

British Nuclear Fuels plc

Annual Report and Accounts

2000



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Highlights

- Top management team changed
- Clear management accountability introduced
- Further improvements to safety culture and systems
- Business Groups simplified
- ABB's nuclear businesses acquired
- Magnox lifetime limits programme announced
- Key customer relationships being rebuilt
- Nuclear liabilities reassessed
- Financial reporting made more transparent
- Turnover up 32% to £2,064 million (£1,565 million last year)
- Operating profit before exceptional items and revision of previous years' nuclear liabilities of £65 million (£56 million last year)
- Net cost of exceptional items before taxation of £411 million (net income of £57 million last year)
- Impact of revision of previous years' nuclear liabilities not treated as exceptional £45 million (£19 million last year)
- Profit before tax before exceptional items £74 million (£161 million last year)
- Loss before tax after exceptionals £337 million (£218 million profit last year)



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Hugh R Collum

My goal over the next two years is to rebuild BNFL and *trust amongst our key stakeholders*, particularly our customers.

When I became Chairman in October 1999, it was with the goal of helping BNFL to achieve a Public Private Partnership. In spite of a turbulent and challenging year, that goal remains.

Transforming a Government-owned organisation into a competitive company answerable to private shareholders was always going to be challenging. However, the Public Private Partnership process provides the opportunity for a fundamental review of the business. Transformation is essential if we are to deliver a company capable of thriving in a more commercial environment.

For example, notwithstanding the fact that we have many fine managers, it was clear from the outset that many aspects of management – culture, structure and processes – were unsatisfactory when judged against private sector yardsticks. Other long-standing matters such as the extent of our exposure to nuclear liabilities, the opaqueness of our financial reporting and our financial position also needed urgent attention.

The nature of our business is such that we are dealing with hugely complex issues and timescales of 100 years or more – clearly not the case for most conventional companies. In addition, we are always working within the parameters of national and international policies and regulations on

nuclear and environmental issues. In an already complex and challenging environment, the company has also had to endure a period of unprecedented difficulty that was triggered by the discovery in August 1999 of falsified quality assurance data at our Sellafield Mox Demonstration Facility (MDF). One consequence of these difficulties has been a delay to the proposed Public Private Partnership. A further consequence has been the poor operating and financial performance detailed in this Report and Accounts as we clear up some issues of the past.

Turnover rose 32% to £2,064 million, due mainly to the inclusion of full year figures for Westinghouse, which is proving to be an excellent and profitable acquisition.

Operating profit before exceptional charges and revision of previous years' nuclear liabilities was £65 million (£56 million last year). These results were adversely affected by the poor performance of our Magnox power stations. After taking into account a £45 million charge for revisions to previous years' nuclear liabilities which has not been treated as an exceptional item, the BNFL Group's share of profits from associates and joint ventures, and net investment income, pre-tax profit from operations before exceptional charges was £74 million (£161 million last year).

Exceptional charges of £411 million have resulted in a loss before tax of £337 million. The exceptional charges included costs relating to the MDF data falsification; the impact of the early closure of our Hinkley nuclear power station; and provisions for losses on some long term decommissioning projects.

Performance affected cash generation from operating activities – £245 million this year, compared with £614 million last year. Overall for the year there was a net cash outflow of £31 million, compared with a net cash inflow last year of £589 million.

The balance sheet is dominated by provisions for liabilities, which at discounted values total £17,538 million. £15,786 million of this relates to nuclear provisions, of which £10,400 million applies to nuclear provisions to be funded by the BNFL Group. This is an increase of £555 million of which £300 million is a direct result of the recent comprehensive review, and £255 million is a result of normal annual movements.

Shareholders' funds are reduced from £576 million at the beginning of the year to £310 million at 31 March 2000.

Firm actions

We have taken steps to get BNFL back on track and prepare it for the future.

- I appointed in March 2000 a new Chief Executive – Norman Askew – with invaluable private sector experience.

- We are making other senior management changes, including the appointment of a new Group Finance Director, Human Resources Director, and the establishment of a new senior role of Executive Director, Environment, Health and Safety.
- We delivered comprehensive responses to the Health and Safety Executive's reports, which included detailed plans of action to implement all of their recommendations.
- We implemented changes to streamline the management and organisational structure in order to deliver greater management accountability, management focus and commercial capability.

These changes were welcomed by both the UK Government and the Health and Safety Executive.

- We reviewed our operations and set priorities for each business group:

Fuel Manufacture and Reactor Services – to drive value from the acquisition of the Westinghouse and ABB nuclear businesses.

Magnox Generation – to produce maximum output safely at the lowest cost and implement the announced lifetime programme.

Spent Fuel Management – to rebuild trust with our key customers and implement the Health and Safety Executive's recommendations.

Nuclear Decommissioning and Clean-up – to build a profitable business as well as provide excellent technical solutions.

- We conducted an extensive review of our nuclear liabilities provisions.

Culture

At a time of so much change, mostly putting right issues of the past, I concluded in my Management Review, prepared for the Minister for Energy and Competitiveness in Europe, that it was appropriate the Board should take responsibility for what had been uncovered. I therefore decided that at the same time as we strengthened the line management, we should rebuild the Board.

The culture of the company must change and this will start at the very top. I am building a Board which has the appropriate commercial, financial and international experience necessary to drive the business forward. The appointment of John Edwards as Group Finance Director is an important step in this direction. Further appointments include Gordon Campbell and Bill Lowther as non-executive directors, all have considerable

Chairman's statement

private sector and international experience. I anticipate more appointments shortly. The Board will be run like a publicly quoted company and this will set the tone for the management team and all employees.

It is however appropriate that I thank those members of the Board who have left, for the various contributions they have made and their support in many cases over many years.

I would also like to thank our employees for their efforts, the vast majority of whom are as dedicated and as determined to make this business succeed as I am. I would also like to thank our shareholder, the UK Government, for continued support.

Progress

I am satisfied that the first steps towards recovery have been taken and our focus is now on addressing the key operational issues. Firm evidence of progress came in July when we reached agreement with one of our key Japanese customers, the Kansai Electric Power Company, on the return of the eight Mixed Oxide (Mox) fuel assemblies from Japan, and the settlement of their compensation claims.

In addition, we welcomed the announcement that Kansai Electric Power Company has lifted the suspension on new Mox and reprocessing business with BNFL. The lifting of the moratorium opens the way for re-establishing a normal business relationship.

We still have much work to do to continue the process of rebuilding customer confidence. In the case of Japan, we have enjoyed a positive and successful relationship with our customers for some 30 years and everyone in BNFL is determined to regain that confidence.

Improving performance

The continued prospect of a Public Private Partnership will provide a powerful incentive to improve performance. This point was endorsed by the recent report from the House of Commons Trade and Industry Committee which concluded that, in broad terms, a Public Private Partnership was the best way of introducing commercial disciplines into the company. In two years' time I would like the company to be in a position where a Public Private Partnership is a viable option. In no way do we underestimate the challenges which the company faces and the issues which we have to resolve. But nor should we underestimate the knowledge and expertise which resides in the company. BNFL is an important UK-based international company. We play a vital role in the business of our customers. The company is important to our workforce, to the local communities and countries in which we operate and to the UK as a whole.

Norman Askew and I have come from the private sector with a determination to make real and lasting changes. Our goal over the next two years is to rebuild BNFL and trust amongst our key stakeholders, particularly our customers. Transparency and accountability will be our watchwords.

Outlook

The outlook for the business in the short term remains challenging, both in terms of the markets we serve and our capacity to maintain and win market share.

The demand for nuclear fuel and reactor services is likely to remain flat in the next 12 to 18 months although there will be growth opportunities from the lifetime extension of plants, particularly in the US. There is also likely to be major growth in demand for nuclear decommissioning and clean-up services. However, the challenge for us is to ensure that we can leverage our skills in this area to derive value from existing and new contracts.

The spent fuel management business will remain a major contributor to our profits with a strong order book, although it faces uncertainty until the Sellafield Mox Plant receives approval to operate. Restoring customer confidence will be a priority in this business.

Finally, our Magnox business must improve its operational performance if it is to become profitable in an increasingly competitive UK electricity market. Given the performance of the Magnox fleet in the current financial year, particularly the recent technical problems at Wylfa, this will be a major challenge.

We have set priorities for each business group in order to deliver our short term targets. For the longer term, we are currently conducting a thorough review of our strategy to ensure profitable growth can be delivered and sustained in the years ahead.

I am confident that the measures we are taking, combined with an injection of the appropriate commercial expertise, will put the company on the right track and enable us to build a business capable of delivering sustainable shareholder value – a successful, safe and profitable international nuclear products and services company.



Hugh R Collum Chairman

Norman Askew

Since joining BNFL in March 2000, my focus has been on *delivering change* within the company and making that change stick.

With the Chairman, Hugh Collum, I have been tackling key management and operational issues. We have also taken action to improve the clarity and transparency of our accounts which now represent a fresh start as we drive towards our goal of a Public Private Partnership.

My priorities have been:

- Implementing the recommendations in the Health and Safety Executive's reports.
- Creating the most effective management and organisational structure.
- Rebuilding customer confidence.
- Addressing key operational issues in our business groups.
- Establishing a clear position on our liabilities and greater transparency in the company's finances.

Six months into the task I can say that we have achieved a great deal but there remains much to do.

"I will personally guarantee that each and every one of the Health and Safety Executive's recommendations are met in full and that the resources necessary to achieve this are made available."

Implementing the Health and Safety Executive's recommendations

The areas where we need to change are highlighted in the UK Health and Safety Executive's three reports published in February 2000*. I have already gone on record to say that I will personally guarantee that each and every one of the Health and Safety Executive's recommendations are met in full and that the resources necessary to achieve this are made available. To do otherwise is not an option. We have already completed 18 of the 47 internal milestones we in BNFL have set ourselves, in order to meet the recommendations in the Health and Safety Executive's report on its Team Inspection of the Control and Supervision of Operations at Sellafield. There are deadlines set against every one where we still have more work to do. I have confidence the team at Sellafield will achieve these changes.

During my first few weeks at BNFL, I found these reports extremely valuable and my blueprint for change is based on the response which we published in April. Specifically, we have clarified the safety management structure by establishing the new post of Director of Operations, Sellafield, with full accountability for safety and operations across the entire site.

We are also improving the available resources by selective recruitment and improving independent inspection by appointing a new team of senior independent compliance inspectors and advisors. We have also strengthened the role of Executive Director of Environment, Health and Safety reporting to me, supported by a newly appointed Safety Inspection team.

Regarding the issues surrounding the Mox Demonstration Facility (MDF), the Health and Safety Executive's report concluded that fuel produced there would be safe in use, but it quite rightly drew attention to areas and practices that were not good enough. We have used the Health and Safety Executive's report as an action plan and we have taken action to meet all 15 recommendations. This has allowed us to take the decision that when the MDF is reopened, it will be as a demonstration facility, not a production unit.

Finally, we have responded to the Health and Safety Executive's report into the Highly Active Liquid waste tanks.

Creating the most effective management and organisational structure

Any organisation that does not operate safely will have high and unpredictable costs. Achieving proper management focus and accountability is therefore essential to improve further on our safety performance.

To this end, I have given clear line responsibility to the four general managers who head up our restructured and renamed business groups. Each reports to me and has full line authority for safety, commercial, operational, environmental and financial aspects of their business group. This has replaced the previous matrix management approach where authority was shared between line and functional managers.

The announcement of these wide-ranging changes in April 2000 was only the first, albeit important, step. The task now ahead is to implement the changes and to 'make them stick' so that they become 'the way we do things around here'.

We will create a culture which is open, transparent and accountable. This will be achieved by making it clear what is expected and where accountability lies.

The role of all senior management in providing leadership by example cannot be overstated. The senior management team is clear about what is expected of them. That commitment must now stretch into the whole organisation.

BNFL has a tremendous depth of skills in the engineering, scientific and technical nuclear field. This skill base is very impressive and is the foundation for the future success of the business. As always, people are at the heart of business and leveraging these skills and the commitment of our people is essential for achieving the task in hand.

Rebuilding customer confidence

The true test of whether we are succeeding in rebuilding the company will come when we have regained the confidence

*HSE Team Inspection of the Control and Supervision of Operations at BNFL's Sellafield site; An investigation into the falsification of pellet diameter data in the Mox Demonstration Facility at BNFL Sellafield site and the effect of this on the safety of the fuel in use; The storage of liquid high-level waste at BNFL Sellafield -- an updated review of safety.

of customers. In addition to the essential changes we have made within the company, we are maintaining a dialogue with customers. The lifting of the moratorium on trading with Kansai Electric Power Company of Japan is clearly a major step in this direction.

Addressing key operational issues

The measures outlined above are part of a drive to achieve an acceptable level of operational and financial performance.

While there have been successes in the BNFL Group, for example the integration of the Westinghouse nuclear business, it is clear that strong action is needed to dramatically improve performance across most of the company. Our overall key operational priorities are as follows:

- Continue the drive towards achieving world class safety and environmental standards.
- Improve output and throughput in all our plants.
- Manage the cost base and improve efficiency.
- Grow profitability.

Medium term objectives for the four business groups are as follows:

Fuel Manufacture and Reactor Services Business Group (which now includes operations at Springfields and Westinghouse)

The strategic and operational priority is to consolidate our position in the £1.4 billion per annum market for nuclear fuel reactor services and instrumentation and control. We are determined to extract full value from the acquisition of the Westinghouse and the ABB nuclear businesses and to achieve cost efficiencies through synergies by combining our product and service offerings.

Magnox Generation Business Group

The decision on Magnox station lifetime limits has provided certainty about the future and clarity to the company's business planning. The priority is to maximise revenue and profit over the remaining lifetime of their safe operations.

The Spent Fuel Management Business Group

Although the issues around the Mox Demonstration Facility have dominated the business group, the Thorp reprocessing plant achieved a record level of throughput last year. Nevertheless, there is room for further improvements within the business group and it is important that we continue to maximise Thorp throughput and throughput of the Sellafield waste management plants. The top priority is to address the issues arising from the Mox Demonstration Facility events and the Health and Safety Executive's reports. The resumption of trading with Kansai Electric Power Company will be an important step in the building of business for the future.

The Nuclear Decommissioning and Clean-up Business Group

This is an area of significant strategic potential and we are well positioned to take advantage of the emerging multi-billion pound global nuclear clean-up market. The focus and priority going forward is to ensure that we can leverage our skills in order to profitably deliver world class technical solutions to our customers.

Establishing a clear position on liabilities

A key element affecting the performance of the company as a whole is the issue of nuclear liabilities. We recognise that the reporting of our liabilities has been a source of confusion to many followers of the company. In this Report and Accounts, we aim to provide as full and clear an explanation as possible of our nuclear liabilities. In this section of the Review, we outline the background to our nuclear liabilities and then give our current position in the Financial Review. Further background on liabilities is provided on pages 32 and 33.

What is a liability?

A liability arises from an obligation to carry out work in the future. In the case of BNFL, the three main types of work that the company is obliged to carry out at some future date are reprocessing spent nuclear fuel, the management of radioactive wastes and decommissioning redundant nuclear plants. Some of this work will be paid for by customers such as the Ministry of Defence and the UK Atomic Energy Authority and some are covered by existing customer contracts such as those with British Energy and overseas customers.

"The Board are satisfied that the liabilities figures presented in this Annual Report are as robust as possible."

The rest is funded by BNFL and, in addition to the Secretary of State for Trade and Industry's undertaking to pay the Group £4.2 billion at current values (related to the acquisition by the company of Magnox Electric plc— see note 13 on page 61), we continue to build up funds in secure external investments such as Government bonds to ensure that we will have sufficient monies to pay for the work in the future.

Reprocessing of fuel

Our provisions include amounts for the reprocessing of our own Magnox reactor fuel which has been used in the reactors and is now awaiting reprocessing. The costs of reprocessing this spent fuel are provided for when the fuel is used.

Waste management

Waste management includes the retrieval, treatment and packaging of nuclear waste into a safe and passive form. The waste has been generated from the operation of the plants on the company's sites over many years. Some of these liabilities originate from the UK's defence programmes of the 1950s and 1960s. Wastes continue to arise today from the civil, energy-related operations of the company's facilities such as the reprocessing of Magnox fuel used to generate electricity.

Waste management extends beyond the packaging of nuclear waste to the storage of packaged wastes through to final disposal. Low-level waste is disposed of at our Drigg site near Sellafield. Although the bulk of waste management work resulting from operations will be carried out over the next 30 years, some arises from decommissioning and will occur much later.

Decommissioning

This means decontaminating, dismantling and demolishing redundant nuclear facilities including UK defence related facilities, nuclear power stations, nuclear reprocessing plants, nuclear waste management facilities and cleaning up nuclear sites.

Calculating the cost

Calculating the cost of these liabilities is complex because the decommissioning and waste management work will be carried out at various stages in the medium and longer term and, indeed, some work will not be completed for about 150 years. We have to consider a number of factors and make assumptions such as the future safety and environmental requirements based on best information available today. We also take account of known and foreseeable developments in technology where we have sufficient evidence of their feasibility.

At BNFL, a single Liabilities Management Unit was formed in 1998 to identify the cost in today's prices of carrying out the work, taking into account these variables and making judgements on likely outcomes. Its primary role is to provide a credible valuation of the company's liabilities whilst helping senior management direct research and technical development work. This is in order to deploy the safest and most cost-effective ways of carrying out these complex tasks. Since the end of the 1980s, we have been reassessing our liabilities each year and estimates have been regularly adjusted over that period.

The Liabilities Management Unit has now carried out an extensive review of liabilities. This has just been completed and the Board are satisfied that the liabilities figures presented in this Annual Report are as robust as possible.

Now, the challenge ahead is to drive the business forward safely. We have achieved a great deal but there remains much to do.



Norman Askew Chief Executive

John Edwards

We have taken seriously criticisms of the presentation of financial information in our previous Report and Accounts.

Our financial reporting

We intend that our enhanced reporting introduced in this set of financial statements will introduce the transparency and accountability necessary for any reader to gain a full understanding of the company's performance.

Financial performance

This set of accounts shows sales growth in the BNFL Group, mainly from the Westinghouse acquisition. The turnover rose significantly to £2,064 million from £1,565 million and we generated a £65 million operating profit before revision of previous years' nuclear liabilities and exceptional items. We took however, pre-tax exceptional charges of £411 million which led to a loss before investment income, interest and tax of £359 million. Investment income of £531 million was offset by interest and similar charges of £509 million, giving a pre-tax loss for the company of £337 million (1999 pre-tax profit of £218 million).

There was a deterioration in the cash position which showed a net cash outflow of £31 million.

Segmentally, our performance by business group was mixed. With the first full year inclusion of our Westinghouse acquisition, the Fuel Manufacture and Reactor Services Business Group increased turnover from £187 million to £730 million with operating profit (before revision of previous years' nuclear

liabilities) at £23 million, up from £4 million. The financial performance for the Magnox Generation Business Group was extremely disappointing. Turnover was £568 million, down from £628 million, resulting in an operating loss (before revision of previous years' nuclear liabilities and exceptional items) of £37 million, (£27 million profit last year).

The Spent Fuel Management Business Group overall produced a strong financial performance. Turnover was £599 million, up from £568 million and operating profit (before revision of previous years' nuclear liabilities and exceptional items) was £100 million (£77 million last year). Finally, the Nuclear Decommissioning and Clean-up Business Group had a turnover of £167 million, down from £182 million last year with an operating loss (before revision of previous years' nuclear liabilities and exceptional items) of £21 million, compared with an operating loss of £52 million last year. Further details on business group performances can be found on pages 14 to 23.

Exceptional charges

Total exceptional charges amounted to £411 million before tax and comprised three major elements:

1. A £113 million charge arising from the falsification of records in respect of Mox fuel. This includes the £40 million of compensation to Japan's Kansai Electric Power Company, estimated costs associated with the

shipment of the fuel back to the UK, the handling of the fuel in the UK and other related costs. Whilst no decision has been made on how the fuel will be ultimately dealt with on its return, we are considering several options which have been factored into the provision.

2. The £125 million revision of previous years' nuclear liabilities and a £26 million write off (£151 million in total) to cover the impact of the early closure of our Hinkley nuclear power station. The station will close five years earlier than planned. The entire financial impact of this decision, which includes accelerated decommissioning liabilities and the write down of assets, has been charged in the current year.
3. A £139 million provision for foreseeable losses on long term contracts, a consequence of poor project evaluation and pricing. The contracts are associated with clean-up in the US and decommissioning in the UK.

Investment income, interest and taxation

We receive income on our investments as well as paying interest on loans. The income from the Nuclear Liabilities Investment Portfolio was £213 million; £273 million was accrued under the terms of the Secretary of State's undertaking; and income of £127 million was earned on other short term investments and loans to joint ventures and associates.

Investment income of £82 million earned on advance payments which were agreed as part of the original contract negotiations with customers has been reclassified from investment income to turnover. This treatment more fairly reflects the nature of the total contractual income, is in accordance with Generally Accepted Accounting Practice and is explained fully in Note 25. Last year's figures in the profit and loss account have been restated in line with this new policy, with £78 million being reclassified to turnover.

After taking account of the reclassification, total net investment income was £531 million (1999: £604 million).

Interest payable and similar charges was £509 million. This included a charge of £486 million which accounts for cost inflation on the decommissioning liabilities. This mechanism is more fully explained in 'Background on liabilities' on page 33.

The company made a pre-tax loss of £337 million (1999: pre-tax profit of £218 million). There was a tax credit on this loss of £76 million, which compared to the prior year's tax charge of £86 million. The loss for the year after taxation and minority interests of £262 million, was covered by the company's reserves.

Cash flow

The cash flow performance reflects the poor operational performance, especially of the Magnox Generation Business Group and reduced investment income.

Cash inflow from operating activities was £245 million compared to £614 million the previous year.

Capital spend totalled £477 million (1999: £466 million) most of which was related to waste treatment and other environmental projects, mainly at Sellafield.

Investment returns fell to £177 million (1999: £342 million), taxation was £95 million and dividends paid £49 million. New loans of £105 million were taken to fund the Westinghouse acquisition, giving the overall net cash outflow of £31 million (1999: net cash inflow £589 million).

Last year's figures have been restated for the same reason as the profit and loss account i.e. the restatement of investment income on some advance payments as revenue.

Balance sheet

In order to understand the balance sheet fully, it is necessary to understand the impact of the management of nuclear liabilities within the business. In particular, it is important to recognise the extent to which those liabilities are incurred on behalf of, and costs recovered from, customers.

We calculate that the gross future cash expenditure in discharging all liabilities over the next 150 years is now £34,242 million, an increase of £7,111 million – 26% – on 1999's figure of £27,131 million. Of this gross future expenditure, £23,164 million is the responsibility of BNFL (1999: £19,355 million), and £11,078 million is the responsibility of our customers (1999: £7,776 million).

When discounting is taken into account, the total figure is £15,998 million of which £10,383 million is the responsibility of BNFL and £5,615 million is the responsibility of our customers.

The figures quoted below include both liabilities which have arisen as a result of operations to date and liabilities which are anticipated to arise as a consequence of future operations. Of the total future discounted expenditure of £15,998 million, £13,844 million has arisen as a result of activities to date and £2,154 million will arise as a consequence of future operations. Full provisions are included on the balance sheet for the £13,844 million in respect of activities to date with £9,481 million being the responsibility of BNFL and £4,363 million being the responsibility of our customers. Provisions will be made for remaining liabilities as the future operations take place and the liabilities arise.

