
Special rights redeemable preference share of £1	1	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 for Scotland, 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, the disposal of stations or generating assets, or the transfer out of Scotland of any of Scottish Nuclear's headquarters functions unless certain conditions are met, require the prior written consent of the holder of the special share.

18 RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
	£ million	£ million
Profit for the financial year	63	22
Dividend	(26)	(24)
Net addition/(reduction)	37	(2)
Opening shareholders' funds	29	31
Closing shareholders' funds	66	29

19 FINANCIAL COMMITMENTS

	1998	1997
	£ million	£ million
Capital expenditure contracted for but not provided	1	4

The company has commitments for the supply of fuel to meet generation requirements at agreed prices up to year 2006 at a value in current prices of £464 million (1997: £411 million).

At 31 March 1998 the Company had no material commitments under non-cancellable operating leases.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

20 CONTINGENT LIABILITIES

Commitments on behalf of group undertakings

The Company has given unlimited intercompany guarantees between the Company and other group undertakings over the group banking facilities. No borrowings were covered by the guarantee at 31 March 1998 (1997: £225 million).

In addition to the above, the Company 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 in the Company's financial position.

21 PENSIONS OBLIGATIONS

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

The most recent actuarial funding valuation report of the Scheme was prepared as at 31 March 1996 by an independent actuary using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the investment rate of return would be 9% p.a., the rate of salary increase would be 7% p.a., and the rate of pension increase would be 5% p.a. The actuarial valuation of the Scheme at 31 March 1996 was £210 million. This represents 109% of the benefits accruing to members after allowing for expected future increases in earnings. The contribution rates of the Company and contributing members are 14% and 5% respectively of pensionable earnings.

The pension cost for the year ended 31 March 1998, determined using the projected unit method was £6 million (1997 £6 million) including the costs of provision of early retirement of certain employees. The Company's contributions to the Scheme during the year ended 31 March 1998 amounted to £6 million (1997 £5 million) and at 31 March 1998 a prepayment of £9 million (1997 £10 million) existed.

22 POST BALANCE SHEET EVENT

On 2 April 1998 the British Energy plc Board decided to extend the accounting life of Hunterston B by five years with effect from 1 April 1998. As a result the accounting life of this station will increase from 30 to 35 years, changing the assumed closure date for accounting purposes from 2006 to 2011. The life extension will result in an ongoing improvement in profit before tax of approximately £12 million per annum with effect from 1998/99. In addition there will be a one-off exceptional credit of approximately £30 million in 1998/99 in respect of fuel and decommissioning provisions.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998 (CONTINUED)

23 PARENT UNDERTAKING

The results for Scottish Nuclear have been consolidated in the accounts of its parent undertaking, and ultimate holding company and ultimate controlling party, British Energy plc. Copies of these accounts can be obtained from the Company Secretary at 10 Lochside Place, Edinburgh, EH12 9DF.

24 REGULATORY ACCOUNTS

In addition to the Report and Accounts, a separate set of regulatory accounts for the generation business will be available free of charge on request to the Company Secretary at the Registered Office: Scottish Nuclear Limited, 3 Redwood Crescent, East Kilbride, G74 5PR.

25 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under financial reporting standards not to disclose related party transactions with fellow members of the British Energy plc group. These transactions eliminate on consolidation in the group accounts.