In addition to the future cash liabilities in respect of operations to date, the balance sheet also includes provision for the remaining depreciation on certain historic capital expenditure amounting to £1,942 million of which £919 million is the responsibility of BNFL and £1,023 million is the responsibility of our customers. Total nuclear provisions on the balance sheet amount to £15,786 million of which £10,400 million is the responsibility of BNFL and £5,386 million is the responsibility of our customers.

Nuclear liabilities review

We have recently undertaken an extensive review of our nuclear liabilities. This has involved revised estimates around future decommissioning and clean-up work at Sellafield, taking into account updated/new technical assumptions around the decommissioning of chemical plants, revised estimates of the level of contamination of older buildings and past military programmes and associated increases in the volumes of waste. The gross figures include all decommissioning and waste management projects, over varying timescales.

Another key factor in the sharp increase in gross liabilities expenditure is the provision of storage facilities at Sellafield pending the availability of a repository which will be available for the final disposal of nuclear waste. It is anticipated that a repository will be available by 2040. However, a potential delay beyond this date has been reflected in the provisions for liabilities. This increases our gross liabilities expenditure because of the potential need to provide storage facilities for the wastes for an estimated additional 30 years. However, the fact that the final repositories are unlikely to be available until much later than first anticipated means that the period of time over which we discount the expenditure is longer, resulting in a much smaller increase in the discounted liabilities figure.

Because many of these costs will not be incurred for many years, the company does not need to have a full £23,164 million available now. Instead, it has set aside

funds which are expected to grow, just like a pension fund, to provide sufficient cash to fund the work when it is done.

The company has calculated that it currently requires £10,383 million, invested in secure funds, to generate the £23,164 million needed to meet the cost of future liabilities work at various intervals over the next 150 years. This figure is based on an assumption that the £10,383 million will grow by an average rate of 2.5% and that the money available will be sufficient to meet project funding needs as they arise. The 2.5% rate is net of tax and inflation and reflects an estimated risk-free rate of long term investment return, such as that received with Government bonds and other similar secure investments.

The £10,383 million figure is split approximately between decommissioning work (£5,900 million), waste management (£3,100 million) and reprocessing (£1,400 million).

Fixed and current assets

Fixed assets were up to £11,407 million from £10,713 million mainly because of an increase in the capitalisation of revised costs of decommissioning and capital expenditure.

Fixed assets included the Sellafield Mox Plant which can only be commissioned for plutonium once the Department of the Environment, Transport and the Regions and the Department of Health give approval and is included in the accounts at a carrying value of £462 million.

Current assets include an increase in stocks of £87 million to £419 million due to increased work in progress, largely on significant US contracts.

Debtors and liquidity

Debtors in the form of the Secretary of State's undertaking and nuclear liabilities recoverable from customers rose to £4,222 million and £3,883 million respectively (£3,949 million and £3,622 million last year). The increase in the Secretary of State's undertaking is the result of interest accrued in accordance with the terms of the contract (see note 13). This is scheduled to increase each year in a way that the company can generally predict.

The company remains relatively debt-free with total loans of £165 million, mainly related to the funding of Westinghouse operations.

The balance sheet for the previous year has been restated because of an accounting policy change whereby some fixed asset investments in the balance sheet are now being carried at historic cost rather than market value. This change and its full financial impact is detailed in note 25.



John Edwards Group Finance Director

Achieving leadership through *innovation* and technology

Operations in the Vitrification
Plant are conducted behind thick
shielded cells using the latest
remote handling technology.

BNFL is a world leader in the global nuclear energy market providing technological expertise to our customers.

Fuel manufacture and reactor services

With the acquisition of Westinghouse and ABB nuclear businesses, BNFL now has a consolidated business that is a world leader in a £1.4 billion annual global market.

BNFL's US-based Westinghouse business, which was acquired in 1999, manufactures nuclear fuel and provides operating plant services, instrumentation and control systems, and plant design to customers around the world. The worldwide business consists of four units: Nuclear Fuel, Nuclear Services, Nuclear Systems and Nuclear Automation.

In April 2000, the business group was restructured to become the Fuel Manufacture and Reactor Services Business Group. It now comprises the Westinghouse nuclear businesses, BNFL's UK fuel business based at Springfields near Preston, and the recently acquired nuclear businesses of ABB.

With the acquisition of the Westinghouse and ABB nuclear businesses, BNFL now has a consolidated business that is a world leader in a £1.4 billion annual global market. Nearly one half of the world's operating nuclear power plants have been provided either by Westinghouse or its licensees. The business group is led by President and Chief Executive Officer, Charlie Pryor.

Summary

- Improved safety performance – the Total Recordable Incidence Rate was reduced to 1.38 per 200,000 hours worked (1998-99: 1.85).
- Good operational and financial performance.
- Enhanced our market position.
- Completed the integration of Westinghouse with BNFL ahead of schedule.
- The acquisition of the ABB nuclear businesses provides opportunities for further synergies.
- Growth opportunities around the lifetime extension of plants.

Financial performance

The financial performance was strong. Turnover was up from £187 million to £730 million, principally due to the full

integration of Westinghouse Electric Company. Operating profit (before revision of previous years' nuclear liabilities) was £23 million, up from £4 million.

There is a continued emphasis on cost control. The acquisition of ABB's nuclear businesses will give us further opportunity to take costs out of the combined businesses and increase efficiency.

Operating performance

There has been a consolidation, especially in the USA of nuclear power plant operations. Therefore, it is the right strategy to be leading the consolidation of the 'front-end' services by putting together BNFL Fuel, and the Westinghouse and ABB nuclear businesses. This way we can continue to drive value out of a relatively flat market.

Nuclear Fuel

This business, which includes Westinghouse in the US and Springfields in the UK, provides nuclear fuel products and services to customers around the world. It achieved its production targets and was recently awarded a five year contract from Fortum in Finland. This is the first time a Russian-designed VVER 440 plant owner has contracted with a non-Russian supplier. Advanced Gas-cooled Reactor fuel production has been moved into the Oxide Fuel Complex in the UK following British Energy's agreement in April 1999. The old oxide plants at the Springfields site are currently being decommissioned.

The business unit has 17 lead use assemblies in operation at Kansai Electric Power Company's Ohi Unit 1 plant. Successful performance of the lead assemblies could generate future orders for fuel reloads.

Nuclear Services

Our Nuclear Services business provides products and expertise to operators of Pressurised Water Reactors and Boiling Water Reactors. For the year, the business successfully performed 300 services at 90 sites, and in the process set records at 19 plants. It had its largest ever contingent of personnel in the field at one time, while successfully

A Westinghouse employee inspects a fuel grid, which forms part of the final fuel assembly, to ensure it meets with customer specifications.

Fuel assemblies in the fuel manufacturing plant at Columbia, USA.

Magnox fuel element identification at the Springfields plant, UK.

implementing several first-time integrated engineering and field service programmes. Despite the intensity and complexity of these programmes, the business achieved consistently high customer quality ratings, improved safety performance and achieved financial goals.

Nuclear Services is operating in an environment of rapid customer consolidation and decreased operation and maintenance spending. The business is responding by pursuing a partnership strategy with its customers, particularly for utility outsourcing opportunities.

Nuclear Systems

Westinghouse Nuclear Systems designs and provides engineering, project management and the manufacture of components for Westinghouse Light Water Reactors, including those under construction in Korea and under consideration in China and Japan.

Replacement steam generator projects and nuclear waste container fabrication projects are also part of the Nuclear Systems portfolio.

Nuclear Automation

This business supplies plant instrumentation and control to support efficient reactor operations. It won a major new instrumentation and control contract for Ringhals in Sweden. The instrumentation and control market offers growth prospects internationally as reactor operators look to extend the life of their plants. This major award in Sweden will provide a platform to extend the Westinghouse position in this key market.

The unit has also accelerated the Temelin instrumentation and control project in the Czech Republic in support of the customer timetable, and was able to complete functional testing in time to support fuel load two months ahead of schedule.

Business developments

On 28 April 2000, BNFL completed the acquisition of ABB's nuclear businesses for \$485 million. With major operations

in the US, Sweden, Germany and France, the former ABB nuclear businesses have an annual turnover of around \$500 million. The acquisition will broaden our expertise with operating nuclear plants and increase our activities in the US, Europe and, in particular, Asia.

The acquisition also strengthens our capability in the Boiling Water Reactor market, which complements the strengths in the Pressurised Water Reactor, Advanced Gas-cooled Reactor and Magnox segments. It also provides a strong Asian nuclear systems business focused on new plant construction in Korea.

ABB's nuclear businesses are now being integrated into Westinghouse. Significant value is anticipated as a result of operating improvements and efficiencies arising from the integration and consolidation of product lines and facilities.

Priorities

- Continued emphasis on safety and environmental issues.
- Deliver the integration of ABB's nuclear businesses.
- Continue to raise performance expectations.
- Establish a world class nuclear automation business.
- Continue efforts to develop our people and our world class technology.

Outlook

There are growth opportunities from the lifetime extension of plants in the USA. We will continue to leverage the benefits from the integration of the three businesses. Against a background of further consolidation, we will be looking to continue the growth of this business group.

Magnox generation

Our priority for the year ahead is to maintain the highest environmental and safety performance levels whilst maximising the electricity output over the remaining lifetimes of our seven operating nuclear power plants.

In April 2000, it was announced that Magnox Generation had been established as a separate business group under the leadership of Clive Smitton. With this move, the Magnox reprocessing operations at Sellafield became part of the Spent Fuel Management Business Group.

In May, a lifetime limits programme was announced for the fleet of Magnox power stations. This decision provides a phased programme for the cessation of electricity generation at the eight stations, most of which began operating in the 1950s and the 1960s. The closure programme was announced at this time in order to provide clarity for all concerned about the future. For commercial and financial reasons, it was also decided that our Hinkley power station would not be brought back into service from its current shutdown.

These moves bring clarity to the company's business plans, make our plans clear to our employees and provide us with time to work with the communities around our stations on decommissioning plans.

Details of the planned closure programme are outlined at the end of this business group review. Although the power stations will not be run beyond the dates now announced, both market conditions and technical issues could result in earlier closure.

Summary

- Environmental and safety performance mixed.
- Magnox lifetime limits programme announced.
- Poor operational performance because of extended outages.
- Sharp fall in output caused by a number of stations being out of service for the majority of the year.
- Additional liabilities charge.

Financial performance

Financial performance was extremely disappointing. Turnover was £568 million, down from £628 million due

to severe operational difficulties at a number of power stations. This significantly lower output resulted in an operating loss before revision of previous years' nuclear liabilities and exceptional items of £37 million (£27 million profit last year) which worsened to £63 million with the £26 million exceptional item to cover write downs due to the early closure of our Hinkley nuclear power station. The entire financial impact of this decision has been charged in the current year.

It should also be noted that significantly higher costs of providing for company-wide nuclear liabilities led to a charge against profit of £117 million. This followed the company-wide nuclear liabilities review. The closure of Hinkley also resulted in a charge against profit relating to nuclear liabilities of £125 million.

Operating performance

Magnox stations

Operating problems at the eight Magnox stations led to a sharp fall in output of 15% compared to last year. All four reactors at Hinkley Point and Bradwell were out of service for the majority of the year and reactor one at Sizewell was off-line from November 1999. At Hinkley, the major cause of loss was a need to revise and reinforce various aspects of the safety case for reactor operation. At Bradwell, concrete beam reinforcements have had to be carried out to meet seismic aspects of the safety case requirements, and at Sizewell, certain aspects of the safety case have had to be revised following routine inspections.

It was decided in December that the Bradwell station in Essex would cease electricity generation in March 2002, the year of its fortieth birthday. The decision followed an in-depth study which concluded that the multi-million pound financial injection needed to keep the station operating to 2012 could not be justified. The first stage of decommissioning will take place following its closure in 2002.

Environmental and safety performance was mixed. Headline industrial safety indicators remained steady with considerable variation between sites. Enforcement notices were served in relation to a number of environmental irregularities from the

Environment Agency at Bradwell and Hinkley Point, and from the Scottish Environment Protection Agency at Chapelcross. The business group is committed to improving its operational, safety and environmental performance. Its strategy for improving performance focuses on five key elements:

- Behavioural safety.
- Management standards and expectations.
- Risk assessment.
- Active effluent treatment plant and discharge plant assessment.
- Environmental management review.

Business developments

Sizewell A became the first nuclear power station in the UK to achieve a Level 9 rating under ISRS, the internationally recognised safety management standard.

In December 1999, the first fuel flask was despatched from Wylfa using a new discharge route which provides a more efficient method of despatching fuel from the station's additional dry stores. With this route now operational, the business group has more flexibility in the handling of spent Magnox fuel, which should prove especially useful during periods of station decommissioning.

Priorities

The priorities for the management team are to:

- Maintain high environmental and safety performance levels.
- Maximise output over the remaining lifetimes of the plants.
- Control cost.

To deliver these objectives, we have set in place an action plan against which progress has already been made.

The area inside Oldbury nuclear power station in South Gloucestershire, where the Magnox fuel is loaded into the reactor.

Calder Hall nuclear power station on the Sellafield site in West Cumbria.

Outlook

The lifetime strategy has set the direction of this business group.

Projected Magnox station lifetimes are as follows:

| Station | Licensed lifetime | Age at cessation of generation | Latest date for end of generation |
|-----------------|-------------------|--------------------------------|-----------------------------------|
| Calder Hall* | 50 | 50 | 2006-2008 |
| Chapelcross* | 50 | 50 | 2008-2010 |
| Bradwell | 40 | 40 | 2002 |
| Hinkley Point A | 40 | 35 | 2000 |
| Dungeness A | 40 | 40 | 2006 |
| Sizewell A | 40 | 40 | 2006 |
| Oldbury** | 40 | 45 | 2013 |
| Wylfa** | 33 | 45-50 | 2016-2021 |

* Range of dates due to the fact that each power station has four reactors that came into operation sequentially over two years.

**Continuing to run Oldbury and Wylfa to these dates depends upon the development and use of Magnox fuel. Magnox is a fuel in which uranium is used in ceramic oxide rather than metal form. A decision on the use of Magnox fuel will be taken around 2003. Oldbury and Wylfa will also need to undergo a Periodic Safety Review in order to secure operation to these dates.

Spent fuel *management*

In 1999-2000, the business group provided a comprehensive range of spent fuel management and recycling services and will continue to meet the developing needs of our customers in the UK and overseas.

During 1999-2000, Thorp Business Group comprised the Thorp plant, the Waste Encapsulation Plant, the Mox Demonstration Facility, the Sellafield Mox Plant and the transport and interim storage business.

In April 2000 however, the business group was restructured and renamed the Spent Fuel Management Business Group under the leadership of Chris Loughlin. The business group now encompasses all the assets on the Sellafield site, excluding the Calder Hall nuclear power station. This reinforces the focus on managing Sellafield as a single site. The operations on the Sellafield site all report to Brian Watson who has the new role of Director of Operations at Sellafield. He has direct accountability for all safety, environmental and operational issues across the site.

Specific business group activities include Thorp reprocessing, Magnox reprocessing, Mox fuel production, the transport of nuclear materials and all of the Sellafield waste management plants.

Summary

- Extremely difficult year.
- Customer relationships damaged.
- Record year for Thorp throughput.
- Review of quality assurance and general management systems at Sellafield.
- Action plans being implemented.

Financial performance

Despite the issues around the Mox Demonstration Facility, the financial performance for the business group as a whole was good. Turnover was £599 million, up from £568 million last year, due to a record year in Thorp throughput. The business group achieved an operating profit of £100 million before exceptional items and the revision of previous years' nuclear liabilities compared with £77 million last year. An exceptional charge of £113 million relating to the Mox Demonstration Facility incident, further exceptional charges of £10 million

and a net profit increase of £140 million due to a reduction in the business group's nuclear liabilities resulted in a total operating profit of £117 million.

Operating performance

Thorp reprocessing

The Thorp reprocessing plant had an excellent year, achieving the highest annual throughput – of about 850 tonnes – in its six year history. The plant has large stocks of customers' fuel waiting to be reprocessed and shipments from British Energy's reactors in the UK continue to be delivered routinely.

All the spent fuel under existing contracts from Japanese customers is now at Sellafield. However, there were no shipments from mainland Europe to Thorp during 1999-2000. We are actively supporting our customers in Germany, Switzerland and the Netherlands in their attempts to secure the necessary domestic approvals to resume shipments of spent fuel contracted for reprocessing at Thorp.

Consensus talks in Germany on the future role of nuclear power agreed that spent fuel transports can continue until July 2005. We expect all our currently contracted fuel to have been delivered by this time, provided there is an early resumption in transport activity.

Magnox reprocessing

Throughput was low due to a number of plant problems across the Sellafield site. Since August 1999, a recovery plan has been in operation, with a 'ramping up' of weekly throughput targets over an 18 month period, to return the plant to its former levels of performance. Performance for the last half of the year was in advance of the 'ramp up' programme.

Mox Demonstration Facility

The discovery of falsified data at the plant and a critical report from the Health and Safety Executive in 1999 resulted in significant damage to our reputation. We are now working hard to rebuild customer confidence and the recent lifting of the trade moratorium on BNFL, by our Japanese customer Kansai Electric Power Company, shows that we are making progress, although much work remains to be done.

Activities in the Sellafield Mox Plant are fully automated and operated from a central control room.

BNFL operates a fleet of six ships which are all classified to the highest safety rating INF3 for any ship carrying radioactive materials.

BNFL's Thorp Plant at Sellafield reprocesses spent nuclear fuel.

An internal review of the management of the Mox Demonstration Facility and an investigation by the UK safety regulator resulted in a number of recommendations, all of which are being progressed. The management review resulted in a number of individuals being dismissed, others being moved to other duties and a reorganisation of the management structure. The Mox Demonstration Facility itself is shutdown until such time as all the necessary improvements have been made and we have been able to demonstrate the quality of operations to the satisfaction of the regulators. In the meantime, the remaining Mox Demonstration Facility staff are undergoing extensive retraining to improve operational and behavioural performance. When the plant does reopen it will be as a demonstration facility rather than a production unit.

Sellafield Mox Plant (SMP)

The commercial Mox manufacturing plant, SMP, has been built to recycle plutonium separated during the reprocessing of spent nuclear fuel by mixing it with uranium to produce a highly efficient mixed oxide fuel (Mox). SMP is currently being operated using uranium oxide powder to allow the plant to be brought into full operational readiness before introducing plutonium oxide powder into the plant. The uranium commissioning work has proceeded well and a total of 150,000 uranic pellets have been produced to date. The automated design of SMP avoids the need for the manual quality assurance checks of the type which were falsified in the Mox Demonstration Facility.

Before plutonium oxide can be introduced into SMP, we require final authorisation by the UK Government and consent to operate from the regulator.

Transport and interim storage

The transport of spent nuclear fuel and the products of reprocessing is a key company activity in which we have a worldwide reputation for quality and safety. Along with our subsidiary company, Pacific Nuclear Transport Limited, we own and operate a fleet of six purpose-built ships capable of carrying all categories of nuclear material.

Over the past year, we completed the first Mox shipment from Europe to Japan. Five high-level waste shipments have

now also been safely delivered from the Cogema reprocessing facility at La Hague in France to Rokkasho in Japan. The sixth shipment is scheduled for later this year.

Business developments

The business group's safety and environmental performance throughout the year was encouraging. There was no radiological incident in the past year in Thorp, and the average radiation exposures to Thorp employees and to the most exposed members of the public from environmental discharges, were about one-hundredth of the respective legal limits. The total number of accidents of any kind within the business group was reduced for the sixth year in succession.

Priorities

- Continue to improve our safety and environmental performance.
- Implementing the recommendations in the Health and Safety Executive's reports.
- Deliver on our commitments to improve management systems and safety and quality procedures following the Health and Safety Executive's reports.
- Continue to rebuild the confidence of customers and other stakeholders.
- Continue to seek further improvements in efficiency and effectiveness.
- Work to secure additional business.

Action programmes are in hand to progress these priorities. In particular, our response to the Health and Safety Executive's recommendations was a public commitment to implement improvements on specific timescales and for progress to be publicly monitored.

Outlook

For the longer term, the business group will continue to develop new services to meet the developing needs of our customers. The key is to continue the work of restoring the confidence of our customers. Implementing the work programme associated with the Health and Safety Executive's reports is a fundamental step in achieving this.

Nuclear decommissioning and clean-up

During the year, the business group managed the treatment of operational waste and decommissioning activities at BNFL sites in the UK, and in the US through our subsidiary BNFL Inc.

In April 2000, the business group was restructured and renamed the Nuclear Decommissioning and Clean-up Business Group. The restructured business group under the leadership of Chris Boon, who was appointed in July 2000, will continue to build a global clean-up and decommissioning business.

Our US businesses will continue to operate through our subsidiary BNFL Inc. and our interest in Westinghouse Government Services Group (with our partner Washington Group International, formerly known as Morrison Knudsen). Their main business areas remain focused on waste management activities, solving major environmental problems for the US Department of Energy, management and operation contracts and commercial decommissioning opportunities.

Other major organisational changes in the past year include:

- Our engineering capabilities have been refocused to provide a functional service to the BNFL business groups. This move will clarify the accountability for the delivery of projects, and ensure effective working with other business groups and functions.
- At Sellafield, Waste Management Services together with Waste Retrieval and Decommissioning have been transferred to the Spent Fuel Management Business Group reporting to the Director of Operations, Sellafield site.

Summary

- Further improved safety performance.
- Poor historic operational performance on some key contracts for which we have taken one-off provisions.
- Profitability hit by additional provisions for liabilities and contract provisions.
- Awarded the Government contract to manage the Atomic Weapons Establishment at Aldermaston with partners Serco and Lockheed Martin.

Financial performance

The financial performance was disappointing. Turnover was £167 million, down from £182 million last year, with an operating loss before exceptionals and revision of previous years' nuclear liabilities of £21 million compared with a loss

of £52 million last year. Exceptional items, totalling £158 million were charged, of which £139 million were provisions for foreseeable losses on long term contracts. This is a consequence of poor project evaluation and pricing, two elements of our business that we aim to improve.

Additional liabilities charges of £60 million were also borne by the business group following the review.

Operating performance

Europe

Operations in Europe are mainly focused in the UK where much of the clean-up work is currently being carried out at Sellafield and a number of our licensed Magnox reactor sites.

The vast majority of the decommissioning work at Sellafield is associated with the UK military programmes of the 1950s and 1960s. This is complicated work and progress is difficult.

The decommissioning programmes at Berkeley, Hunterston and Trawsfynydd have all progressed well. Work at the reactors is continuing to recover and immobilise wastes and prepare the reactors for 'Safestore' – putting the main core of reactors and surrounding buildings in a stable state to allow radioactivity to decay before decommissioning and demolition. The business has now started to prepare for the decommissioning of our Hinkley and Bradwell power stations, drawing on experience from current reactor decommissioning projects.

Overall safety performance improved and we met our Total Recordable Incidence Rate (TRIR) target for the year of 0.85 per 200,000 hours worked.

US

The US Department of Energy decided in May 2000 to rebid the River Protection Project contract at Hanford, one of the largest nuclear clean-up projects ever undertaken. This contract, awarded to BNFL Inc. and its partners in August 1998 was to design, build and operate a plant to treat and immobilise highly radioactive liquid waste stored in underground tanks on the Hanford site. The US Department of Energy decided to rebid the contract because they considered the BNFL price to be unacceptable and the commercial business model unsuitable for such a large and complex project. Whilst we

After coming to the end of its useful operating life, Berkeley nuclear power station is now being dismantled and decommissioned.

BNFL Inc. is decommissioning the Big Rock Point reactor in Charlevoix, the oldest nuclear power plant in the USA.

At Sellafield, BNFL is decommissioning redundant nuclear plant, including the Windscale Pile Chimney and associated fuel storage ponds.

were disappointed with this decision, we were however pleased that the US Department of Energy have determined that BNFL's design and technical solution is sound, are paying us for the work we have carried out to date, and will allow us to rebid as a key technical supporter.

In 1997, BNFL Inc. was awarded a fixed price contract by the US Department of Energy to dismantle and decommission three gaseous diffusion plant buildings at East Tennessee Technology Park. The contract also covered the recycling of recovered materials. The project is moving forward, with over one and a half million pounds of material being removed from the buildings every week. However, the company has incurred significant and unanticipated costs due to complex technical and contractual matters and recycling policy decisions made by the customer. Negotiations are ongoing with the US Department of Energy regarding the recovery of a portion of these extra costs and a restructure of the contract to provide a more equitable sharing of the risks associated with the project.

Site management contracts at Savannah River and Rocky Flats performed well, beating production targets.

The US Department of Energy is proceeding with the Advanced Mixed Waste Treatment Plant at Idaho National Environmental and Engineering Laboratories. Approximately one quarter of the materials going into the plant were to be incinerated, before being immobilised for shipment to a long term storage facility. However, following a public consultation period and lengthy delay, the US Department of Energy has decided to revise the scope and remove the incinerator. It is likely that this will simplify and shorten the duration of the project. BNFL is working with the US Department of Energy to revise the scope and maintain progress on this important environmental project.

We are also decommissioning the USA's oldest nuclear power plant, Big Rock Point reactor, in Charlevoix.

After its first full year as part of BNFL, the Westinghouse Government Services Group has performed well and continues to benefit from the resources of both BNFL and Washington Group International (formerly known as Morrison Knudsen).

Business developments

We won a significant contract, with partners Serco and Lockheed Martin, to manage the Aldermaston site. We were awarded the ten year contract, which was won in open competition, in December last year. We assumed responsibility for the management and operation of the Atomic Weapons Establishment, Aldermaston in April 2000 and in the years ahead, we expect to apply our extensive decommissioning and clean-up skills to this important UK site.

Priorities

- We are determined to improve our project delivery performance.
- We will pursue and win further profitable contracts in the global clean-up and decommissioning market, particularly the US and Europe.
- We have to more clearly develop the value proposition – the potential value and benefits of the clean-up business to BNFL, its customers and the public at large.

Outlook

The future of the business group is both challenging and exciting in this relatively immature market. After reassessing our liabilities this year, we are confident we can derive value from our contracts by safely discharging our existing obligations within budget.

The clean-up of old military sites, not only in the US but also in the former Soviet Union, presents major growth opportunities providing we can effectively leverage our technical resources.

The reactor decommissioning market also offers us significant potential for growth in both the US and Europe. Many of the early nuclear reactors are approaching the end of their operating lifetimes. Over the next 10 years, it is estimated that a further 15 reactors are likely to close in the US and Europe. The business group is well placed to grow in this important market by drawing upon experience gained from decommissioning Magnox reactors in the UK, the completed decommissioning of Fort St Vrain in the US and the ongoing work being carried out at the Big Rock Point reactor also in the US.

Research and technology

Research and technology underpins the company's businesses by supporting existing plants, developing technology to provide future competitive advantage and ensuring future liabilities are reduced through the demonstration of solutions.

Overview

Our nuclear scientific, technical and engineering skills are key strengths of the company. Research and technology development is a core strength within BNFL, enabling the company to take tried and tested science and technology and apply it to a nuclear environment. In its widest sense, realising value from these activities is the future of the business.

During the year, expenditure on research and technology amounted to some £96 million (1999: £81 million).

Approximately 80% of the work of BNFL's research and technology function supports the company's business groups. The remaining 20% of the work is funded corporately and focuses on longer term research projects.

One programme, known as 'Platforms for Future Growth' was launched following a review of BNFL's strategy in 1997. Its concept is to look beyond the scope of BNFL's existing businesses, and to start to identify and pursue potential opportunities which might lead to substantial new businesses in 10 years and beyond. The programme includes work on new reactor concepts, such as the Westinghouse AP600 design, as well as work on highly novel processes for use in the nuclear energy cycle.

The company has also taken a stake and been heavily involved in work on a new gas-cooled reactor, the Pebble Bed reactor. It could provide cheaper nuclear power, with the added benefit of being much smaller than conventional reactors and more flexible in terms of siting, due to its modular design.

Top: Our research and technology programme includes work on new reactor concepts such as the Westinghouse AP600 design.

Left: The Environmental Scanning Electron microscope is part of a range of 'state-of-the-art' microscopy facilities which provide support to research and technology projects.

Highlights

The main focus in 1999 was providing plant support on operational and technical issues in order to solve difficulties and better understand the root causes. Other examples of work done include:

- Supporting the business groups by collaborating with customers and research institutions on long term nuclear research.
- Providing input to ensure the safe continued operation of plants, through the preparation of Continuing Operation Safety Reports in liaison with the UK safety regulator.
- Improving efficiency of plants arising from focused development work.

Plant support is likely to continue to be the focus in the coming year.

The research and technology function at Sellafield has been brought under one roof with a single management structure that provides economies of scale, pooling of know-how and optimisation of facilities. Separate facilities remain at Springfields, Risley (office staff only) and Capenhurst.

The acquisition of Westinghouse Electric Company has been extremely important to BNFL and technology integration continues in order to get best value out of the potential synergies. BNFL and Westinghouse staff sit together on a number of cross-company technical groups, and visits have taken place covering virtually all technical areas, in order to identify potential areas for collaboration.

BNFL is committed to ensuring that facilities are available to enable universities to offer specialised science courses.

BNFL's new technology centre at Sellafield will provide researchers with 'state-of-the-art' laboratories, conference facilities and offices all under one roof.

Centres of excellence

BNFL is committed to establishing centres of excellence in association with universities to provide the underpinning science base upon which the company relies. These centres will ensure that key scientific disciplines, currently in terminal decline in British universities, will be re-established and suitable research facilities made available.

Radiochemistry Centre

Established in partnership with Manchester University in June 1999, BNFL will invest in excess of £2 million over five years. Over this time, the centre will build a skills base of over 40 researchers and staff, including a new BNFL professor and three lecturers.

Particle Technology Centre

This centre has recently been established in partnership with Leeds University.

BNFL Technology Centre

The company has made substantial investment into the new BNFL Technology Centre at Sellafield, which will act as an international centre of excellence to ensure technological development continues to underpin the industry.

Nuclear technology for the future

BNFL is fully involved in the 'Nuclear technology requirements out to 2020', coordinated by the British Nuclear Industry Forum. This considers future requirements for all aspects of nuclear technology, including reactor and plant design construction; plant operation, maintenance and lifetime management; the nuclear fuel cycle; decommissioning and land remediation; and waste management and disposal. This is an associate programme of the 'UK National Foresight Programme' managed by the Office of Science and Technology. BNFL has also participated in workshops organised by the 'Foresight Energy and Natural Environment panel'.

To deliver long term value to our shareholders we need to recognise our responsibility to contribute to our local communities and the economy whilst caring for the environment.

BNFL Inc.'s community involvement included sponsorship of Girls Inc., a programme designed to help girls develop self-esteem and confidence.

Investing in a culture of *sustainability*

Environment, health and safety

Excellence in environmental, health and safety performance is an integral part of our business and our primary goal is to be respected and trusted by stakeholders in managing our environmental responsibilities and caring for our people.

The publication of the Health and Safety Executive's reports on Sellafield in February 2000 has led to our redefining the existing corporate safety function. We have established a new role of Executive Director, Environment, Health and Safety (EH&S) and are appointing a senior team of safety inspectors and advisors. The new Executive Director will report to the Chief Executive, have direct access to the Board and be responsible for auditing compliance with our new global environment, health and safety vision, principles, and BNFL Group environment, health and safety manual.

Our vision and principles aim to address the key environment, health and safety issues affecting the company:

We aim to maintain world class environmental, health and safety and operational performance.

We believe that nothing is more important than the health and safety of our employees, contractors, the general public and the protection of the environment.

Our primary goal is to be respected and trusted by stakeholders in managing our environmental responsibilities and caring for our people.

Excellence in EH&S performance is an integral part of our business and is essential to the commercial success of the BNFL Group.

Working in partnership at all levels within the BNFL Group, we strive for continual improvement in our performance, particularly by:

- Eliminating accidents and incidents.
- Minimising waste and the use of natural resources.
- Ensuring that all wastes are managed safely and with care for the environment.
- Sharing and using best practice.
- Ensuring our products and services meet minimum standards of environment, health and safety performance.

Communication is a key element of EH&S improvement. We seek to:

- Openly report the BNFL Group environment, health and safety performance on an annual basis.
- Listen to and respond to our customers, shareholders, suppliers and neighbours.

We work closely with the regulators and the other sectors of the industry striving to raise EH&S standards.

Over recent years, we have achieved many improvements in our EH&S performance including:

- We have reduced the UK Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) lost-time injury rate by over 80% during the last 10 years.
- We have achieved a reduction in the average amount of radiation received by employees from around 3.0 mSv per annum (equivalent to the average amount of radiation received by aircrew) to around 1.0 mSv per annum over the last 10 years in the UK.
- Radioactive discharges from Sellafield are now less than 1% of their peak levels in the 1970s.

BNFL Group environment, health and safety manual

This manual is a set of mandatory EH&S requirements, which are implemented by the individual business groups. This system ensures that every employee and contractor is responsible for the aspects of environment, health and safety operations under their control.

2000-2001 global objectives

Included in the manual are four challenging objectives for 2000-2001.

- Demonstrate a continuous improvement in our EH&S performance by improving our Safety Index score. The Safety Index contains 18 measures covering all aspects of EH&S performance. Each measure is scored against current performance and the scores totalled to

* UK (excluding Magnox) ** UK (including Magnox) and BNFL Inc.
*** Global (UK and US)

give the overall company score. The overall range for the company score is between -45 and 100. Our score this year was 47 and next year our objective is to achieve a score of 49-50.

- Less than 3% of all employees to receive a radiological exposure greater than 10 mSv per annum, which is equivalent to the amount of radiation typically received from a computerised body scan medical examination. In addition, no employee should receive an unplanned annual radiation exposure in excess of 15 mSv.
- Improve our performance in conventional safety by achieving a Total Recordable Incidence Rate (TRIR) of 0.91 per 200,000 hours worked compared to last year's rate of 1.20 per 200,000 hours worked.
- Significantly improve the sickness absence rate for our UK operations.

These objectives are a clear statement that, despite real and significant improvements, we will not stand still.

Environment, health and safety reporting

We are committed to the open and honest reporting of our environment, health and safety performance. Further information is given in our global Environment, Health and Safety report and our detailed discharges and monitoring report. These can be found on the BNFL web site (www.bnfl.com) along with information on the environment, health and safety performance at individual BNFL sites. Free copies of the reports can also be obtained by free-phoning our literature service hotline: 0808 100 1444.

Environmental performance

We place great emphasis on care and protection of the environment. All of our operating sites are certified to Environmental Management Standard ISO 14001, with the exception of Bradwell nuclear power station which is progressing well to certification. The re-certification of our Sellafield site has been delayed in the current year because the external certifying body, Lloyd's Register Quality Assurance Ltd found two areas where our review systems did not meet their required standards. We are implementing a corrective programme of work and are making every effort to ensure that our certification is re-instated. During 1999-2000, our gaseous and liquid radioactive discharges continued to be well within the authorised limits. The radiation received by members of the public living near to our sites due to discharges during 1999-2000 was at very low levels, equivalent to the background radiation they would receive by spending about a week in Cornwall, where radiation levels are more than three times the UK average due to naturally occurring radiation in rock formations.

However, on four separate occasions, at our UK sites, we reported that we had inadvertently released non-radioactive substances at levels greater than our discharge limits set by the Environment Agency. Twice the Health and Safety Executive also prosecuted us for breaches involving non-radioactive materials. One was due to a spill of acid at the Solvent Treatment Plant at Sellafield and the other was due to the incorrect treatment of asbestos at Oldbury power station. We will learn from all these incidents and continue to strive towards meeting our goal of operating within our authorised limits for the discharge and disposal of waste.

Future discharge reduction from UK sites

The 1998 OSPAR meeting at Sintra in Portugal saw the UK Government and other member states agree a commitment to reduce concentrations of radioactive substances in the marine environment. By the year 2020, member states are required to ensure that discharges and emissions are reduced to levels where the resulting additional concentrations in the marine environment, above historic levels, are close to zero. The company, in consultation with the UK Government, has

Environment, health and safety

developed a strategy for all of its UK sites to meet the OSPAR requirements for future discharges. This has resulted in a series of challenging goals that we plan to achieve progressively over the next two decades. The UK is the only country to have established a national strategy and goals under the OSPAR arrangements.

Health care

We have a well-established approach to occupational health. As well as dealing with the specialised challenges of radiological work, we respond positively and actively to the increasing complexities of the modern working environment.

We are committed to research aimed at better describing and understanding the long term health implications arising from employment at our sites. Our workforce is one of the most closely monitored and studied groups of people in the world.

Safety performance

Radiological protection

New regulations came into force on 1 January 2000. The legal limit for occupational exposure was reduced from 50 mSv to 20 mSv. However, for many years BNFL has voluntarily worked to this limit and will continue to minimise workforce radiation exposures.

Reducing injuries in the workplace

During 1999-2000, we have continued to reduce the number of injuries in the workplace working towards our goal of zero injuries. We measure our industrial safety performance through three key indices, which are used throughout industry.

We achieved a reduction in the American OSHA (Occupational Safety and Health Administration) Total Recordable Incidence Rate per 200,000 hours worked from 1.44 to 1.20. Injuries in this category involve those which restrict the work a person can do and those severe enough to require medical treatment or involve one or more days absence from work.

Secondly, we achieved a reduction in the OSHA Lost Workday Case Rate per 200,000 hours worked from 0.50 to 0.46. Injuries in this category also involve one or more days absence from work.

A reduction was also gained in the UK RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) Lost-time Injury Rate from 0.20 to 0.16. This category covers major injuries and includes those which involve a person being absent from work for more than three days.

Plants are designed to ensure the highest standard of radiological protection for our people.

Construction workers at the Sellafield Site.

Samples are taken regularly from around our sites for radiological analysis.

Our people

The effective management and contribution of all employees is vital to the success of the BNFL Group in becoming the leading global nuclear company.

The main asset of BNFL is the commitment of its people. They have had a difficult twelve months. The company will be appointing a new Director of Human Resources to devise the appropriate long term employment and management development strategies and to implement the necessary changes in attitude and behaviour in key areas of the business.

The Human Resources function plays a crucial role in supporting line management to drive through the cultural changes required. We are fortunate to have many excellent people working for the company. It is important that we ensure the best of these are able to fulfil their career expectations within the BNFL Group. We also need to be able to recruit and retain people to bring outside experience to BNFL. Getting this mix of internal and external people in key positions is vital to implement the changes that are necessary.

Workforce agreement

The agreement reached last year with the unions representing the BNFL workforce in the UK (excluding former Magnox Electric employees) on a new contract has changed the terms, conditions and methods of working to create a more flexible and mobile workforce.

This far reaching agreement began to be implemented in September 1999 with the introduction of annualised hours to replace overtime working.

New pay structures, job roles and skill sets based on competencies have been agreed and arrangements have been made for moving people onto the new terms and conditions. Future pay progress will be based on skills and competencies including behaviours to ensure exacting standards of performance. This new contract forms the foundation of a major change in how the organisation will be managed.

During this year, further discussions will take place with the UK workforce on new arrangements beyond the current two year pay agreements. These discussions will reflect the changes in the operating style of the company in holding the business groups more accountable for their results.

An operator conducting remote handling operations in the Vitrification Plant at Sellafield which converts high-level waste into a solid glass form for interim storage.

BNFL has a policy of recruiting top quality graduates and researchers.

BNFL in the *community*

In all of our business activities, we seek to act as a good corporate neighbour through a community involvement programme which aims to encourage economic regeneration.

Many of our people are active participants in their communities. Community involvement is an integral part of our business and we are committed to playing a full part in working in partnership with the communities in which we operate.

BNFL has continued to make its contribution to the economic regeneration of the North West of England through supporting such initiatives as the West Cumbria Development Fund, Westlakes Research Institute, investing in start-up technology companies and helping our own employees who are leaving the company to set up their own businesses.

Our charitable support policy is to assist the organisations which are tackling some of the difficult issues facing society such as drug abuse, homelessness, crime prevention and unemployment. For example, we provide a bursary to the Royal Northern College of Music, Manchester for their 'Junior Strings Project'. This aims to provide opportunities for young people from disadvantaged backgrounds to participate in the programme. The company also supports the Warrington Youth Action Group which is a crime prevention project, youth workshops at Clwyd Theatre and the homeless charity 'Centrepont' working in partnership with Preston Borough Council.

Educational support remains high on the company's agenda where we have continued to produce educational resources to help in the teaching of science, technology and engineering in the UK. Together with our Magnox business, we have

continued to sponsor the national schools competition 'Science Challenge'.

In terms of local community activity, there are a host of examples which illustrate our employees' active participation. In the UK, several of our young managers help support projects such as the Engineering Education Scheme which is a national scheme to encourage young people to take up engineering. The company operates a match funding scheme where it will match the funds raised by employees for local charities.

In the USA, BNFL Inc. employees have been active in helping organisations such as the Diabetes Organisation, where employees at Richland took part in a six mile walk.

Westinghouse Electric Company employees have also volunteered in the local communities through various 'Days of Caring'. Volunteers built homes, cleaned up and beautified local parks, packaged food at neighbourhood food banks and painted homes for elderly citizens.

Another successful volunteer initiative has been the Westinghouse 'Home Safe Home Program', operated in conjunction with several Pittsburgh adult services organisations. Westinghouse 'Home Safe Home' volunteers visit the homes of area senior citizens who have signed up to have a safety check performed on their homes.

Far left: BNFL Inc. provided support to the Kingswood School, a boarding school in Morristown, Tennessee for teenagers from troubled and unstable families.

Centre: Westinghouse employee volunteers built homes as part of the 'Habitat Community Program' in Columbia, South Carolina.

Left: BNFL funded a feasibility study for a cycle path from Egremont to the Sellafield Visitors Centre.

AGR Advanced Gas-cooled Reactor. A design of nuclear reactor owned and operated by British Energy in the UK.

AP600 A new design of reactor which uses passive safety systems. The design is owned by Westinghouse.

BWR Boiling Water Reactor – a type of Light Water Reactor.

DETR Department of the Environment, Transport and the Regions.

Drigg The national solid low-level radioactive waste repository situated near Sellafield.

EA Environment Agency – environmental regulatory authority in England and Wales, established by the Environment Act (1995).

ETTP East Tennessee Technology Park – US Department of Energy site where BNFL Inc. is working on a decontamination, decommissioning and recycling contract.

HAL Tanks Highly Active Liquid waste tanks – liquid waste produced as a result of reprocessing is stored in these specially designed tanks.

HSE Health and Safety Executive, the UK's health and safety regulator.

Hydroelectric Station produces electricity using water power.

ISO 14001 International Standard for Environmental Management Systems.

LWCR Lost Workday Case Rate – involves one or more days absence from work.

LWR Light Water Reactor – use ordinary water for cooling – PWRs and BWRs are both types of LWRs.

Magnox A type of reactor, so called because of the magnesium alloy cladding used to contain uranium fuel rods.

Megawatt Unit for measuring power. One megawatt is equal to one million watts.

MDF Mox Demonstration Facility – small demonstration plant for the manufacture of Mox fuel at Sellafield. Became operational in 1993.

MoD Ministry of Defence.

Mox Mixed oxide fuel – fuel containing both plutonium and uranium in the form of a ceramic.

mSv A millisievert is one thousandth of one sievert. For example, the average annual amount received from natural background radiation is 2.2 mSv.

NII Nuclear Installations Inspectorate – part of the Health and Safety Executive, responsible for nuclear safety in the UK.

OSHA Occupational Safety and Health Administration. Part of the US Department of Labor – responsible for health and safety at work.

OSPAR Oslo/Paris Commission which adopted a convention in 1992 for the protection of the marine environment of the North East Atlantic, the North Sea and the Irish Sea.

PNTL Pacific Nuclear Transport Limited, a BNFL subsidiary company.

PWR Pressurised Water Reactor – common type of Light Water Reactor used throughout the world.

RIDDOR Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. Set up in 1995 to ensure correct reporting of incidents.

SEPA Scottish Environment Protection Agency – environmental regulatory authority in Scotland established by the Environment Act (1995).

SMP Sellafield Mox Plant – new plant built to manufacture Mox fuel.

Sv Sievert – a unit of radiation received.

Thorp Thermal Oxide Reprocessing Plant. Reprocesses AGR, PWR and BWR spent fuel at Sellafield.

TRIR Total Recordable Incidence Rate – injuries involving those which restrict the work a person can do and those severe enough to require medical treatment and involve one or more days absence from work.

TWh Terawatt-hour – one terawatt-hour represents one hour of electricity consumption at a constant rate of one terawatt. One terawatt equals one million megawatts.

UKAEA United Kingdom Atomic Energy Authority.

VVER440 Russian designed reactor – similar to a PWR.

Background on liabilities

In the interests of providing as full a picture on liabilities as possible, we include below a further commentary on liabilities.

The challenge of estimating future costs in more detail

A significant amount of the company's plant and equipment, including Magnox related plant, was already in existence when BNFL was formed to take over assets and activities previously carried out by the UK Atomic Energy Authority (UKAEA). Those activities stemmed from a military programme during the cold war, and the priority when the plants were built was to get them operational and effective as quickly as possible. When these plants were designed, limited thought was given to the ultimate decommissioning and demolition and as a result the costs of so doing are now very considerable.

The task of estimating how the decommissioning and dismantling of these early plants should best be carried out is itself very difficult, not least because the design records leave a number of unanswered questions. As a result, planned solutions have to be based on reasonable assumptions derived from the best available knowledge, but considerable uncertainties remain. For plants designed and built later, decommissioning and dismantling issues were considered during the design stage and the relative costs are therefore lower. Estimating these costs is therefore very much easier and assumptions can be made with much greater confidence.

Ultimate status of sites

The Board of BNFL has long estimated its provisions for decommissioning and waste management on the assumption that the existing plants and buildings are demolished and sites cleared, but not to the extent that the sites would be returned to farmland. This reflects the approach which industry typically follows where there is no requirement in law or otherwise to do more than ensure that an industrial site is made safe. For example, at Sellafield it would be illogical to visualise removing all foundations from the site because doing so would create very significant further costs, and the resulting waste materials would still need to be placed somewhere else.

Inherent uncertainty

The company has made its estimates for many years by making assumptions about the likely safety and environmental requirements based on the best information available today. The process takes into account known and foreseeable developments in technology. This is then used as the basis for estimating the costs, which itself involves making judgements not only about the likely duration of the

individual tasks, the equipment required and the implications for costs, but also the likely range of possible variations around the judgements selected as the base, or working assumption.

Once this has been estimated, a further allowance is calculated for possible but less likely outcomes or circumstances and for labour cost trends. Estimates of cost, expressed in terms of today's money are then discounted to take into account the fact that the tasks will not be carried out for a long time, as described further below.

Whilst the estimation process is carried out as thoroughly as possible, the inherent uncertainties involved means that there can be no firm guarantee that the resulting provisions may not prove too large, nor on the other hand that they will necessarily prove adequate.

Timescales

Natural decay in radioactivity means that by delaying some decommissioning tasks, the risk of radiation exposures to people engaged in dismantling plant reduces dramatically. For example, deferring for 135 years after a reactor shuts down would see radiation levels inside the reactor decrease to one millionth of their original levels. However, delay cannot be indefinite, because the physical structures of buildings ultimately deteriorate, even when these buildings are kept in a safe state by an ongoing process of routine maintenance.

Therefore, for both safety and cost reasons, decommissioning plans aim to optimise the balance between deferring dismantling tasks to allow radioactivity to fall, whilst ensuring that the expected state of buildings and structures is not itself the cause of increased risk and complexity. The timescale ultimately assumed also has a profound effect on the estimate of the provisions required today for accounting purposes in respect of the estimate of future decommissioning and waste management costs. This is because changes in the assumed timescale could increase (or possibly reduce) such costs significantly. Balancing all of these issues, the working assumption made by the company for providing for the costs associated with decommissioning reactors is that they will not finally be dismantled until nearly 100 years have passed.

Destination of nuclear wastes

Significant quantities of slightly or partially radioactive material will result from decommissioning and dismantling plant, equipment buildings and infrastructure. By far the largest volume of these materials are expected to be categorised as low-level waste, the same category that some radioactive wastes arising from medical use usually fall into.

However, some of these materials are expected to be classified as intermediate-level waste and some small quantities as high-level waste. It has long been the assumption of Parliament and of the nuclear industry that intermediate and high-level wastes would be placed underground, whether permanently or in retrievable form, in facilities specially created for this purpose.

The question of where these wastes will be deposited is one of critical importance to the estimation of the future costs of waste disposal. Low-level wastes are presently disposed of in a permanent facility at Drigg, which has been used for many years for all national arisings of such material.

As the only route for the disposal of low-level waste, Drigg is a national asset and in recent years increasingly costly techniques have been used to compact waste disposed of at the site, so as to maximise the remaining capacity, and delay, as long as possible, the point at which the existing site becomes full. Because no further site has yet been identified or designated, further costs can be envisaged as Drigg begins to reach its capacity in a few decades. However, if a suitable site were to be designated such further costs could be avoided.

Underground storage is significantly more costly than above ground storage. Further, the estimation of costs of such storage is inherently difficult because it is dependant both on an estimate of the likely cost of facilities (which itself is much affected by the geological circumstance of the chosen location) and by the likely volume of wastes from all sources that would be placed there.

Nirex, based at Harwell in Oxfordshire, was set up in the early 1980s in agreement with the UK Government to examine the options for disposing radioactive waste in a deep underground repository. Its shareholders are BNFL (74.5%), British Energy (10.8%) and the UK Atomic Energy Authority (14.7%).

Until the current year, we had based our calculations of waste disposal costs on updating estimates produced by Nirex some years ago for the costs of using an underground facility. With the passage of time, and the continuing absence of any proposed location for an underground disposal site, the Board of BNFL has reassessed the reasonableness of continuing with the assumption that such a disposal facility will be built in the short or medium term future.

It is anticipated that a repository will be available by 2040. However, a potential delay beyond this date has also been reflected in the provisions for liabilities.

Uranium and plutonium

The company owns quantities of plutonium and treated uranium. Plutonium is of considerable value for civil purposes if used in fast breeder reactors and Mox fuel.

Uranium and treated uranium have value in a continuing nuclear programme, as uranium itself is the essential starting element in creating nuclear fuel.

The company's stocks of treated uranium and plutonium are regarded as assets, but all costs incurred in creating them have always been written off (or borne direct by customers) and as a result these materials are carried at nil value. Some of these stocks remain the property of customers, and all are subject to international non-proliferation agreements and to oversight by the international body responsible for oversight and control of nuclear materials. All are stored in secure conditions and, subject to demand for Mox fuel and the possible requirement of the nation in the longer term for fast breeder reactors, are likely to remain so for a long time. No provision is made for the disposal of the company's own materials in view of their latent value in such programmes.

Discounting

The company's provisions for nuclear liabilities are discounted to reflect the incidence of anticipated expenditures and the long delay before many of these expenditures are expected to occur. This follows required accounting practice. A discount rate of 2.5% is applied, reflecting an estimated risk-free rate of long term investment return. The company's investments and the terms of the financial undertaking from the Secretary of State in respect of certain liabilities of Magnox Electric plc are expected to generate such a return.

Each year, as we become one year closer to discharging our liabilities, our provisions are increased by 2.5% to reflect the removal of one year's discounting. The charge is recognised as part of the Group's interest expense with interest earned on the investments and Secretary of State's undertaking reflected as interest receivable.

Board of Directors

Hugh Collum (60)

Chairman Appointed to the Board on 21 July 1999 and became Chairman on 1 October 1999. He is a former Executive Vice-President and Chief Financial Officer of SmithKline Beecham plc. He is a non-executive director of Invensys plc, South African Breweries plc, Safeway plc and Whitehead Mann Group plc. He is also Deputy Chairman of Celltech Group plc. He was a member of the Cadbury Committee on the Financial Aspects of Corporate Governance.

Norman Askew (57)

Chief Executive Appointed to the Board on 23 March 2000. He has worked as President and Managing Director of the global engineering company TI Group, with responsibility for aerospace and automotive operations in the USA, Canada, France and the UK. In 1994, he was appointed Chief Executive of East Midlands Electricity, followed by his appointment as Chief Executive Officer of Virginia Power in the United States. He is also Chairman of Henlys Group plc and a Director of Pilot Fields Estates.

John Edwards (51)

Group Finance Director Joined the Board on 1 July 2000. He is the former Finance Director of Jaguar (1980-95), Northern Electric (1995-97) and Meyer International plc (1997-00).

David Bonser (51)

Transformation Director Joined the Board on 30 September 1999. He joined BNFL in 1971 and has been a Director of Thorp; Company Development and most recently of Engineering, Waste Management and Decommissioning. On 1 August 2000 he was appointed Transformation Director in order to focus on managing change within the company. He also has responsibility for BNFL's Engineering function. He is Chairman of the UK waste repository company Nirex, and is a member of the Government's Radioactive Waste Management Advisory Committee (RWMAC).

Chris Loughlin (48)

Spent Fuel Management Business Group Director Joined the Board on 30 September 1999. He joined BNFL in 1981 and has been Director of Transport; and Thorp and Magnox Generation. Following the executive management changes in April 2000, he became General Manager of the Spent Fuel Management Business Group. He is responsible for Thorp and Magnox Reprocessing, Mox fuel manufacture, Sellafield waste management and decommissioning and transport. He is Chairman of BNFL's French Company BNFL SA and Chairman of the World Nuclear Transport Institute.

Gordon Campbell (53)

Non-executive director Joined the Board on 1 August 2000. He is a former Chief Executive of Courtaulds plc and has also served as a non-executive director with AEA Technology and Argos plc.

Bill Lowther CBE (60)

Non-executive director Joined the BNFL board on 1 August 2000. He is Director General of UCB Films plc and a member of the Executive Committee of UCB SA. In 1987, he was appointed Chairman of the Cumbrian Board of the Prince's Youth Business Trust and in 1993 he became Chairman of the West Cumbria Partnership, an umbrella organisation between private industry and Government promoting business in the region.

Kate Mortimer (54)

Non-executive director Joined the Board on 1 April 1993. She spent 10 years, including five as a Board Director, with Rothschilds. She is a consultant with widespread experience of Eastern Europe. She is a member of the Competition Commission, and a non-executive director of the Pennon Group plc, Crown Agents Asset Management Ltd and Crown Agents Financial Services Ltd.

John Roques (62)

Non-executive director Joined the Board on 1 November 1990. Until April 1999 he was Senior Partner and Chief Executive of Deloitte & Touche. He is currently Chairman of the Portman Building Society and a non-executive director of BBA Group plc and Premier Farrell plc. He is also a member of the Management Board of OFGEM.

Report of the Directors

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Report of the Directors

For the year ended 31 March 2000

1 The directors of British Nuclear Fuels plc present to the shareholders their twenty-ninth Annual Report together with the audited accounts for the year ended 31 March 2000.

Review of the year

2 Group results

The Group loss for the year, after taxation and minority interests, amounted to £262 million (1999: profit of £67 million). Further information on the Group's results is contained in the Financial review on pages 9 to 11.

3 Dividend

As a consequence of the financial result for the year, no dividend is proposed (1999: £65 million).

4 Activities

The main activities of the Group comprise:

- Fuel manufacture and reactor services – comprising the manufacture and supply of fuel for nuclear power stations, nuclear services, nuclear instrumentation and control and plant design and construction;
- Magnox generation – comprising the generation and supply of electricity from predominantly nuclear power stations;
- Spent fuel management – comprising the reprocessing of nuclear fuel after use and associated waste treatment and storage; and
- Nuclear decommissioning and clean-up – comprising the development and implementation of decommissioning and clean-up procedures for nuclear facilities.

Information on the activities and developments of the business of the Group during the year is contained in the Chairman's statement, Chief Executive's Operating review, Financial review and Business reviews appearing on pages 2 to 23.

5 Research and development

The Group has a significant research and development programme. During the year, costs charged against profits were £45 million (1999: £42 million). In addition, £51 million (1999: £39 million) incurred was charged to customers.

6 Personnel

The average number of persons employed by the Group during the year was 19,408 (1999: 16,037). Approximately 4,000 employees joined the Group with the acquisition of Westinghouse on 22 March 1999. At 31 March 2000, the total number of persons employed by the Group was 19,548 (31 March 1999: 19,584). Further information is given in the notes on the accounts on page 52.

The company attaches importance to the involvement of its employees in the company's development and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, team briefings and the company newspaper. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of the employees.

The company is committed to a policy of equal opportunities for all employees. Great care is exercised in our recruitment and selection procedures to ensure that there is no discrimination, and that training is given to meet individual needs. Applications by persons with disabilities are given full and fair consideration and, wherever practicable, provision is made for their special needs. The same criteria for training and promotion applies to persons with disabilities as to any other employee. If employees become disabled, every effort is made to ensure their continued employment.

7 The Board of Directors

The names of the directors of the company during the year were:

Chairman and executive directors:

Mr H R Collum (Chairman from 1 October 1999) – appointed 21 July 1999
Mr N Askew (Chief Executive) – appointed 23 March 2000
Mr C Loughlin – appointed 30 September 1999
Mr D Bonser – appointed 30 September 1999
Sir John Guinness – resigned 30 September 1999
Mr J J Taylor – resigned 1 March 2000
Mr R A N Chiese – resigned 26 July 2000
Mr L N Chamberlain – resigned 2 October 1999
Mr G L Watts – resigned 30 April 1999

Non-executive directors:

Mr D J S Roques
Miss K M H Mortimer
Prof A G J MacFarlane – resigned with effect from 31 July 2000
Mr J D Rimington – resigned with effect from 30 July 2000
Mr G R Smith – resigned with effect from 31 August 2000
Sir John Boyd – resigned 27 April 2000

Mr J Edwards was appointed as Group Finance Director on 1 July 2000 and Mr W Lowther and Mr G A Campbell were appointed as non-executive directors with effect from 1 August 2000.

The Secretary of State for Trade and Industry is recorded as a Shadow Director of the company within the meaning of Section 741 of the Companies Act 1985, in the company's register of directors.

8 Directors' shareholdings and interests

No serving director held, at any time during the year, any share in, or Convertible Loan Stock of the company, or of its subsidiaries, or of any associated undertaking or joint venture.

9 Directors' remuneration

The Board of the company has adopted the Principles of Good Governance and Code of Best Practice regarding directors' remuneration, contained in the Combined Code published by the Committee on Corporate Governance. A Remuneration Committee comprising independent non-executive directors recommends the remuneration to be paid to executive directors, and the conditions of service to be applied. The decisions on all these matters are made by the shareholders. The members of the committee during the year were:

Sir John Boyd (Chairman)
Mr J D Rimington
Mr H R Collum

In considering their recommendations the committee takes account of:

- market positioning in relation to size of job and responsibility;
- individual performance;
- impact of the Board bonus scheme; and
- movements in the retail price index.

Recommendations are made, in the light of these factors, for each individual director. As already stated these recommendations are then communicated to the shareholders whose decision is final.

The remuneration of non-executive directors is set by the shareholders.

9 Directors' remuneration continued

Directors' emoluments during the year were as follows:

| | Basic salary and fees £ | Annual bonus £ | Benefits £ | Compensation for loss of office £ | Total remuneration | | Pension contributions | |
|----------------------|----------------------------|-------------------|----------------|--------------------------------------|--------------------|------------------|-----------------------|---------------|
| | | | | | 2000 £ | 1999 £ | 2000 £ | 1999 £ |
| Chairman | | | | | | | | |
| H R Collum* | 77,178 | – | 103 | – | 77,281 | – | – | – |
| Executive | | | | | | | | |
| N Askew* | 18,219 | – | 236 | – | 18,455 | – | – | – |
| R A N Chiese | 213,210 | – | 22,253 | – | 235,463 | 271,516 | 21,321 | 19,000 |
| C Loughlin* | 90,000 | – | 12,279 | – | 102,279 | – | – | – |
| D Bonser* | 90,000 | – | 12,584 | – | 102,584 | – | – | – |
| G R Smith** | 74,885 | – | 20,047 | – | 94,932 | 188,029 | – | – |
| Non-executive | | | | | | | | |
| D J S Roques | 15,435 | – | – | – | 15,435 | 11,000 | – | – |
| K M H Mortimer | 15,000 | – | – | – | 15,000 | 10,000 | – | – |
| A G J MacFarlane | 16,000 | – | – | – | 16,000 | 17,500 | – | – |
| Sir John Boyd | 15,500 | – | – | – | 15,500 | 10,775 | – | – |
| J D Rimington | 15,000 | – | – | – | 15,000 | 10,000 | – | – |
| Former | | | | | | | | |
| Sir John Guinness* | 50,578 | – | 32,104 | – | 82,682 | 130,166 | – | – |
| J J Taylor | 247,056 | – | 24,500 | 300,000 | 571,556 | 311,697 | 24,706 | 20,550 |
| L N Chamberlain* | 92,859 | 24,546 | 19,185 | – | 136,590 | 211,413 | – | – |
| G L Watts* | 12,437 | – | 2,388 | 274,219 | 289,044 | 191,946 | – | 18,339 |
| Sir Norman Wooding | – | – | – | – | – | 6,500 | – | – |
| Total 2000 | 1,043,357 | 24,546 | 145,679 | 574,219 | 1,787,801 | | 46,027 | |
| Total 1999 | 1,076,283 | 205,109 | 89,150 | – | | 1,370,542 | | 57,889 |

Compensation for loss of office for Mr G L Watts includes payments of £15,180 to his personal pension scheme.

* Emoluments for H R Collum, N Askew, C Loughlin, D Bonser, Sir John Guinness, L N Chamberlain, and G L Watts represent payments for the part of the year during which they held office only, as indicated in note 7 of the directors' report.

** G R Smith became a non-executive director on 1 September 1999 and earned fees of £10,833.

Benefits include amounts assessed by the taxation authorities in respect of costs of travel and accommodation of certain directors visiting corporate offices located at a distance from their homes. Bonuses are earned for the achievement of individual targets and targets linked to the Group's performance, for example, in safety, profit before tax and cash flows.

Pension contributions for Mr J J Taylor, Mr R A N Chiese and Mr G L Watts were made to their personal defined contribution pension schemes. Sir John Guinness, Mr L N Chamberlain, Mr G R Smith, Mr D Bonser, and Mr C Loughlin are members of the Combined Pension Scheme of the UKAEA. No employer contributions have been made to this scheme during the year. Details of these directors' pension benefits are as follows:

| | Accrued pension benefits | | Increase after inflation £ | Accumulated lump sum | | Increase after inflation £ | Transfer value of increases £ |
|-------------------|--------------------------|----------------|-------------------------------|----------------------|----------------|-------------------------------|----------------------------------|
| | 2000 £ | 1999 £ | | 2000 £ | 1999 £ | | |
| Sir John Guinness | 11,413 | 10,677 | 619 | 34,240 | 32,031 | 1,857 | 10,606 |
| L N Chamberlain | 84,977 | 80,064 | 3,824 | 254,930 | 240,192 | 11,471 | 71,137 |
| G R Smith | 75,567 | 73,847 | 908 | 225,396 | 221,540 | 2,724 | 17,383 |
| D Bonser | 71,051 | 55,418 | 15,023 | 213,152 | 166,253 | 45,069 | 228,085 |
| C Loughlin | 39,701 | 26,004 | 13,411 | 119,104 | 78,011 | 40,233 | 185,533 |
| | 282,709 | 246,010 | 33,785 | 846,822 | 738,027 | 101,354 | 512,744 |

10 Contributions for political or charitable purposes

No contributions were made for political purposes. Charitable contributions during the year amounted to £4.8 million (1999: £5.3 million). These contributions include £3.9 million (1999: £4.4 million) to support West Cumbrian economic regeneration initiatives.

11 Policy on the payment of suppliers

The company has continued its commitment to the Prompt Payment Initiative with rigorous monitoring of payment performance. The company has two main payment terms, net monthly and 28 days. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. Some 75% of invoices submitted against these terms were paid on time (1999: 80%). The slight fall in payment performance reflected the mid year transition to new accounting software. Payment performance in the final quarter showed an improving trend and by 31 March was running at 83% of invoices for the two main payment terms being paid to time. The average age of invoices outstanding at 31 March 2000 was 31 days (1999: 39 days).

It is the policy of the company to pay suppliers' invoices promptly in accordance with the contract and to abide by the Prompt Payers Code of Practice drawn up by the CBI. Further information and copies of the Code can be obtained from the Head of Corporate Purchasing, Sellafield, Seascale, Cumbria CA20 1PG.

12 Post balance sheet events

On 28 April 2000, the Group completed the purchase of ABB's commercial nuclear power businesses (ABB) for \$485 million (£300 million). The acquisition of ABB's nuclear businesses involved the purchase of share capital of entities in the US, Sweden, Germany and France for cash.

ABB's nuclear businesses provide nuclear fuel; engineering and field services; instrumentation and control products and services; as well as plant design, engineering and hardware to a worldwide customer base of electricity utilities. ABB's nuclear businesses have four major facilities in the US together with six principal facilities in Europe located in Sweden, Germany and France.

In the last financial year prior to acquisition, ABB reported turnover and profit before tax of approximately \$500 million and \$9.7 million respectively. The net assets of ABB, prior to any necessary acquisition accounting adjustments, are \$76 million with purchased goodwill amounting to approximately \$400 million.

This acquisition will further strengthen BNFL's strategy to become a leading global nuclear company as well as broadening BNFL's 'front-end' expertise in the US, Europe and Asia, and enhancing the potential for BNFL to grow the 'back-end' of the nuclear business.

Detailed integration plans have been developed which outline the activities that need to be accomplished to combine the two entities. While all products and services will continue to be offered, there will be some rationalisation and consolidation of product lines and facilities.

On 23 May 2000, the Group confirmed that one of its nuclear power stations (Hinkley A) would not recommence operations. This has been treated as an adjusting event and details of the impact are included on pages 50 and 51 of the accounts.

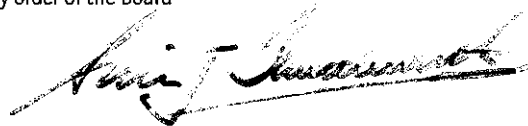
13 Year 2000 compliance

Prior to 31 December 1999, steps were taken to review, and where necessary, modify computer and date dependent systems critical to the company's operations to eliminate in so far as possible the impact, if any, which the year 2000 might have had on the business. The costs incurred in the financial year in achieving Year 2000 compliance are estimated to have been £7 million. No major issues arose following the millennium date change. Although the date change has now passed, the directors recognise that it is not possible to completely exclude the possibility of residual issues arising either internally or through dealings with third parties including key customers and suppliers. The Group continues to monitor these risks and the directors can confirm that no material issues have arisen since the year end.

14 Auditors

A resolution to re-appoint the auditors, Ernst & Young, will be proposed at the Annual General Meeting.

By order of the Board



A J Shuttleworth
Secretary
27 July 2000

Statement of compliance

The Board, led by the Chairman, is committed to achieving the highest standards of corporate governance and has committed to comply with the Combined Code – Principles of Good Governance and Code of Best Practice – issued by the UK Listing Authority (the Code).

Not all aspects of the Group's arrangements and procedures complied with the extended Code throughout the financial year, as highlighted on page 40. Steps have been taken to address appropriate areas of non-compliance. The Board has set the goal of achieving compliance where appropriate by the end of the current financial year. The Board seeks to be open about the Group's performance because this not only enhances accountability but also acts as a further stimulus for continual improvement in all that the Group does.

The Board

The Board comprises a Chairman, four executive directors and four non-executive directors. The non-executive directors are independent from management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. These directors bring a wide range of experience to the Board and participate in decisions on key issues facing the Group.

The Board meets regularly during the course of the year with additional meetings convened as necessary and considers a number of matters specifically reserved to it, including appropriate strategic, financial and organisational issues. Appropriate and timely information is supplied to ensure all directors are properly briefed to enable the Board to discharge its duties. All directors are entitled to obtain independent professional advice at the expense of the company, and have access to the advice and services of the Company Secretary.

All new Board appointments are subject to re-election by the shareholders at the next Annual General Meeting following their appointment. Appropriate training and briefings are available to all directors on appointment and subsequently, as necessary, taking into account existing qualifications and experience. Two executive directors' service contracts provide for a notice period of one year and two have a notice period of six months. Non-executive directors are appointed for a fixed term not exceeding three years before being eligible for re-election.

The Board has established two committees, the Remuneration Committee and the Audit Committee. The Company Secretary is secretary of each committee.

- A Remuneration Committee, consisting exclusively of non-executive directors with no personal interest in the matters to be decided, makes recommendations to the Board on the remuneration of executive directors. The Chief Executive and Human Resources Director attend meetings of the committee as appropriate but neither is present when his own remuneration is discussed. The decisions on executive director and non-executive director remuneration are made by the shareholders. Further details are disclosed on pages 36 and 37.
- The Audit Committee consists solely of non-executive directors. The members of the committee during the year were: Mr D J S Roques (Chairman) and Miss K M H Mortimer and they continue to serve in this role. The Chairman, Chief Executive, Group Finance Director, Head of Internal Audit and External Auditors normally attend meetings of the committee. The committee meets

at least three times a year and reviews the effectiveness of internal financial control systems within the Group and the principles, policies and practices adopted in the preparation of the accounts to confirm that they comply with all statutory requirements and best practice in corporate governance. The committee also reviews both the internal audit programme, which it approves and considers the major findings arising from it and the role and work of the external auditors.

Internal control

The Board acknowledges its responsibility for maintaining a system of internal control designed to help manage and control all risks appropriately. Effective risk management is seen by the Board as essential to the achievement of safe, successful and profitable business performance. However, no system of internal control can or should attempt to eliminate commercial risks entirely.

The Group's management philosophy is based on clear accountability and responsibility, and specific individuals are responsible for regular reporting of the results of reviews of internal control.

The Combined Code introduced a requirement that the effectiveness of the system of internal controls including operational, compliance and risk management, as well as financial is reviewed by the Board at least annually. In September 1999, 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Guidance) was published to assist directors in complying with the wider internal control elements of the Combined Code. In this respect, the Board has adopted the transitional rules for accounting periods ending before 22 December 2000 and has continued to report on internal financial control.

Following the introduction of the Turnbull Guidance, the Board has reviewed the existing procedures within the Group and is introducing in the current year a common process for the identification, control and evaluation of all major risks with appropriate responses being developed and applied, reflecting the parameters set by the Board.

The Board expects that it will fully comply with the guidance by the end of the current financial year and has taken steps to review all aspects of internal control formally.

Internal financial control

In respect of the accounting period ended 31 March 2000, the Board acknowledges their responsibility for ensuring the Group maintains a system of internal financial control, to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. The effectiveness of the system of internal financial control has been reviewed and reported upon to the Board by the Audit Committee for some years pursuant to 'Internal Control and Financial Reporting – Guidance for Directors of listed companies registered in the UK' (the Ruttman Guidance). The directors are not aware of any significant weaknesses or deficiency in the system of internal financial control. The key features of the internal financial control system that operated throughout the period covered by the accounts are as follows:

Control environment

There is a clearly defined organisational structure within which individual financial responsibilities are identified and can be monitored. Where appropriate, businesses operate to procedures laid down in written manuals and are required to comply with them.

Identification and evaluation of business risks and control objectives

The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. A risk management approach is used to focus the work of the internal audit function on the Group's most significant areas of risk, and to determine key control objectives.

Information systems

There is a comprehensive budgeting system in place with an annual budget approved by the Board. Management information systems provide directors with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the year.

Monitoring

The Group has identified a number of key financial areas which are subject to regular reporting to the Board. Financial controls and procedures, including information systems controls, are detailed in procedures manuals. These controls include defined procedures for seeking and obtaining approval for major transactions and organisational changes as well as organisational controls involving the segregation of incompatible duties.

The Group has an established internal audit function which was carried out during the year on a subcontract basis by KPMG in the UK and by PricewaterhouseCoopers at Westinghouse. The internal audit function carries out reviews of its business and control procedures in operation on a regular basis having due regard to the key issues and business and financial risks identified. Formal reports are prepared of all such reviews and these are presented to the Audit Committee.

Areas of non-compliance with the Combined Code

The items in the Combined Code with which the Group did not comply in full throughout the financial year were as follows:

- Historically, there has been no nominations committee. It is intended to establish such a committee by the end of the current financial year.
- The Board acknowledges that the provisions of the Articles of Association do not currently require the executive directors to submit themselves for re-election at least every three years. However, two executive directors' service contracts provide for a notice period of one year and two for a notice period of six months, and notices can be given at any time. The Board is reviewing the requirements of the Combined Code and will ensure that compliance with all aspects relating to the appointment and re-election of directors will be achieved in good time before the proposed Public Private Partnership (PPP).
- To date members of the Board have considered that the appointment of a senior non-executive director would not enhance the manner in which they currently discharge their duties as the Board is currently constituted.

- The Remuneration Committee makes recommendations on the remuneration of executive directors. All decisions on directors' remuneration are made by the shareholders.
- The company does not currently have any institutional investors and therefore the requirements of the Combined Code in this area are not relevant.
- The membership of the Audit Committee comprised of two independent non-executive directors rather than three as required. The Board is reviewing the membership and terms of reference of its committees to ensure compliance with the Code.

Going concern

The directors have reviewed the forecast cash flows of the Group by reference to business plans and projections. They confirm that they have a reasonable expectation that the company and the Group have more than adequate resources to continue in operational existence and to meet all liabilities as they fall due for the foreseeable future and for a period of at least 10 years. The directors accordingly continue to adopt the going concern basis in preparing the accounts.

Statement of Directors' responsibilities in respect of the preparation of the accounts

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 of the Group, and of the profit or loss of the Group for that period.

In preparing those accounts, the directors are required to:

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

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them for safeguarding the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

To the members of British Nuclear Fuels plc

We have audited the accounts on pages 42 to 79, which have been prepared under the historical cost convention, modified to include the market value of certain current asset investments, and on the basis of the accounting policies set out on pages 45 to 47.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information contained in the Annual Report, including the Corporate Governance Statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Although we have been assisting the Board with advice on the introduction of improved procedures, we are not required to form an opinion on the effectiveness of either the company's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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.

Uncertainties

In forming our opinion we have taken note of the fundamental uncertainties inherent in the estimation of nuclear liabilities which are described in note 19 and the significant assumption relating to the Sellafield Mox Plant that commissioning will be approved as described in note 10. Our opinion is not qualified in this respect.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 March 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young, Registered Auditor
London
27 July 2000

Consolidated profit and loss account

For the year ended 31 March

| | | 2000 | | | 1999 | | |
|--|------|--------------|---|--|-------------------------|---|--|
| | Note | Total £m | Exceptional items (note 1c) £m | Operations before exceptional items £m | Total restated £m | Exceptional items (note 1c) £m | Operations before exceptional items £m |
| Turnover: Continuing operations | | | | | | | |
| Group and share of joint ventures | | 2,219 | — | 2,219 | 1,586 | — | 1,586 |
| Less: share attributable to joint ventures | | (155) | — | (155) | (21) | — | (21) |
| | 1 | 2,064 | — | 2,064 | 1,565 | — | 1,565 |
| Less operating costs and expenses before revision of previous years' nuclear liabilities | 2 | (2,306) | (307) | (1,999) | (1,530) | (21) | (1,509) |
| Operating (loss)/profit from continuing operations before revision of previous years' nuclear liabilities | | (242) | (307) | 65 | 35 | (21) | 56 |
| Revision of previous years' nuclear liabilities | 2 | (170) | (125) | (45) | (19) | — | (19) |
| Operating (loss)/profit from continuing operations | | (412) | (432) | 20 | 16 | (21) | 37 |
| Operating profit from joint ventures | | 11 | — | 11 | 4 | — | 4 |
| Amortisation of goodwill arising on acquisition of joint ventures | | (4) | — | (4) | — | — | — |
| Operating profit from associates | | 25 | — | 25 | 27 | — | 27 |
| Loss on disposal of subsidiaries | | (2) | (2) | — | — | — | — |
| Profit on sale of fixed assets | 4 | 23 | 23 | — | 78 | 78 | — |
| (Loss)/profit before investment income, interest and taxation | | (359) | (411) | 52 | 125 | 57 | 68 |
| Investment income | 5 | 531 | — | 531 | 604 | — | 604 |
| Less interest payable and similar charges | 6 | (509) | — | (509) | (511) | — | (511) |
| (Loss)/profit on ordinary activities before tax | | (337) | (411) | 74 | 218 | 57 | 161 |
| Tax on (loss)/profit on ordinary activities | 7 | 76 | 103 | (27) | (86) | (16) | (70) |
| (Loss)/profit on ordinary activities after tax | | (261) | (308) | 47 | 132 | 41 | 91 |
| Profit attributable to minority equity interests | | (1) | — | — | — | — | — |
| (Loss)/profit for the financial year | | (262) | — | — | 132 | — | — |
| Dividends | 8 | — | — | — | (65) | — | — |
| Retained (loss)/profit for the year | | (262) | — | — | 67 | — | — |

Statement of total recognised gains and losses

For the year ended 31 March

| | 2000 | 1999 |
|--|--------------|----------------|
| | £m | Restated £m |
| (Loss)/profit for the financial year | (262) | 132 |
| Currency translation differences on foreign currency net investments | (4) | 3 |
| Total recognised gains and losses relating to the year | (266) | 135 |
| Prior year adjustments (note 25) | (64) | — |
| Total gains and losses recognised since last annual report | (330) | — |

Consolidated balance sheet

As at 31 March

| | Note | 2000 | | 1999 Restated |
|--|------|----------------|---------|------------------|
| | | £m | £m | £m |
| Assets employed | | | | |
| Fixed assets: | | | | |
| Intangible assets | 9 | 462 | | 482 |
| Tangible assets | 10 | 6,812 | | 6,100 |
| Investments | | | | |
| Joint ventures: | | | | |
| Share of gross assets | | 786 | 747 | |
| Share of gross liabilities | | (718) | (676) | |
| Loans and advances | | 45 | 48 | |
| | | 113 | 119 | |
| Associates | | 117 | 113 | |
| Nuclear liabilities investment portfolio | | 3,887 | 3,890 | |
| Other | | 16 | 9 | |
| | 11 | 4,133 | | 4,131 |
| | | 11,407 | | 10,713 |
| Current assets: | | | | |
| Stocks | 12 | 419 | 332 | |
| Debtors | | | | |
| Amounts falling due after one year: | | | | |
| Secretary of State's undertaking | 13 | 4,222 | 3,949 | |
| Nuclear liabilities recoverable from customers | 14 | 3,661 | 3,468 | |
| Amounts falling due within one year | 15 | 853 | 755 | |
| Investments and short term deposits | 16 | 2,528 | 2,625 | |
| Cash at bank and in hand | | 108 | 2 | |
| | | 11,791 | 11,131 | |
| Less creditors: amounts falling due within one year | 17 | (1,104) | (1,066) | |
| Net current assets | | 10,687 | | 10,065 |
| Total assets less current liabilities | | 22,094 | | 20,778 |
| Financed by | | | | |
| Creditors: amounts falling due after more than one year | 18 | 3,819 | 3,588 | |
| Provisions for liabilities and charges | 19 | 17,538 | 16,253 | |
| Accruals and deferred income | 20 | 425 | 359 | |
| | | 21,782 | | 20,200 |
| Capital and reserves: | | | | |
| Called up share capital | 21 | 33 | 33 | |
| Profit and loss account | 23 | 277 | 543 | |
| Shareholders' funds – equity interests | | 310 | | 576 |
| Minority interests – equity interests | | 2 | | 2 |
| | | 22,094 | | 20,778 |

Hugh R Collum Chairman
27 July 2000

Norman Askew Chief Executive

John Edwards Group Finance Director

Company balance sheet

As at 31 March

| | Note | 2000 £m | 1999 Restated £m |
|--|------|----------------|------------------------|
| Assets employed | | | |
| Fixed assets: | | | |
| Tangible assets | 10 | 7,788 | 6,493 |
| Investments | 11 | 4,336 | 4,340 |
| | | 12,124 | 10,833 |
| Current assets: | | | |
| Stocks | 12 | 82 | 87 |
| Debtors | | | |
| Amounts falling due after one year: | | | |
| Nuclear liabilities recoverable from customers | 14 | 7,454 | 7,587 |
| Amounts falling due within one year | 15 | 1,670 | 1,583 |
| Investments and short term deposits | 16 | 1,377 | 1,274 |
| | | 10,583 | 10,531 |
| Less creditors: amounts falling due within one year | 17 | (3,835) | (4,013) |
| Net current assets | | 6,748 | 6,518 |
| Total assets less current liabilities | | 18,872 | 17,351 |
| Financed by | | | |
| Creditors: amounts falling due after more than one year | 18 | 5,072 | 4,711 |
| Provisions for liabilities and charges | 19 | 13,168 | 11,731 |
| Accruals and deferred income | 20 | 418 | 357 |
| | | 18,658 | 16,799 |
| Capital and reserves: | | | |
| Called up share capital | 21 | 33 | 33 |
| Profit and loss account | 23 | 181 | 519 |
| Shareholders' funds – equity interests | | 214 | 552 |
| | | 18,872 | 17,351 |

Hugh R Collam Chairman
27 July 2000

Norman Askew Chief Executive

John Edwards Group Finance Director

Consolidated cash flow statement

For the year ended 31 March

| | Note | 2000 £m | 1999 Restated £m |
|--|------|--------------|------------------------|
| Net cash inflow from operating activities | 29a | 245 | 614 |
| Dividends from joint ventures and associates | 29b | 9 | 9 |
| Returns on investment and servicing of finance | 29b | 177 | 342 |
| Taxation | 29b | (95) | 73 |
| Capital expenditure and financial investment | | | |
| Nuclear liabilities funding | 29b | 83 | (2,424) |
| Other capital expenditure | 29b | (477) | (466) |
| Acquisitions and disposals | 29b | 1 | (14) |
| Equity dividends paid | 29b | (49) | (49) |
| Net cash outflow before use of liquid resources and financing | | (106) | (1,915) |
| Management of liquid resources | 29b | (30) | 2,465 |
| Financing | 29b | 105 | 39 |
| (Decrease)/increase in cash in year | 29d | (31) | 589 |

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the market value of certain current asset investments, and in accordance with all applicable accounting standards. With the exception of the following changes, the same accounting policies have been applied as in the previous year.

- a Carrying value of managed investment portfolios (excluding insurance subsidiaries).

The company has changed its accounting policy with regard to the carrying value of managed investment portfolios (excluding insurance subsidiaries) from market value to cost (see notes 11f and 16). This change of policy results in a fairer matching of investment income and provisions 'top-up' charges in the profit and loss account.

- b Treatment of interest income on contractual advance payments (see note 5).

The company now recognises interest income earned on contractual advance payments as part of turnover on the contracts concerned. As the anticipated financing income on these contractual advance payments formed an integral part of the negotiation of the commercial terms, this presentational change more fairly reflects the nature of this income.

The effects of these changes are summarised in note 25.

The company has also implemented Financial Reporting Standard 15 'Tangible Fixed Assets' which came into effect during the year. There was no impact on the Group's accounts as a result of applying this standard.

The full accounting policies are as follows:

1 Basis of consolidation

- a The consolidated accounts include the accounts of British Nuclear Fuels plc and all its subsidiary undertakings.
- b Entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the consolidated accounts, joint ventures are accounted for using the gross equity method.
- c For acquisitions of associated undertakings and joint ventures before 1 April 1998, the consolidated accounts include the Group's share of net assets. For acquisitions from 1 April 1998, the consolidated accounts include the Group's share of net assets together with the balance of unamortised goodwill.
- d Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings and joint ventures acquired or disposed of in the year are

included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

2 Goodwill and other intangible assets

Goodwill arising on consolidation (see note 9), representing the excess of purchase consideration over the fair value of identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life up to a maximum of 20 years (acquisitions from 1 April 1998) or written off against reserves in the year of acquisition (acquisitions before 1 April 1998). Capitalised goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. If a subsidiary, associate or joint venture is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets (see note 9) are capitalised at cost and amortised on a straight line basis over their estimated useful lives but no longer than 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

3 Turnover

Turnover (see note 1), which is stated net of value added tax, represents the invoiced value of products delivered and services rendered to outside customers except in respect of contracts entered into for the provision of nuclear fuel services extending over a period of years (long term contracts) where turnover represents the sales value of work done in the year including, where appropriate, estimates of amounts not yet invoiced. For electricity generation, turnover represents amounts receivable for sales of electricity including net income arising from Contracts for Differences. These represent where the company makes or receives a net payment of the difference between the agreed sale price of electricity to its customers and the prevailing pool price.

4 Long term contracts

Profits on long term contracts are taken in the year in which the services are provided proportionate to the prudently assessed overall forecast profitability of the contracts after allowing for contingencies. Profits are taken in a manner appropriate to the stage of completion of the contracts and the nature of the business concerned. Full provision is made for losses on contracts in the year in which they are first identified (see note 1c).

5 Nuclear liabilities

The accounts include provisions for the Group's obligations in respect of nuclear liabilities, being liabilities in respect of the costs associated with nuclear decommissioning, waste management, and fuel reprocessing (see note 19a). These provisions are based on the latest technical assessments of the processes and methods likely to be used in the future and represent best estimates derived from a combination of the latest technical knowledge available, the existing regulatory regime and commercial agreements. The Group's obligations are reviewed on a regular basis and estimates and hence provisions are updated accordingly. Where some or all of the expenditure required to settle a provision is expected to be recovered from another party, the recoverable is treated as an asset and is included in fixed assets for decommissioning of commissioned facilities or

debtors for all other recoverable costs (see note 14). In the profit and loss account, the provisions charges are net of recoveries from customers.

Nuclear provisions are stated in the balance sheet at current price levels, discounted at an appropriate real rate of return to take account of the timing of payments. Each year, the financing charges in the profit and loss account include a 'top-up' charge which reflects the need to remove one year's discount from provisions made in prior years and the restatement of these provisions to current price levels (see note 6).

The Group's obligations for nuclear liabilities fall into the following categories:

a Decommissioning

Provisions are made for the costs (discounted) of decommissioning the Group's radioactive facilities. These provisions cover complete demolition together with management and disposal of the associated waste and are made for both commissioned facilities and facilities which are expected to be commissioned as part of fulfilling the Group's waste management obligations.

For facilities that have been commissioned, provisions are recognised in full and the discounted costs are capitalised as part of the costs of the asset and depreciated accordingly (see note 10). To the extent that costs are recoverable from third parties, they are treated as residual values of the assets concerned and depreciation is adjusted accordingly. Changes in estimates are treated as adjustments to the assets concerned (see note 19).

Radioactive waste materials arising as a result of the Group's operations themselves give rise to liabilities reflecting the cost of treating and disposing of them. In some instances, the provisions so created cover the cost of constructing and decommissioning of plants to manage those wastes. As a result, long before those waste management plants are built and commissioned, the costs of doing so have been provided. Yet those waste management plants are themselves fixed assets during their time in active use, and accounting standards require the capital cost and decommissioning liabilities to be shown as such and amortised over their useful life. As a consequence, on construction the decommissioning costs are capitalised and depreciated accordingly as stated above. To the extent that depreciation has effectively already been recognised in the profit and loss account, a deferred income balance is created on capitalisation of the plant. This balance is released to profit over the period used for depreciation purposes for the assets to which it relates.

b Waste management

The costs associated with waste products for which an authorised disposal route is already in use, principally low-level waste at present, are written off in the year in which they occur. Provisions are made for the treatment, handling and disposal of the Group's remaining waste products. The provisions are based on discounted forecast cash flows which include both capital and operating expenditure and are recognised as waste management obligations arise.

c Reprocessing of fuel

Provision is made for the defuelling, reprocessing and waste management of the spent nuclear fuel from the Group's reactors in proportion to the amount of fuel burnt. Due to the nature of the nuclear fuel process, there will be some unburnt fuel in the reactors at station closure. The provisions relating to this fuel are charged to the profit and loss account over the estimated useful life of each reactor on a straight line basis.

6 Research and development expenditure

Research and development expenditure on projects not specifically recoverable directly from customers is charged to the profit and loss account in the year in which it is incurred (see note 2). Expenditure on products for which firm orders have been received is held as part of the value of stocks and work in progress for recovery against the sales value of the initial orders.

7 Fixed assets

a Tangible assets (see note 10)

Tangible fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost (including decommissioning costs where appropriate, see accounting policy 5a) less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable or if estimated remaining useful economic lives exceed 50 years. Accumulated depreciation includes additional charges made where necessary to reflect impairments in value. Assets in the course of construction are stated at cost and not depreciated until commissioned.

Depreciation is calculated to write off the historical cost less residual value of assets, generally by equal annual instalments unless a throughput basis is considered more appropriate, over the period assessed as their useful lives. The periods used for depreciation purposes are:

- Buildings 10 to 60 years
- Plant and machinery 10 to 20 years
- Fixtures, fittings, tools and equipment 3 to 10 years

Provision is not made for depreciation on freehold land or assets in course of construction. Leasehold land is amortised over the period of the lease.

b Capital grants

Capital grants are treated as deferred income and transfers are made to the profit and loss account, generally by equal annual instalments, over the period used for depreciation purposes for the assets to which they relate (see note 2 and note 20).

8 Fixed asset investments

Fixed asset investments comprise investments in and loans to subsidiary and associated undertakings and joint ventures, together with investment portfolios held to fund certain long term nuclear liabilities (see note 11).

The nuclear liabilities portfolio of investments is to be maintained as a long term fund which is earmarked to meet long term nuclear liabilities as they fall due. Given the nature and purpose of this fund, it is classified in fixed asset investments. The fund comprises a portfolio of Government gilt-edged securities (gilts) and other investments and a managed portfolio of gilts and other investments.

The gilts intended to be held to redemption are stated in the balance sheet on the basis of cost adjusted for the amortisation of any premium or discount arising at purchase. The premium or discount is amortised over the life of the gilts in order to bring the carrying value to face value at redemption date. If sold before redemption, the difference between proceeds and the amortised value is taken to the profit and loss account in the year of realisation.

The managed portfolio is stated in the balance sheet at cost.

9 Current asset investments and short term deposits

Current asset investments and short term deposits comprise short and medium term gilt investments intended to be held to redemption, short and medium term managed investments and other short term investments (see note 16).

The policies for gilts intended to be held to redemption are the same as the policies for the gilts portfolio stated above.

Managed investments are stated at the lower of cost and estimated net realisable value, excluding investments held by insurance subsidiaries which are held at market value (see accounting policy 15a).

All other current asset investments are stated at the lower of cost and estimated net realisable value.

10 Stocks and work in progress

Stocks and work in progress (see note 12) are valued at cost or net realisable value whichever is the lower, and in the case of work in progress, after deduction of progress payments. Cost where appropriate includes a proportion of all production overhead expenses.

11 Pensions and post-retirement benefits

The Group operates pension schemes for the benefit of the majority of its employees (see note 27). The schemes are funded by contributions, partly from the employees and partly from the Group, to separately administered funds. For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. Actuaries complete valuations at least every three years and, in accordance with their recommendations, annual contributions from the Group are paid to the scheme to secure the benefits as set out in the rules. The cost of these is charged against profits so as to spread the costs of pensions over employees' working lives.

Westinghouse Electric Company provides post-retirement benefits in the form of defined medical, dental and life insurance benefits for eligible retirees and dependants. The cost of providing these benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives.

12 Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the foreseeable future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse (see note 19c).

13 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All exchange differences are taken to the profit and loss account.

The accounts of overseas subsidiary and associated undertakings and joint ventures are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken to reserves. All other translation differences are taken to the profit and loss account.

14 Derivatives and commodity contracts

The Group uses forward foreign currency contracts to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. These forward contracts are accounted for as hedges, with gains and losses being recognised when the contract matures. The Group also enters into contracts for differences and electricity forward agreements to reduce the risks from fluctuating electricity pool prices. The Group records the cost and income relating to these commodity contracts when settlement is made (see note 22 for details).

15 Insurance subsidiaries

a Investments

Investments are stated at market value at the balance sheet date and are included in current asset investments. The gain or loss on the change in market values and on disposal of investments is taken to the profit and loss account. Where there is a disposal of part of an investment holding, the gain or loss arising is calculated by reference to the average unit value of the total holding.

b Outstanding claims

Full provision is made for all claims notified, but not settled at the balance sheet date, on the basis of the most up-to-date information (see note 19d).

16 Leases

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

17 Liquid resources

Liquid resources comprise current asset investments and short term deposits excluding deposits repayable on demand.

Notes on the accounts

1 Segmental information

a Business segment analysis

The Group has been restructured during the year into four business areas. The segmental information presented below reflects the new organisation (prior year disclosures have been amended accordingly). In addition, the format of the profit and loss account has been changed to include additional information regarding the impact of revisions of previous years' nuclear liabilities.

| | Fuel manufacture and reactor services £m | Magnox generation £m | Spent fuel management £m | Nuclear decommissioning and clean-up £m | Total £m |
|------------------------|---|----------------------------|--------------------------------|--|--------------|
| Turnover: | | | | | |
| 1999-2000 | | | | | |
| Total | 810 | 578 | 900 | 451 | 2,739 |
| Internal | (80) | (10) | (301) | (284) | (675) |
| Sales to third parties | 730 | 568 | 599 | 167 | 2,064 |
| 1998-99 | | | | | |
| Total | 280 | 635 | 857 | 469 | 2,241 |
| Internal | (93) | (7) | (289) | (287) | (676) |
| Sales to third parties | 187 | 628 | 568 | 182 | 1,565 |

Operating (loss)/profit from continuing operations is presented before revision of previous years' nuclear liabilities, with revisions to nuclear liabilities shown separately. This segmental analysis presents the two individual lines.

Operating (loss)/profit before revision of previous years' nuclear liabilities:

| | | | | | |
|------------------------------|-----------|-------------|--------------|--------------|--------------|
| 1999-2000 | | | | | |
| Business profit/(loss) | 23 | (37) | 100 | (21) | 65 |
| Exceptional items (note 1 c) | – | (26) | (123) | (158) | (307) |
| Total | 23 | (63) | (23) | (179) | (242) |
| 1998-99 | | | | | |
| Business profit/(loss) | 4 | 27 | 77 | (52) | 56 |
| Exceptional items (note 1 c) | – | – | (21) | – | (21) |
| Total | 4 | 27 | 56 | (52) | 35 |

Revision of previous years' nuclear liabilities:

| | | | | | |
|---------------------------------------|------------|--------------|------------|-------------|--------------|
| 1999-2000 | | | | | |
| Before exceptional items | (8) | (117) | 140 | (60) | (45) |
| Exceptional items (note 1 c) | – | (125) | – | – | (125) |
| Total | (8) | (242) | 140 | (60) | (170) |
| 1998-99 (no exceptional items) | – | 53 | (55) | (17) | (19) |

(Loss)/profit before tax is after recognising all exceptional items and revisions to nuclear liabilities.

(Loss)/profit before tax:

| | | | | | |
|------------------------------|-----------|--------------|--------------|--------------|--------------|
| 1999-2000 | | | | | |
| Business profit/(loss) | 6 | (109) | 266 | (89) | 74 |
| Exceptional items (note 1 c) | 3 | (142) | (116) | (156) | (411) |
| Total | 9 | (251) | 150 | (245) | (337) |
| 1998-99 | | | | | |
| Business profit/(loss) | 16 | 134 | 85 | (74) | 161 |
| Exceptional items (note 1 c) | 8 | 39 | 4 | 6 | 57 |
| Total | 24 | 173 | 89 | (68) | 218 |

1 Segmental information continued
a Business segment analysis continued

| | Fuel manufacture and reactor services £m | Magnox generation £m | Spent fuel management £m | Nuclear decommissioning and clean-up £m | Total £m |
|---|---|----------------------------|--------------------------------|--|-------------|
| Net assets: | | | | | |
| 1999-2000 | | | | | |
| Total assets less current liabilities | | | | | |
| Capitalised/recoverable nuclear liabilities | 116 | 54 | 5,300 | 105 | 5,575 |
| Other | 1,329 | 8,188 | 6,880 | 180 | 16,577 |
| Unallocated Corporation tax | — | — | — | — | (58) |
| | 1,445 | 8,242 | 12,180 | 285 | 22,094 |
| Long term liabilities | | | | | |
| Nuclear provisions | (206) | (7,849) | (7,534) | (197) | (15,786) |
| Other | (1,013) | (513) | (3,520) | (268) | (5,314) |
| Unallocated deferred tax | — | — | — | — | (684) |
| Net assets/shareholders' funds | 226 | (120) | 1,126 | (180) | 310 |
| 1998-1999 | | | | | |
| Total assets less current liabilities | | | | | |
| Capitalised/recoverable nuclear liabilities | 95 | 55 | 4,416 | 120 | 4,686 |
| Other | 1,422 | 8,342 | 6,251 | 293 | 16,308 |
| Unallocated Corporation tax and dividends | — | — | — | — | (216) |
| | 1,517 | 8,397 | 10,667 | 413 | 20,778 |
| Long term liabilities | | | | | |
| Nuclear provisions | (171) | (7,556) | (6,535) | (156) | (14,418) |
| Other | (1,105) | (630) | (3,083) | (207) | (5,025) |
| Unallocated deferred tax | — | — | — | — | (759) |
| Net assets/shareholders' funds | 241 | 211 | 1,049 | 50 | 576 |

b Geographical segment analysis

The information above is re-analysed in the table below by geographic area. The figures for geographic origin show turnover, profit before tax and net assets owned by companies located in each geographic area.

| | EU (Excl. UK) £m | Europe Other £m | Japan & Far East £m | North & South America £m | Total excluding UK £m | UK £m | Total £m |
|---------------------------------------|---------------------|-----------------------|---------------------------|-----------------------------------|--------------------------------|----------|-------------|
| 1999-2000 | | | | | | | |
| Turnover by destination: | | | | | | | |
| Sales to third parties | 113 | 95 | 395 | 506 | 1,109 | 955 | 2,064 |
| Turnover by origin: | | | | | | | |
| Total | 35 | 6 | 45 | 560 | 646 | 1,437 | 2,083 |
| Inter-segment sales | (2) | — | (2) | (2) | (6) | (13) | (19) |
| Sales to third parties | 33 | 6 | 43 | 558 | 640 | 1,424 | 2,064 |
| Profit before tax by origin: | | | | | | | |
| Business performance | (2) | 30 | (3) | 6 | 31 | 43 | 74 |
| Exceptional items | — | (10) | — | (113) | (123) | (288) | (411) |
| Total | (2) | 20 | (3) | (107) | (92) | (245) | (337) |
| Net assets: | | | | | | | |
| Total assets less current liabilities | 4 | 373 | 5 | 808 | 1,190 | 20,904 | 22,094 |
| Long term liabilities | (2) | (10) | (4) | (731) | (747) | (21,037) | (21,784) |
| Net assets/shareholders' funds | 2 | 363 | 1 | 77 | 443 | (133) | 310 |

Notes on the accounts

1 Segmental information continued

b Geographical segment analysis continued

| | EU (Excl. UK) £m | Europe Other £m | Japan & Far East £m | North & South America £m | Total excluding UK £m | UK £m | Total £m |
|---------------------------------------|---------------------|-----------------------|---------------------------|-----------------------------------|--------------------------------|----------|-------------|
| 1998-1999 | | | | | | | |
| Turnover by destination: | | | | | | | |
| Sales to third parties | 92 | 25 | 312 | 74 | 503 | 1,062 | 1,565 |
| Turnover by origin: | | | | | | | |
| Total | 2 | – | 2 | 73 | 77 | 1,512 | 1,589 |
| Inter-segment sales | (2) | – | (2) | (4) | (8) | (16) | (24) |
| Sales to third parties | – | – | – | 69 | 69 | 1,496 | 1,565 |
| Profit before tax by origin: | | | | | | | |
| Business performance | – | 61 | – | (7) | 54 | 107 | 161 |
| Exceptional items | – | – | – | – | – | 57 | 57 |
| Total | – | 61 | – | (7) | 54 | 164 | 218 |
| Net assets: | | | | | | | |
| Total assets less current liabilities | 6 | 547 | 14 | 700 | 1,267 | 19,511 | 20,778 |
| Long term liabilities | (2) | (31) | (2) | (678) | (713) | (19,489) | (20,202) |
| Net assets/shareholders' funds | 4 | 516 | 12 | 22 | 554 | 22 | 576 |

c Exceptional items

The exceptional items are included in separate columns in the profit and loss account. The net cost of exceptional items before taxation is £411 million (1999: net profit £57 million).

| | £m | 2000 £m | 1999 £m |
|---|----|-------------|------------|
| Costs arising from falsification of records in respect of Mox fuel | | 113 | – |
| Impact of early closure of Hinkley A nuclear power station: | | | |
| Exceptional costs before revision of previous years' nuclear liabilities: | | | |
| Impairment of fixed asset | 20 | | |
| Raw materials and consumables stocks written off | 4 | | |
| Other operating charges | 2 | | |
| | | 26 | – |
| Revision of previous years' nuclear liabilities: | | | |
| Nuclear provisions charge | 70 | | |
| Depreciation of capitalised decommissioning | 55 | | |
| | | 125 | – |
| Provisions for foreseeable losses on long term contracts | | 151 | – |
| Impairment write down of Manufacturing Sciences Corporation fixed assets | | 139 | – |
| Exceptional costs re: delay in approval of the Sellafield Mox Plant | | 19 | – |
| Other | | – | 21 |
| | | 10 | – |
| Decrease in operating profit | | 432 | 21 |
| Loss on disposal of subsidiaries | | 2 | – |
| Profit on sale of fixed assets used in continuing activities (note 4) | | (23) | (78) |
| Decrease/(increase) in profit before tax | | 411 | (57) |

1 Segmental information continued

c Exceptional items continued

On 10 September 1999, BNFL reported to the Nuclear Installations Inspectorate (NII) that some diameter data on Mox fuel pellets manufactured in the Mox Demonstration Facility (MDF) for a Japanese utility, Kansai Electric Power Company, appeared to have been falsified. As a consequence of this quality assurance issue, production operations in MDF were suspended by BNFL. The incident has had consequences for regulator and customer confidence. BNFL is putting in place a series of countermeasures at Sellafield and also working with our customers to resolve the issues arising from the incident. On 11 July 2000, BNFL jointly announced with the Kansai Electric Power Company that agreement had been reached on two key issues arising from the Mox data falsification events. The companies have agreed that the eight Mox assemblies currently in Japan should be returned to the UK, and BNFL has agreed to bear the costs. BNFL has also agreed a settlement of £40 million with Kansai Electric Power Company regarding their compensation claims. In relation to the Mox data falsification costs, a provision of £108 million has been included in the accounts to cover the anticipated future costs including the aforementioned Kansai Electric Power Company compensation. Other related costs of £35 million have also been written off, resulting in a total charge against profit of £113 million.

Hinkley A nuclear power station has been in an extended shutdown which commenced in 1999. Since that time, it became increasingly apparent that for commercial and financial reasons, the station was unlikely to be brought back into service. This was confirmed in the Magnox lifetime strategy announcement made on 23 May 2000. As a consequence, a number of additional costs have been charged to the profit and loss account, which result from the advancement of the previously assumed closure date.

These costs relate to the following major areas:

- adjustments to station decommissioning provisions as a result of unwinding discounting assumptions;
- revised assessment of defuelling costs and timescales arising from premature closure;
- write off of residual carrying values of fixed assets and working capital;
- full provisioning against all lifetime spent fuel management costs.

The aggregate impact of the above adjustments was £151 million.

Provisions for foreseeable losses on long term contracts amounting to £139 million comprise provisions in respect of the East Tennessee Technology Park (ETTP) contract with the US Department of Energy (DOE) amounting to £94 million and provisions in respect of UK contract losses of £45 million.

In 1997, BNFL Inc. was awarded a \$292 million fixed price contract by the DOE for the full remediation and recycling of waste found in three buildings located at ETTP. The company has incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters, which threatened the viability of the overall ETTP project. Based on an investigation by management to identify and quantify the overall effect of these matters, the company submitted several requests for equitable adjustment to the DOE on 28 October 1999 and 2 November 1999, that sought, among other things, the recovery of a portion of unanticipated costs incurred by the company and the restructuring of the contract to provide for a more equitable sharing of the risks associated with the ETTP project. The company has not reached any agreements with the DOE on cost recovery or other contract restructuring matters at this time. As of 31 March 2000, the company recorded a charge for potential contract losses of approximately \$150 million. Negotiations with the DOE are ongoing.

Manufacturing Sciences Corporation (a subsidiary of BNFL Inc.) maintains facilities used in the recycling and processing of metals. These assets were originally developed and intended for long term commercial use. The long term value of the facilities was evaluated by the company as recent events and circumstances indicated a likely inability to use the facilities beyond the 2002 completion date of the ETTP contract with the DOE. The evaluation indicated that the carrying value would not be recoverable. Therefore, the carrying value of the assets was reduced to their net realisable value resulting in an impairment charge of approximately £19 million.

Notes on the accounts

2 Net operating costs and expenses

| | 2000 | | | | | | | 1999 |
|--|-------------|---|--|---|---|--|---|-------------|
| | Total £m | Exceptional items (note 1c) £m | Revision of previous years' nuclear liabilities £m | Before revision of previous years' nuclear liabilities & exceptional items £m | Before revision of previous years' nuclear liabilities & exceptional items £m | Revision of previous years' nuclear liabilities £m | Exceptional items (note 1c) £m | Total £m |
| Sellafield Mox Plant delay costs | — | — | — | — | — | — | 21 | 21 |
| Employee costs | 765 | — | — | 765 | 574 | — | — | 574 |
| Provisions for liabilities and charges | (245) | 317 | (712) | 150 | 285 | (32) | — | 253 |
| Depreciation | | | | | | | | |
| – on capitalised decommissioning | 836 | 55 | 757 | 24 | 26 | 51 | — | 77 |
| – provisions for diminution in value | 39 | 39 | — | — | — | — | — | — |
| – other depreciation | 357 | — | — | 357 | 335 | — | — | 335 |
| Amortisation of goodwill | 24 | — | — | 24 | — | — | — | — |
| Raw materials and consumables | 450 | 4 | — | 446 | 220 | — | — | 220 |
| Research and development charges not specifically directly recoverable from customers | 45 | — | — | 45 | 42 | — | — | 42 |
| Other income and operating charges | 355 | 12 | — | 343 | 224 | — | — | 224 |
| Changes in stocks of finished goods and work in progress | 11 | 5 | — | 6 | (41) | — | — | (41) |
| Own work capitalised | (143) | — | — | (143) | (138) | — | — | (138) |
| Own work on nuclear fuel stock | (16) | — | — | (16) | (16) | — | — | (16) |
| Regional development grants released | (2) | — | — | (2) | (2) | — | — | (2) |
| | 2,476 | 432 | 45 | 1,999 | 1,509 | 19 | 21 | 1,549 |

Exceptional items includes £125 million in relation to the revision of nuclear liabilities as a result of the early closure of Hinkley A nuclear power station. This amount combined with the £45 million which has not been treated as exceptional make up the total impact of the revision of previous years' nuclear liabilities of £170 million shown in the profit and loss account.

Net operating costs and expenses for the current year include a full year of Westinghouse which was acquired on 22 March 1999.

Other external and operating charges include Auditors' remuneration of £1,070,000 (1999: £817,000) of which £282,000 (1999: £264,000) relates to the Parent Company. Amounts paid to Ernst & Young, the Group's auditors, in respect of non-audit services to the company and its UK subsidiaries amounted to £4,145,000 (1999: £1,339,000). It is the Group's policy to engage Ernst & Young on assignments where their expertise and experience with the Group are important or where they win work on a competitive basis. The non-audit work principally consisted of advice in relation to the proposed Public Private Partnership, process re-engineering consultancy, tax advice and various other financial projects.

3 Employee information

a The average number of persons employed by the Group during the year was:

| | 2000 Number | 1999 Number |
|---------------------------------------|----------------|----------------|
| Fuel manufacture and reactor services | 6,025 | 2,330 |
| Magnox generation | 3,681 | 4,008 |
| Spent fuel management | 6,032 | 6,276 |
| Nuclear decommissioning and clean-up | 2,195 | 1,851 |
| Corporate | 1,475 | 1,572 |
| | 19,408 | 16,037 |

b Employee costs

| | 2000 £m | 1999 £m |
|---|------------|------------|
| Wages and salaries | 639 | 461 |
| Social security costs | 47 | 36 |
| Other pension costs (note 27) | 22 | 17 |
| Other employee costs (early retirement etc) | 57 | 60 |
| | 765 | 574 |

The figures given above include Parent company executive directors. Further details of directors' emoluments are set out on pages 36 and 37.

4 Profit on sale of fixed assets

| | 2000 £m | 1999 £m |
|-------------------------|------------|------------|
| Tangible fixed assets | 5 | 23 |
| Fixed asset investments | 18 | 55 |
| | 23 | 78 |

The profit on sale of tangible fixed assets during 2000 relates to the sale of a surplus property. This asset which was previously carried at a book value of £5 million was sold for £10 million. There was no effect on the Group's tax charge as a result of this disposal. The profit on sale of fixed asset investments represents realised gains on the nuclear liabilities investment portfolio. Proceeds from these disposals were immediately reinvested in the portfolio. The effect of these realised gains on the Group's tax charge was an increase of £6 million.

5 Investment and interest income

| | 2000 £m | 1999 Restated £m |
|--|------------|------------------------|
| Nuclear liabilities investment portfolio | 213 | 228 |
| Secretary of State's undertaking | 273 | 249 |
| | 486 | 477 |
| Current asset investments | 121 | 199 |
| Loans to joint ventures | 3 | 3 |
| Loans to associated undertakings | 3 | 3 |
| | 613 | 682 |
| Financing income from long term contract advance payments reclassified to turnover | (82) | (78) |
| | 531 | 604 |

Income from the nuclear liabilities investment portfolio and the contractually agreed interest on the Secretary of State's undertaking is available to set off against the increase in nuclear liabilities arising from changes in price levels and the unwinding of one year's discounting. The income is expected to match the time-related increases in nuclear liabilities included under interest payable and similar charges, so that the level of funding of those liabilities does not deteriorate.

Substantial payments in advance are held as part of the contractual arrangements under which nuclear fuel services are provided to a number of customers. The anticipated financing income on those payments in advance formed an integral part of the negotiation of commercial terms for those services. Income of £82 million (1999: £78 million) was earned on contractual payments in advance and this income has been reclassified to turnover to more accurately reflect the contractual arrangements, with financing income now being accounted for in the same way as the rest of the income received on these contracts. There is no impact on overall profitability as a result of this change of accounting policy.

6 Interest payable and similar charges

| | 2000 £m | 1999 £m |
|--|------------|------------|
| Net provisions adjustment: | | |
| Removal of one year's discounting | 236 | 217 |
| Changes in price levels | 250 | 266 |
| | 486 | 483 |
| Interest on loans | 13 | 16 |
| Bank commissions | 3 | 2 |
| Realised exchange losses | (1) | 3 |
| Group interest payable and similar charges | 501 | 504 |
| Share of joint ventures' interest | 2 | 2 |
| Share of associated undertakings' interest | 6 | 5 |
| | 509 | 511 |

Notes on the accounts

7 Tax on profit on ordinary activities

| | 2000 | | | 1999 | | |
|---|-------------|----------------------------|----------------------------------|----------------------------------|----------------------------|-------------|
| | Total £m | Exceptional items £m | Operational performance £m | Operational performance £m | Exceptional items £m | Total £m |
| UK Corporation tax in respect of parent and subsidiaries: | | | | | | |
| Current year | – | – | – | 72 | 16 | 88 |
| Adjustment in respect of prior years | (17) | – | (17) | (11) | – | (11) |
| | (17) | – | (17) | 61 | 16 | 77 |
| Joint ventures' taxation | 1 | – | 1 | 1 | – | 1 |
| Associated undertakings' taxation | 6 | – | 6 | 7 | – | 7 |
| | (10) | – | (10) | 69 | 16 | 85 |
| Overseas taxation | 5 | – | 5 | – | – | – |
| Deferred tax in respect of parent and subsidiaries: | | | | | | |
| Current year | (71) | (103) | 32 | (7) | – | (7) |
| Adjustment in respect of prior years | – | – | – | 8 | – | 8 |
| Tax (credit)/charge | (76) | (103) | 27 | 70 | 16 | 86 |

The tax credit in the year is lower than expected primarily because it has not been possible to recognise the full amount of the current year loss against current or deferred tax liabilities.

8 Dividends

| | 2000 £m | 1999 £m |
|-------------------------|------------|------------|
| Interim dividend paid | – | 16 |
| Final dividend proposed | – | 49 |
| | – | 65 |

9 Fixed assets – Intangible assets

A summary of the intangible assets held by the Group is as follows:

| | Goodwill £m | Licences £m | Total £m |
|--|----------------|----------------|-------------|
| Cost: | | | |
| At 1 April 1999 | 482 | – | 482 |
| Adjustments arising from finalisation of fair values (note 11 a) | (4) | – | (4) |
| Additions during the year | – | 3 | 3 |
| Exchange adjustments | 5 | – | 5 |
| At 31 March 2000 | 483 | 3 | 486 |
| Amortisation: | | | |
| At 1 April 1999 | – | – | – |
| Amortisation during the year | 24 | – | 24 |
| At 31 March 2000 | 24 | – | 24 |
| Net book value at 31 March 2000 | 459 | 3 | 462 |
| Net book value at 31 March 1999 | 482 | – | 482 |

Goodwill represents goodwill arising on the acquisition of the Westinghouse Electric Company business. This is being written off on a straight line basis over its useful economic life of 20 years.

Licences are being amortised on a straight line basis over their useful economic life of 12 years.

10 Fixed assets – Tangible assets

a Group

| | Land and buildings | | | | | |
|---|----------------------|----------------|---------------------------|---|--|---------------|
| | Long leasehold £m | Freehold £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Assets in course of construction £m | Total £m |
| Cost at 1 April 1999 | 9 | 3,119 | 4,803 | 132 | 1,417 | 9,480 |
| Exchange adjustment | – | – | 1 | – | – | 1 |
| Fair value adjustments (note 11 a) | 8 | – | – | – | – | 8 |
| Additions: | | | | | | |
| Capitalised decommissioning costs | – | – | 1,486 | – | – | 1,486 |
| Other | – | 3 | 46 | 21 | 424 | 494 |
| Disposals: | | | | | | |
| Capitalised decommissioning costs | – | – | (144) | – | – | (144) |
| Other | – | (7) | (16) | (5) | (2) | (30) |
| Disposal of subsidiary undertakings | – | (1) | (9) | (9) | – | (19) |
| Transfers/reclassifications | – | 17 | 112 | (10) | (110) | 9 |
| Cost at 31 March 2000 | 17 | 3,131 | 6,279 | 129 | 1,729 | 11,285 |
| Depreciation at 1 April 1999 | 1 | 1,055 | 2,253 | 71 | – | 3,380 |
| Charge for the year: | | | | | | |
| Capitalised decommissioning costs | – | – | 836 | – | – | 836 |
| Provisions for diminution in value (note 1 c) | – | 11 | 27 | 1 | – | 39 |
| Other depreciation | 1 | 148 | 188 | 20 | – | 357 |
| Disposals: | | | | | | |
| Capitalised decommissioning costs | – | – | (104) | – | – | (104) |
| Other | – | (2) | (15) | (4) | – | (21) |
| Disposal of subsidiary undertakings | – | (1) | (4) | (9) | – | (14) |
| Reclassifications | – | 2 | (2) | – | – | – |
| Depreciation at 31 March 2000 | 2 | 1,213 | 3,179 | 79 | – | 4,473 |
| Net book value at 31 March 2000 | 15 | 1,918 | 3,100 | 50 | 1,729 | 6,812 |
| Net book value at 31 March 1999 | 8 | 2,064 | 2,550 | 61 | 1,417 | 6,100 |

Assets in course of construction include £462 million relating to the Sellafield Mox Plant, plutonium commissioning which is awaiting approval from the DETR. The carrying value is based on the assumption that BNFL can demonstrate the plant to be economically justified and that plutonium commissioning will be approved by the DETR, which the Board remains confident is the most appropriate assumption despite the significant uncertainties involved.

Notes on the accounts

10 Fixed assets – Tangible assets continued

a Group continued

The movement on tangible fixed assets by business segment is as follows:

| | Fuel manufacture and reactor services £m | Magnox generation £m | Spent fuel management £m | Nuclear decommissioning and clean-up £m | Total £m |
|---|---|----------------------------|--------------------------------|--|---------------|
| Cost at 1 April 1999 | 755 | 339 | 8,240 | 146 | 9,480 |
| Exchange adjustment | 1 | – | – | – | 1 |
| Fair value adjustments (note 11 a) | 8 | – | – | – | 8 |
| Additions: | | | | | |
| Capitalised decommissioning costs | 24 | 662 | 742 | 58 | 1,486 |
| Other | 35 | 52 | 382 | 25 | 494 |
| Disposals: | | | | | |
| Capitalised decommissioning costs | (1) | (1) | (141) | (1) | (144) |
| Other | (21) | (7) | (1) | (1) | (30) |
| Disposal of subsidiary undertakings | (3) | (5) | (9) | (2) | (19) |
| Reclassifications | – | – | 9 | – | 9 |
| Cost at 31 March 2000 | 798 | 1,040 | 9,222 | 225 | 11,285 |
| Depreciation at 1 April 1999 | 277 | 42 | 2,988 | 73 | 3,380 |
| Charge for the year: | | | | | |
| Capitalised decommissioning costs | 9 | 663 | 113 | 51 | 836 |
| Provisions for diminution in value (note 1 c) | – | 20 | – | 19 | 39 |
| Other depreciation | 53 | 34 | 258 | 12 | 357 |
| Disposals: | | | | | |
| Capitalised decommissioning costs | – | (1) | (103) | – | (104) |
| Other | (19) | (1) | – | (1) | (21) |
| Disposal of subsidiary undertakings | (2) | (4) | (6) | (2) | (14) |
| Depreciation at 31 March 2000 | 318 | 753 | 3,250 | 152 | 4,473 |
| Net book value at 31 March 2000 | 480 | 287 | 5,972 | 73 | 6,812 |
| Net book value at 31 March 1999 | 478 | 297 | 5,252 | 73 | 6,100 |

Included in net book values above are the following amounts in respect of capitalised decommissioning costs:

Net book value at 31 March 2000:

| | | | | | |
|--|------------|-----------|--------------|-----------|--------------|
| Amounts recoverable from customers (see note 14) | 98 | – | 1,382 | 23 | 1,503 |
| Group funded | 18 | 54 | 117 | – | 189 |
| | 116 | 54 | 1,499 | 23 | 1,692 |
| Net book value at 31 March 1999: | | | | | |
| Amounts recoverable from customers (see note 14) | 86 | – | 850 | 15 | 951 |
| Group funded | 8 | 55 | 48 | 2 | 113 |
| | 94 | 55 | 898 | 17 | 1,064 |

10 Fixed assets – Tangible assets continued

b Parent

| | Freehold land and buildings £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Assets in course of construction £m | Total £m |
|--|---|------------------------------|--|--|---------------|
| Cost at 1 April 1999 | 3,028 | 5,241 | 91 | 1,368 | 9,728 |
| Additions: | | | | | |
| Capitalised decommissioning costs | – | 1,334 | – | – | 1,334 |
| Other | 12 | 11 | 5 | 395 | 423 |
| Disposals: | | | | | |
| Capitalised decommissioning costs | – | (101) | – | – | (101) |
| Other | (12) | (14) | (5) | (1) | (32) |
| Transfers/reclassifications | 10 | 90 | (16) | (50) | 34 |
| Cost at 31 March 2000 | 3,038 | 6,561 | 75 | 1,712 | 11,386 |
| Depreciation at 1 April 1999 | 1,051 | 2,133 | 51 | – | 3,235 |
| Charge for the year: | | | | | |
| Capitalised decommissioning costs | – | 158 | – | – | 158 |
| Other | 137 | 139 | 12 | – | 288 |
| Disposals: | | | | | |
| Capitalised decommissioning costs | – | (62) | – | – | (62) |
| Other | (1) | (15) | (5) | – | (21) |
| Transfers/reclassifications | 3 | (3) | – | – | – |
| Depreciation at 31 March 2000 | 1,190 | 2,350 | 58 | – | 3,598 |
| Net book value at 31 March 2000 | 1,848 | 4,211 | 17 | 1,712 | 7,788 |
| Net book value at 31 March 1999 | 1,977 | 3,108 | 40 | 1,368 | 6,493 |

Freehold land, amounting to £12 million (1999: £17 million) for the Group and £6 million (1999: £6 million) for the company, has not been depreciated. The company holds no long leasehold land and buildings.

Notes on the accounts

11 Fixed assets – investments

| | Group | | Parent | |
|--|--------------|------------------|--------------|------------------|
| | 2000 | 1999 Restated | 2000 | 1999 Restated |
| | £m | £m | £m | £m |
| Subsidiary undertakings | – | – | 329 | 329 |
| Joint ventures | 113 | 119 | 65 | 68 |
| Associated undertakings | 117 | 113 | 2 | – |
| Trade investments | 16 | 9 | 2 | – |
| Nuclear liabilities investment portfolio | 3,887 | 3,890 | 3,938 | 3,943 |
| | 4,133 | 4,131 | 4,336 | 4,340 |

See page 79 for details of principal subsidiary and associated undertakings and joint ventures.

a Finalisation of fair values and consideration in respect of the Westinghouse acquisition

Fair values of the net assets of Westinghouse Electric Company LLC acquired on 22 March 1999 were included in the prior year accounts at provisional values. These values have now been finalised together with the final consideration which was contingent upon agreement of the working capital position. The adjustments which have been made are as follows:

| | Provisional fair value per prior year accounts £m | Adjustments £m | Final fair value £m |
|---|---|-------------------|---------------------------|
| Tangible fixed assets | 162 | 8 | 170 |
| Investments in associates | 1 | – | 1 |
| Stocks | 66 | (1) | 65 |
| Debtors | 114 | 1 | 115 |
| Cash | 31 | (4) | 27 |
| Creditors due within one year | (161) | (9) | (170) |
| Provisions: | | | |
| Restructuring/reorganisation provisions booked 12 months prior to acquisition | (5) | – | (5) |
| Other | (663) | (6) | (669) |
| Other creditors | (4) | – | (4) |
| Less: book value of liabilities assumed as part of consideration | 593 | 6 | 599 |
| Net assets acquired | 134 | (5) | 129 |
| Goodwill arising on acquisition | 482 | (4) | 478 |
| Consideration (including associated costs) | 616 | (9) | 607 |

b Subsidiary undertakings

| | Group | | | Parent | |
|-------------------------|--------------|-------------|------------------|---------------------------|-------------------------|
| | Shares £m | Loans £m | Total cost £m | Amounts provided £m | Net book value £m |
| At 1 April 1999 | 259 | 101 | 360 | (31) | 329 |
| Disposals | (6) | – | (6) | 6 | – |
| At 31 March 2000 | 253 | 101 | 354 | (25) | 329 |

11 Fixed assets – investments continued

c Joint ventures

| | Group | | | | Parent | | |
|---------------------------------------|------------------------------|----------------|---------------------------|-------------|--------------|---------------------------|-------------|
| | Share of net assets £m | Goodwill £m | Loans & advances £m | Total £m | Shares £m | Loans & advances £m | Total £m |
| Cost: | | | | | | | |
| At 1 April 1999 | 7 | 64 | 235 | 306 | 20 | 218 | 238 |
| Fair value adjustments | (4) | 4 | – | – | – | – | – |
| Exchange adjustment | (1) | 1 | – | – | – | – | – |
| Additions | – | – | 7 | 7 | – | 3 | 3 |
| Loans repaid | – | – | (3) | (3) | – | (3) | (3) |
| Share of retained profit and reserves | 1 | – | – | 1 | – | – | – |
| At 31 March 2000 | 3 | 69 | 239 | 311 | 20 | 218 | 238 |
| Amounts provided/amortised: | | | | | | | |
| At 1 April 1999 | – | – | 187 | 187 | – | 170 | 170 |
| New amounts provided/amortised | – | 4 | 7 | 11 | – | 3 | 3 |
| At 31 March 2000 | – | 4 | 194 | 198 | – | 173 | 173 |
| Net book value: | | | | | | | |
| At 31 March 2000 | 3 | 65 | 45 | 113 | 20 | 45 | 65 |
| At 1 April 1999 | 7 | 64 | 48 | 119 | 20 | 48 | 68 |

Loans of £194 million for the Group and £173 million for the Parent (1999: £187 million and £170 million) 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.

d Associated undertakings

| | Group | | | Parent | | |
|---------------------------------------|------------------------------|---------------------------|-------------|--------------|---------------------------|-------------|
| | Share of net assets £m | Loans & advances £m | Total £m | Shares £m | Loans & advances £m | Total £m |
| Cost and net book value: | | | | | | |
| At 1 April 1999 | 74 | 39 | 113 | – | – | – |
| Additions | 3 | 3 | 6 | 1 | 1 | 2 |
| Disposals | (1) | – | (1) | – | – | – |
| Share of retained profit and reserves | (1) | – | (1) | – | – | – |
| At 31 March 2000 | 75 | 42 | 117 | 1 | 1 | 2 |

e Trade investments

| | Group | | | Parent | | |
|---------------------------------|-------------|---------------------------|-------------------------|------------|---------------------------|-------------------------|
| | Costs £m | Amounts provided £m | Net book value £m | Cost £m | Amounts provided £m | Net book value £m |
| Balance at 1 April 1999 | 15 | (6) | 9 | 5 | (5) | – |
| Additions | 10 | – | 10 | 4 | – | 4 |
| Amounts provided | – | (3) | (3) | – | (2) | (2) |
| Balance at 31 March 2000 | 25 | (9) | 16 | 9 | (7) | 2 |

Notes on the accounts

11 Fixed assets – investments continued

f Nuclear liabilities investment portfolio

| | Group | | | Parent | | |
|---------------------------------------|----------------------------------|-------------------------|--------------|----------------------------------|-------------------------|--------------|
| | Gilts investment portfolio £m | Managed portfolio £m | Total £m | Gilts investment portfolio £m | Managed portfolio £m | Total £m |
| Balance at 1 April 1999 | 2,525 | 1,415 | 3,940 | 2,555 | 1,415 | 3,970 |
| Change in accounting policy (note 25) | – | (50) | (50) | – | (27) | (27) |
| Balance at 1 April 1999 (restated) | 2,525 | 1,365 | 3,890 | 2,555 | 1,388 | 3,943 |
| Net additions/reductions | (156) | 73 | (83) | (159) | 71 | (88) |
| Amortisation of discount/indexation | 80 | – | 80 | 83 | – | 83 |
| Balance at 31 March 2000 | 2,449 | 1,438 | 3,887 | 2,479 | 1,459 | 3,938 |

The amount of listed investments included in the nuclear liabilities investment portfolio is £3,752 million, of which £3,803 million are held by the Parent (1999: £3,032 million and £3,132 million). The market value of these investments was £4,005 million for the Group and the Parent (1999: £3,406 million for the Group and the Parent). The amount of listed investments in the Parent is greater than the amount in the Group due to the transfer of investments from Magnox Electric to the Parent at the then market value, being in excess of cost, following the acquisition of that company in the year ended 31 March 1998. This excess is eliminated on consolidation. Unlisted investments comprise bank deposits.

In order to ensure that funds are available when needed to meet the long term nuclear liabilities, the investment policy has to address long term returns and their relationship to investors; the effects of taxation; credit risk; and re-investment risk.

The Group has invested £2,449 million of the portfolio in index-linked gilts, which it is intended to hold until redemption. These have an average maturity of 10.6 years and returned 2.59% pa after tax and inflation in 1999/2000. The advantages of this instrument to the portfolio are tax-free indexation cover for inflation; a roughly constant annual post-tax real yield to maturity and excellent credit risk.

The risks associated with this instrument are that the taxation legislation may change, and that as the longest maturity is up to 2030 but the nuclear liabilities go out to 2150, there will be a significant degree of refinancing risk if the Government does not issue yet longer-maturing index-linked gilts in due course.

A further £1,438 million is invested through fund managers, with around £400 million being against predominantly index-linked gilt benchmarks and around £1,000 million against a cash benchmark. The purpose of using fund managers is to provide some flexibility and add value by active strategic investment. Performance is monitored through monthly reports and regular meetings. The potential change in value on the funds is controlled by the benchmarks and by maturity limits. Credit risk on non-gilt investments is controlled by limiting the amount that can be placed with each counterparty and specifying a minimum creditworthiness of the counterparty as determined by the rating agencies.

12 Stocks

| | Group | | Parent | |
|-------------------------------|------------|------------|------------|------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Nuclear fuel | 23 | 18 | 4 | 7 |
| Raw materials and consumables | 148 | 160 | 47 | 43 |
| Work in progress | 221 | 132 | 20 | 28 |
| Finished goods | 27 | 22 | 11 | 9 |
| | 419 | 332 | 82 | 87 |

Work in progress in both the Group and Parent is stated after deducting progress payments of £4 million (1999: £1 million).

13 Secretary of State's undertaking due after more than one year

| | Group | | Parent | |
|----------------------------------|--------------|--------------|------------|------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Balance at 1 April 1999 | 3,949 | 3,700 | — | — |
| Interest accrued during the year | 273 | 249 | — | — |
| Balance at 31 March 2000 | 4,222 | 3,949 | — | — |

The Secretary of State's undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and Magnox Electric plc. The Secretary of State has undertaken to pay Magnox Electric plc £3,700 million (March 1998 money values) together with interest at a rate of 4.5% above inflation on the outstanding amount. Payments commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116. The terms of the undertaking provide for potential adjustments to the outstanding amount in two circumstances:

- a Where actions taken by persons or bodies external to the BNFL Group cause or may cause a reassessment of the nuclear related liabilities of the Group attributable to the Magnox fuel cycle (Magnox liabilities). Magnox liabilities account for over 90% of the Group's nuclear liabilities.
- b Where there is an adjustment to provisions as a result of downward revisions in the estimate of the cost of Magnox liabilities for reasons other than those covered by a above.

The next review by Her Majesty's Government (HMG) in relation to a above will take place at 1 April 2003 and every five years thereafter with special reviews taking place at any time if the financial impact of events between general review dates is known to be significant. Reductions in provisions falling within b above are to be shared between the Group and the Secretary of State (via adjustment of the outstanding amount of the undertaking) on a sliding scale with the maximum reduction in the undertaking being £800 million escalated by 2.5% above inflation from 1 April 1998. The directors have not assumed an increase in the undertaking for the revisions to nuclear liability estimates in the current year.

14 Nuclear liabilities recoverable

The Group and company have commercial agreements in place under which some or all of the expenditure required to settle nuclear liabilities will be recovered from third parties. The amounts recoverable under these commercial agreements are as follows:

| | Group | | Parent | |
|--|--------------|--------------|---------------|--------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Amounts recoverable in respect of: | | | | |
| Decommissioning | 1,929 | 1,107 | 3,744 | 2,110 |
| Waste management | 3,457 | 3,466 | 6,219 | 7,000 |
| Reprocessing | — | — | 848 | 483 |
| | 5,386 | 4,573 | 10,811 | 9,593 |
| Included in fixed assets | 1,503 | 951 | 2,932 | 1,829 |
| Included in debtors due after more than one year | 3,661 | 3,468 | 7,454 | 7,587 |
| Included in debtors due within one year | 222 | 154 | 425 | 177 |
| | 5,386 | 4,573 | 10,811 | 9,593 |

The movement in amounts recoverable during the year was as follows:

| | Decommissioning fixed assets £m | Decommissioning debtor £m | Waste management debtor £m | Reprocessing debtor £m | Total recoverable £m |
|--|---------------------------------------|---------------------------------|-------------------------------------|------------------------------|----------------------------|
| Group | | | | | |
| Balance at 1 April 1999 | 951 | 156 | 3,466 | — | 4,573 |
| Increase for price changes and discounting | 50 | 4 | 133 | — | 187 |
| Increase/(decrease) in liabilities recoverable | 532 | 275 | (37) | — | 770 |
| Amounts recovered | (39) | — | (105) | — | (144) |
| Reclassifications | 9 | (9) | — | — | — |
| Balance at 31 March 2000 | 1,503 | 426 | 3,457 | — | 5,386 |
| Parent | | | | | |
| Balance at 1 April 1999 | 1,829 | 281 | 7,000 | 483 | 9,593 |
| Increase for price changes and discounting | 101 | 7 | 278 | 20 | 406 |
| Increase/(decrease) in liabilities recoverable | 1,005 | 558 | (814) | 412 | 1,161 |
| Amounts recovered | (37) | — | (245) | (67) | (349) |
| New plants commissioned | 34 | (34) | — | — | — |
| Balance at 31 March 2000 | 2,932 | 812 | 6,219 | 848 | 10,811 |

Notes on the accounts

15 Debtors

| | Group | | Parent | |
|---|------------|------------|--------------|--------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Trade debtors | 340 | 314 | 154 | 134 |
| Nuclear liabilities recoverable within one year | 222 | 154 | 425 | 177 |
| Recoverable on long term contracts | 70 | 38 | — | — |
| VAT | 8 | — | 9 | — |
| Corporation tax | — | — | 8 | — |
| Owed by Group undertakings | — | — | 941 | 1,102 |
| Owed by joint ventures | 1 | 3 | 1 | 3 |
| Owed by associated undertakings | 10 | 7 | 1 | 1 |
| Prepayments and accrued income | 202 | 239 | 131 | 166 |
| | 853 | 755 | 1,670 | 1,583 |

Debtors due to the Group include £46 million (1999: £46 million) due in more than one year. Debtors due to the Parent include £19 million (1999: £13 million) due in more than one year.

At the end of the year, there were 81 loans amounting to £528,000 outstanding with employees of the Group (1999: 103 loans amounting to £670,000). Of these loans, 71 amounting to £468,000 were in the Parent (1999: 92 loans amounting to £613,000).

16 Current asset investments and short term deposits

| | Group | | Parent | |
|--|--------------|------------------------|--------------|------------------------|
| | 2000 £m | 1999 Restated £m | 2000 £m | 1999 Restated £m |
| Gilts investments – Medium term maturity | 125 | 571 | 125 | 571 |
| – Short term maturity | 237 | — | 237 | — |
| Managed investments | 1,228 | 1,158 | 583 | 489 |
| Short term deposits | 938 | 896 | 432 | 214 |
| | 2,528 | 2,625 | 1,377 | 1,274 |

The amount of listed investments included above is £1,571 million (1999 restated: £1,690 million), of which £942 million are held by the Parent (1999 restated: £1,044 million). The market value of these investments was £1,604 million for the Group and £975 million for the Parent (1999: £1,748 million and £1,102 million). Other investments comprise bank deposits and other fixed and call deposits.

Included in total current asset investments for the Group are £629 million of the listed investments which are carried at market value (1999 restated: £646 million). These are listed investments held in insurance subsidiaries. The historic cost of these investments was £627 million (1999: £630 million). No listed investments are carried at market value in the Parent.

Liquidity is managed by preparing short and medium term cash flow forecasts against which to time the maturity of bank deposits. These are supported by a level of funds invested in certificates of deposit and in a money fund, to cover unforeseen requirements. Liquidity in the US is provided by external banks in the form of committed borrowing facilities, together with funding from the Parent.

Risks and controls for current asset investments and short term deposits are similar to those outlined in note 11f above for the nuclear liabilities investment portfolio.

17 Creditors: amounts falling due within one year

| | Group | | Parent | |
|--|--------------|--------------|--------------|--------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Current portion of long term loans (note 18) | 71 | 54 | — | — |
| Bank overdraft | 19 | 3 | 99 | 187 |
| Obligations under finance leases | 1 | 1 | — | — |
| Payments received on account | 428 | 321 | 583 | 507 |
| Trade creditors | 145 | 186 | 42 | 79 |
| Owed to Group undertakings | — | — | 2,958 | 3,088 |
| Owed to joint ventures | — | 2 | — | 2 |
| Owed to associated undertakings | — | 1 | — | — |
| VAT | — | 4 | — | 2 |
| Corporation tax | 58 | 167 | — | 9 |
| Other taxes and social security | 8 | 9 | 4 | 5 |
| Dividends | — | 49 | — | 49 |
| Accruals and deferred income | 374 | 269 | 149 | 85 |
| | 1,104 | 1,066 | 3,835 | 4,013 |

18 Creditors: amounts falling due after more than one year

| | Group | | Parent | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Loans | 94 | 4 | — | — |
| Obligations under finance leases | 5 | 6 | — | — |
| Payments received on account | 3,711 | 3,555 | 5,072 | 4,711 |
| Other | 9 | 23 | — | — |
| | 3,819 | 3,588 | 5,072 | 4,711 |

a Loans

Maturity profile:

| | Group | | Parent | |
|---|------------|------------|------------|------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| In one year or less, or on demand | 71 | 54 | — | — |
| In more than two years but not more than five years | 94 | — | — | — |
| More than five years | — | 4 | — | — |
| | 165 | 58 | — | — |

Loans are secured by Parent company guarantees.

b Payments on account have been received from customers for the provision of services under long term contracts

Sales will be recognised, when the services are expected to be provided within periods from the balance sheet date of:

| | Group | | Parent | |
|--------------------------|--------------|--------------|--------------|--------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Within one year | 428 | 321 | 583 | 507 |
| Within two to five years | 2,211 | 1,134 | 2,191 | 1,791 |
| After five years | 1,500 | 2,421 | 2,881 | 2,920 |
| | 4,139 | 3,876 | 5,655 | 5,218 |

Notes on the accounts

18 Creditors: amounts falling due after more than one year continued

c Obligations under finance leases and hire purchase contracts

| | Group | | Parent | |
|--------------------------|------------|------------|------------|------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Amounts payable: | | | | |
| Within one year | 1 | 1 | — | — |
| Within two to five years | 4 | 3 | — | — |
| After five years | 1 | 3 | — | — |
| | 6 | 7 | — | — |

d Undrawn committed borrowing facilities

Expiring:

| | Group | | Parent | |
|---|------------|------------|------------|------------|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| In one year or less, or on demand | 1 | 13 | — | — |
| In more than one year but not more than two years | — | — | — | — |
| In more than two years but not more than five years | 65 | — | — | — |
| More than five years | — | — | — | — |
| | 66 | 13 | — | — |

19 Provisions for liabilities and charges

A summary of the provisions for liabilities and charges is as follows:

| | Decommissioning (note a) £m | Waste management (note a) £m | Reprocessing of fuel (note a) £m | Nuclear provisions (note a) £m | Deferred tax (note c) £m | Other provisions (note d) £m | Total £m |
|---|-----------------------------------|---------------------------------------|---|---|-----------------------------------|---------------------------------------|---------------|
| Group | | | | | | | |
| Balance at 1 April 1999 | 5,810 | 7,967 | 641 | 14,418 | 759 | 1,076 | 16,253 |
| Fair value adjustments (note 11a) | 6 | — | — | 6 | — | — | 6 |
| Exchange adjustment | — | — | — | — | — | 6 | 6 |
| Disposal of subsidiaries | — | — | — | — | (1) | — | (1) |
| Reclassifications | 163 | (268) | 135 | 30 | (3) | (31) | (4) |
| Adjustment arising from changes in price levels and reversal of one year's discounting: | | | | | | | |
| fixed assets | 50 | — | — | 50 | — | — | 50 |
| debtors | 4 | 133 | — | 137 | — | — | 137 |
| profit and loss account | 245 | 191 | 23 | 459 | — | 27 | 486 |
| Increase/(decrease) in the year: | | | | | | | |
| fixed assets | 1,436 | — | — | 1,436 | — | — | 1,436 |
| debtors | 275 | (37) | — | 238 | — | — | 238 |
| profit and loss account | (147) | (726) | 348 | (525) | (71) | 280 | (316) |
| Discharged in the year: | | | | | | | |
| fixed assets | (40) | — | — | (40) | — | — | (40) |
| debtors | — | (105) | — | (105) | — | — | (105) |
| profit and loss account | (36) | (193) | (89) | (318) | — | (290) | (608) |
| Balance at 31 March 2000 | 7,766 | 6,962 | 1,058 | 15,786 | 684 | 1,068 | 17,538 |

19 Provisions for liabilities and charges continued

| | Decommissioning (note a) £m | Waste management (note a) £m | Reprocessing of fuel (note a) £m | Nuclear provisions (note a) £m | Deferred tax (note c) £m | Other provisions (note d) £m | Total £m |
|--|-----------------------------------|---------------------------------------|---|---|-----------------------------------|---------------------------------------|---------------|
| Parent | | | | | | | |
| Balance at 1 April 1999 | 2,786 | 7,567 | 641 | 10,994 | 424 | 313 | 11,731 |
| Reclassifications | (1) | (105) | 135 | 29 | (6) | (29) | (6) |
| Adjustment arising from changes in price levels and reversal of one year's discounting | | | | | | | |
| fixed assets | 101 | – | – | 101 | – | – | 101 |
| debtors | 7 | 278 | 20 | 305 | – | – | 305 |
| profit and loss account | 37 | 26 | 3 | 66 | – | 7 | 73 |
| Increase/(decrease) in the year: | | | | | | | |
| fixed assets | 1,233 | – | – | 1,233 | – | – | 1,233 |
| debtors | 558 | (679) | 277 | 156 | – | – | 156 |
| profit and loss account | (42) | (78) | 71 | (49) | (70) | 177 | 58 |
| Discharged in the year: | | | | | | | |
| fixed assets | (39) | – | – | (39) | – | – | (39) |
| debtors | – | (245) | (67) | (312) | – | – | (312) |
| profit and loss account | (3) | (39) | (22) | (64) | – | (68) | (132) |
| Balance at 31 March 2000 | 4,637 | 6,725 | 1,058 | 12,420 | 348 | 400 | 13,168 |

a The Group has estimated the financial cost of meeting its obligations to decommission radioactive facilities and has provided for them. These obligations cover complete demolition of plants used for fuel manufacture and reprocessing operations and generating plant together with disposal of associated waste. In addition, provisions are made for the treatment, handling and disposal of waste products arising from reprocessing operations together with defuelling, reprocessing and waste management of used nuclear fuel from the Group's reactors. The bulk of these provisions relate to treatment plant and related facilities at Sellafield, where the complexity and number of plants is significantly greater than at the other locations for which the Group has site licence responsibility. For safety reasons associated with the rapid reduction in exposure risks that results from allowing the natural reduction in radioactivity that occurs with the passage of time, much of the dismantling and demolition work will not occur for a considerable time. In the same way, the costs of constructing long term storage for waste will not be incurred for a long time, and the accounting provisions for such costs must necessarily be based on estimates. A substantial amount of practical experience has already been gained in the management of waste materials however, and the estimates of the costs of handling such materials reflect the extensive knowledge of this activity that already exists. In all cases the estimates on which the provisions are based are themselves based on assumptions derived from detailed technical assessments of the processes and methods likely to be used to discharge the obligations. These assumptions reflect a combination of latest technical knowledge available and take account of significant revisions in the current year, the timescale involved before the work is carried out, the requirements of the existing regulatory regime and commercial agreements. The accounting provisions for each category of obligation are therefore sensitive to each of these four factors although, by the nature of the obligations involved, fundamental uncertainties remain regarding the measurement of the liabilities and the timing of the cash flows. The reader's attention is also drawn to the section of the annual report which provides further background on nuclear liabilities (pages 32 and 33).

The following table shows, for the Group, total future cash expenditure still to be incurred, both undiscounted at current prices and discounted at 2.5% per annum reflecting the company's estimate of the net risk-free return that should be achievable in the long term on funds set aside for this purpose, and the balance sheet provisions (split between amounts expected to be recovered from customers and amounts which are Group funded).

| | Total future cash expenditure | | Group funded future cash expenditure | | Balance sheet provisions | | |
|-------------------------|-------------------------------|------------------|--------------------------------------|------------------|---|--------------------|---------------|
| | Undiscounted £m | Discounted £m | Undiscounted £m | Discounted £m | Recoverable under commercial agreements (note 14) £m | Group funded £m | Total £m |
| Decommissioning | 19,640 | 7,930 | 15,183 | 5,917 | 1,929 | 5,837 | 7,766 |
| Waste management | 11,941 | 6,124 | 6,116 | 3,121 | 3,457 | 3,505 | 6,962 |
| Reprocessing of fuel | 2,661 | 1,944 | 1,865 | 1,345 | – | 1,058 | 1,058 |
| At 31 March 2000 | 34,242 | 15,998 | 23,164 | 10,383 | 5,386 | 10,400 | 15,786 |
| At 31 March 1999 | 27,131 | 14,281 | 19,355 | 9,850 | 4,573 | 9,845 | 14,418 |

Waste management and reprocessing provisions include the remaining depreciation on certain historic capital expenditure, which will be charged against income over the remaining operating life of those assets. Remaining depreciation, which does not represent a further cash outgoing and is therefore not included in the future cash expenditure figures above, amounts to £1,942 million of which £919 million is Group funded and £1,023 million is recoverable under commercial agreements. Provisions for reprocessing of fuel are built up in line with the future use of fuel in the Group's reactors.

Notes on the accounts

19 Provisions for liabilities and charges continued

The following table discloses the main components of the changes since 31 March 1999:

| | Total future cash expenditure | | Group funded future cash expenditure | | Balance sheet provisions | | |
|--|-------------------------------|------------------|--------------------------------------|------------------|---|-----------------------|---------------|
| | Undiscounted £m | Discounted £m | Undiscounted £m | Discounted £m | Recoverable under commercial agreements (note 14) £m | Group funded £m | Total £m |
| At 31 March 1999 | 27,131 | 14,281 | 19,355 | 9,850 | 4,573 | 9,845 | 14,418 |
| Changes in price levels and reversal of one year's discounting | 705 | 738 | 503 | 509 | 187 | 459 | 646 |
| Discharged in year | (623) | (623) | (386) | (386) | (144) | (319) | (463) |
| Increase for year's operation | — | — | — | — | 41 | 115 | 156 |
| | 27,213 | 14,396 | 19,472 | 9,973 | 4,657 | 10,100 | 14,757 |
| Other changes: | | | | | | | |
| Decommissioning | 5,515 | 1,778 | 3,550 | 947 | 806 | 925 | 1,731 |
| Waste management | 190 | (908) | (714) | (992) | (77) | (1,050) | (1,127) |
| Reprocessing of fuel | 1,324 | 732 | 856 | 455 | — | 425 | 425 |
| At 31 March 2000 | 34,242 | 15,998 | 23,164 | 10,383 | 5,386 | 10,400 | 15,786 |

Decommissioning liabilities have increased due to revised technical assessments of the costs associated with decommissioning the Group's fuel cycle plants on the Sellafield site, and an increase in the share of deep disposal costs relating to decommissioning reflecting an increase in waste volumes.

Total undiscounted waste management liabilities have increased due to the risk of a potential delay in the availability of a repository for disposal of nuclear waste. This has resulted in the Group making additional provision for potential costs of storage facilities during this period. In addition, waste management plant operating lives have been extended principally to support the extended period of Magnox reprocessing. On a discounted basis, these increases have been more than offset by the effect of discounting the expenditure over a longer period. The Group share of waste management liabilities has been similarly impacted and in addition, capital expenditure associated with waste plants has been reassessed with external customers funding a greater share of these liabilities.

Reprocessing liabilities have increased due to an extension of the operating period of the Group's reprocessing facilities at Sellafield in line with the planned closure programme for the Magnox nuclear power stations. In addition, the long term storage costs of products has been re-assessed.

The costs incurred in discharging the Group's nuclear liabilities extend to around the year 2150. Total costs to be incurred in the next ten years, amounting to approximately £7 billion on an undiscounted basis, are mainly associated with the construction and operation of waste management facilities, together with some reprocessing and decommissioning. During the period from year 11 to year 50, costs amounting to approximately £11 billion in total, are mainly associated with decommissioning the Group's nuclear facilities and with waste management activities including waste disposal. The remaining costs (approximately £16 billion) relate primarily to the final stages of decommissioning the Group's nuclear facilities, together with those associated with the construction and operation of a deep waste repository.

19 Provisions for liabilities and charges continued**b** The Group remains committed to ensuring that funds are available to meet long term nuclear liabilities

The funding position at 31 March 2000 is as follows:

| | £m |
|--|--------|
| Future discounted cash expenditure in respect of existing liabilities: | |
| Group | 10,383 |
| Less amounts in respect of future operations | (902) |
| | 9,481 |
| Funding of liabilities: | |
| Nuclear liabilities investment portfolio market value | 4,140 |
| Secretary of State's undertaking in relation to the liabilities of Magnox Electric plc | 4,222 |
| | 8,362 |
| Level of funding | 88% |

c Deferred tax has been provided in full as follows:

| | 2000 £m | 1999 £m |
|--|------------|------------|
| Capital allowances in advance of depreciation: | | |
| Parent company | 873 | 816 |
| Subsidiary undertakings | (13) | 2 |
| Group | 860 | 818 |
| Other timing differences: | | |
| Parent company | (500) | (372) |
| Subsidiary undertakings | 349 | 333 |
| Group | (151) | (39) |
| Recoverable advance corporation tax: | | |
| Parent company | (25) | (20) |
| Subsidiary undertakings | — | — |
| Group | (25) | (20) |
| Total: | | |
| Parent company | 348 | 424 |
| Subsidiary undertakings | 336 | 335 |
| Group | 684 | 759 |

Notes on the accounts

19 Provisions for liabilities and charges continued

d Other provisions can be analysed as follows:

| | Contract settlements £m | Other contract provisions £m | Restructuring costs £m | Warranty provisions £m | Other provisions £m | Total £m |
|--|----------------------------|---------------------------------|---------------------------|---------------------------|------------------------|--------------|
| Group | | | | | | |
| Balance at 1 April 1999 | 553 | 245 | 174 | 16 | 88 | 1,076 |
| Exchange adjustment | 6 | – | – | – | – | 6 |
| Adjustment arising from changes in price levels and reversal of one year's discounting | 15 | 6 | 6 | – | – | 27 |
| Reclassifications | – | (27) | (7) | 4 | (1) | (31) |
| Increase/(decrease) in the year: | | | | | | |
| Exceptional (note 1c) | – | 247 | – | – | – | 247 |
| Other | (14) | (25) | 43 | 14 | 15 | 33 |
| Expenditure in the year | (121) | (71) | (70) | (12) | (16) | (290) |
| Balance at 31 March 2000 | 439 | 375 | 146 | 22 | 86 | 1,068 |
| Parent | | | | | | |
| Balance at 1 April 1999 | – | 160 | 142 | – | 11 | 313 |
| Adjustment arising from changes in price levels and reversal of one year's discounting | – | 2 | 5 | – | – | 7 |
| Reclassifications | – | (30) | – | – | 1 | (29) |
| Increase/(decrease) in the year: | | | | | | |
| Exceptional | – | 153 | – | – | – | 153 |
| Other | – | (20) | 40 | – | 4 | 24 |
| Expenditure in the year | – | (14) | (53) | – | (1) | (68) |
| Balance at 31 March 2000 | – | 251 | 134 | – | 15 | 400 |

The Westinghouse Electric Company business has existing obligations in respect of steam generator supply contract settlements and uranium supply contract settlements of £439 million (1999: £553 million) which have been provided as shown above.

The provision for steam generator supply contracts relates to the settlement of various lawsuits brought by US utilities, claiming damages in connection with alleged tube degradation in steam generators sold as components of nuclear steam supply systems. The contracts require the provision of certain products and services at prices discounted at varying rates together with cash payments. Tolling agreements have been entered into with some parties who have asserted steam generator claims which delay initiation of any litigation for various specified periods of time and permit the parties to engage in settlement discussions. As at 31 March 2000, tolling agreements existed for two claims. Provisions have been made for the best estimate of costs to settle these matters. The liabilities are expected to be satisfied over the next sixteen years, with the majority of expenditures occurring over the next nine years. The provisions are therefore discounted. The provisions are sensitive to a number of factors including timing and amount of discounted products and services offered.

The provision for uranium supply contracts relates to the settlement of various contract suits which arose in the late 1970s. Settlements have been agreed whereby BNFL provide equipment and fuel supplies, of which eight remain open as at 31 March 2000. The supply of equipment is essentially complete and the fuel supplies extend through 2013.

Other contract provisions comprise loss making contracts and sundry contractual claims.

Restructuring costs comprise in the main of voluntary severance obligations. The amounts provided are based on best estimates of the severance costs of employees who have left or will leave under voluntary severance terms.

Other sundry cost provisions comprise insurance provisions of £31 million and various miscellaneous provisions of £55 million.

Insurance provisions are best estimates of existing self insurance liabilities for claims incurred but not reported and are calculated in accordance with established insurance industry practice.

20 Accruals and deferred income

| | Capital grants £m | Depreciation matching accrual (note a) £m | Capitalised decommissioning costs previously charged to profit (note b) £m | Total £m |
|---------------------------------|----------------------|--|---|-------------|
| Group | | | | |
| Balance at 1 April 1999 | 16 | 337 | 8 | 361 |
| Increase in year | – | 66 | 1 | 67 |
| Release in year | (2) | – | – | (2) |
| Balance at 31 March 2000 | 14 | 403 | 9 | 426 |
| Analysed as follows: | | | | |
| Amounts due within one year | 1 | – | – | 1 |
| Amounts due after one year | 13 | 403 | 9 | 425 |
| | 14 | 403 | 9 | 426 |
| Parent | | | | |
| Balance at 1 April 1999 | 16 | 337 | 6 | 359 |
| Increase in year | – | 66 | 2 | 68 |
| Release in year | (2) | – | (6) | (8) |
| Balance at 31 March 2000 | 14 | 403 | 2 | 419 |
| Analysed as follows: | | | | |
| Amounts due within one year | 1 | – | – | 1 |
| Amounts due after one year | 13 | 403 | 2 | 418 |
| | 14 | 403 | 2 | 419 |

a The Group has commercial arrangements in place for Thorp which recover capital costs of that plant under reprocessing contracts over a shorter period than the plant's potential economic life. In order to maintain a proper matching for accounting purposes of contract income and related costs, an accrual is made for future depreciation recovered over the contract period, which will be released over the remaining useful economic life of the plant once the related reprocessing contracts are complete.

b Under the Group's accounting policies there can be instances where plants are commissioned and some or all of the capitalised decommissioning costs have already been charged to profit within historic decommissioning provisions charges. Depreciating the cost of the asset itself and the cost of decommissioning it over its remaining useful economic life, as is required by accounting standards, would thus result in double charging. Where this is the case, therefore, a deferred income balance is recognised which is released to profit to offset the required accounting charge in respect of decommissioning the assets concerned, so as to avoid this duplication.

21 Called up share capital

| | 2000 £m | 1999 £m |
|---------------------------------------|------------|------------|
| Ordinary shares of £1 each authorised | 43 | 43 |
| Allotted, called up and fully paid | 33 | 33 |

Notes on the accounts

22 Derivatives and other financial instruments

As explained on page 47, the Group uses derivatives and other financial instruments in managing the risk associated with its business. The Group does not engage in speculative treasury arrangements, in that all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board. The following numerical analysis gives an indication of the significance of these instruments to the Group.

a Interest rate risk

The tables below summarise the interest rate profile of the Group's financial instruments (excluding short term debtors and creditors) after taking into account the effect of any interest rate or currency derivatives used to manage the risk associated with these instruments:

Financial assets

| | Floating rate £m | Fixed rate £m | No interest £m | Total £m | Fixed rate instruments | |
|--------------------------------------|---------------------|------------------|-------------------|--------------|---|---|
| | | | | | Weighted average interest rate % | Weighted average period to maturity Years |
| Currency: | | | | | | |
| Sterling | 4,772 | 1,178 | 123 | 6,073 | 5.9 | 3.5 |
| US Dollar | 598 | — | 11 | 609 | — | — |
| Total assets at 31 March 2000 | 5,370 | 1,178 | 134 | 6,682 | 5.9 | 3.5 |
| Sterling | 4,696 | 1,183 | 102 | 5,981 | 5.3 | 4.3 |
| US Dollar | 688 | — | — | 688 | — | — |
| Total assets at 31 March 1999 | 5,384 | 1,183 | 102 | 6,669 | 5.3 | 4.3 |

Analysed as follows:

| | 2000 £m | 1999 £m |
|--|--------------|------------|
| Nuclear liabilities investment portfolio | 3,887 | 3,890 |
| Current asset investments and short term deposits | 2,528 | 2,625 |
| Loans and advances to associated undertakings and joint ventures | 97 | 97 |
| Debtors due in more than one year | 46 | 46 |
| Other investments and cash | 124 | 11 |
| | 6,682 | 6,669 |

Financial liabilities

| | Floating £m | Fixed £m | Total £m | Fixed rate instruments | |
|---|----------------|-------------|-------------|---|---|
| | | | | Weighted average interest rate % | Weighted average period to maturity Years |
| Currency: | | | | | |
| Sterling | 19 | 2 | 21 | 8.0 | 3.6 |
| US Dollar | 165 | 4 | 169 | 8.5 | 49 |
| Total liabilities at 31 March 2000 | 184 | 6 | 190 | 8.3 | 33.9 |
| Sterling | 5 | 3 | 8 | 8.0 | 4.6 |
| US Dollar | 59 | 4 | 63 | 8.5 | 50 |
| Total liabilities at 31 March 1999 | 64 | 7 | 71 | 8.3 | 30.5 |

22 Derivatives and other financial instruments continued

a Interest rate risk continued

Financial liabilities continued

| | 2000 £m | 1999 £m |
|--|------------|------------|
| Analysed as follows: | | |
| Long term loans | 165 | 58 |
| Bank overdrafts | 19 | 3 |
| Amounts owed to associated undertakings and joint ventures | — | 3 |
| Obligations under finance leases | 6 | 7 |
| | 190 | 71 |

Included within financial assets bearing no interest are equity investments of £88 million (1999: £56 million) and debtors due in more than one year of £46 million (1999: £46 million). Debtors due in more than one year have a weighted average period to maturity of 2.6 years (1999: 2.8 years).

Floating rate assets and liabilities, which include bank loans and deposits, borrowings and index-linked bonds, have interest rates which vary in accordance with market rates over periods ranging from three days to a year. Coupons on the index-linked gilts are reset every six months in line with inflation.

The interest rate characteristics of the Secretary of State's undertaking are explained in note 13.

b Currency exposures

Set out below is an analysis of the Group's exposure to financial instruments denominated in currencies other than the operational currency of the individual business units. These currency exposures are disclosed after taking into account derivatives and other financial instruments entered into to manage the Group's exchange rate positions.

| | Net foreign currency monetary assets/(liabilities) | | |
|----------------------------------|--|-------------|-------------|
| | US Dollar £m | Other £m | Total £m |
| Functional currency of operation | | | |
| Sterling | 252 | (5) | 247 |
| US Dollar | — | 1 | 1 |
| At 31 March 2000 | 252 | (4) | 248 |
| Sterling | 86 | (1) | 85 |
| US Dollar | — | — | — |
| At 31 March 1999 | 86 | (1) | 85 |

Notes on the accounts

22 Derivatives and other financial instruments continued

c Fair value of derivatives and other financial instruments

Set out below is a comparison of the book values and fair values of the Group's derivatives and other financial instruments (excluding short term debtors and creditors). Fair values of derivatives and other financial instruments have been based on published market prices (for listed instruments) or estimates made from discounted cash flow analysis (for unlisted instruments). Certain other assets and liabilities held by the Group, most notably the Secretary of State's undertaking, have not been assigned a fair value as the instruments are not readily traded or because their book value approximates to their fair value.

| | Book values | | Fair values | |
|--|--------------|-------|--------------|------------------|
| | 2000 | 1999 | 2000 | 1999 Restated |
| | £m | £m | £m | £m |
| Assets: | | | | |
| Assets held in nuclear liabilities investment portfolio | 3,887 | 3,890 | 4,140 | 4,208 |
| Gilt investments | 362 | 571 | 393 | 615 |
| Managed investments | 1,228 | 1,158 | 1,230 | 1,172 |
| Short term deposits | 938 | 896 | 938 | 896 |
| Liabilities: | | | | |
| Short term borrowings and current portion of long term loans | 71 | 54 | 71 | 54 |
| Long term borrowings | 94 | 4 | 94 | 4 |
| Derivatives: | | | | |
| Forward foreign currency contracts | — | — | 8 | (7) |

d Hedges

Board policy is that all significant firm foreign exchange transaction exposures should be hedged. This is done by forward contracts or, where appropriate, by matching of receipts and payments in the same currency, or a combination of the two. Where their guidelines permit, the investment managers of the captive insurance companies may invest in non-sterling instruments. This is controlled by limiting the amount of such investments which may be left unhedged to a percentage of the total portfolio. However, at 31 March 2000, the captives held no significant unhedged exposures.

Foreign currency amounts outstanding at the balance sheet date are translated at the contracted rate where a hedge is in place to cover these exposures. At 31 March 2000, deferred gains on these hedges were £5 million (1999: loss of £6 million). These deferred gains are expected to be recognised within one year.

In addition, the Group had gains and losses on other foreign currency hedges as at 31 March 2000 of £4 million and £1 million respectively (1999: £2 million and £3 million respectively). The majority of these unrecognised gains and losses are expected to be recognised within one year.

e Commodity contracts

As explained on page 47, in order to mitigate the risks associated with fluctuating electricity pool prices, the Group has been able to enter into contracts for difference and electricity forward agreements. Use of these instruments is governed by the Group's hedging policies and procedures, which are regularly reviewed and approved. The policy is to use the instruments prudently to reduce, but not eliminate, exposures over the short to medium term. From time to time, the Group may make some future electricity purchases although these are within certain guidelines and do not result in any significant open positions. The Group estimates the fair value of these instruments at 31 March 2000 to be £7 million (1999: £26 million). This estimate is based on a comparison between the contracted price (specified at the date of the deal) and the forward price for a similar contract at the year-end (based upon available market data). The majority of these contracts will expire during the course of the next financial year.

23 Reserves

| | Group | | Parent | |
|--|----------------------|----------------------------------|----------------------|----------------------------------|
| | Other reserves £m | Profit and loss account £m | Other reserves £m | Profit and loss account £m |
| Balance at 1 April 1999 | 54 | 553 | 43 | 517 |
| Changes in accounting policies (note 25) | (54) | (10) | (43) | 2 |
| Balance at 1 April 1999 (restated) | — | 543 | — | 519 |
| Exchange differences | — | (4) | — | — |
| Loss for the year | — | (262) | — | (338) |
| Balance at 31 March 2000 | — | 277 | — | 181 |

A separate profit and loss account for the Parent company has not been published as allowed under section 230 of the Companies Act 1985.

24 Reconciliation of movements in shareholders' funds

| | Group | | Parent | |
|--------------------------------------|-------|----------------|--------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| | £m | Restated £m | £m | Restated £m |
| Profit/(loss) for the financial year | (262) | 132 | (338) | 22 |
| Dividends | — | (65) | — | (65) |
| Exchange gains/(losses) | (4) | 3 | — | — |
| | (266) | 70 | (338) | (43) |
| Opening shareholders' funds | 576 | 506 | 552 | 595 |
| Closing shareholders' funds | 310 | 576 | 214 | 552 |

Cumulative goodwill written off to reserves in respect of acquisitions before 1 April 1998 amounts to £119 million (1999: £119 million). This goodwill had been eliminated as a matter of accounting policy prior to the adoption of FRS 10 by the company, which requires goodwill acquired as the result of acquisitions to be capitalised on the balance sheet, and will be charged in the profit and loss account if and when the businesses to which it relates are disposed of.

25 Changes in accounting policies

The Group has changed its accounting policy with regard to the classification of investment income earned on contractual advance payments. The anticipated financing income on those payments in advance formed an integral part of the negotiation of commercial terms for those services. In order to reflect more fairly the nature of this income, it has been reclassified out of investment income into turnover, such that financing income is now being accounted for in the same way as the rest of the income received on these contracts. Financing income of £82 million (1999: £78 million) has been reclassified to turnover and hence operating profit as a result of this change, although there is no change in profit before taxation. Prior year comparatives in the profit and loss account and cash flow statement has been restated accordingly.

The Group has changed its accounting policy regarding the carrying value of managed fixed asset and current asset investments (excluding those held by insurance subsidiaries) from a market value based policy to a historic cost based policy. There is no current year impact on the profit and loss account arising from this change in policy (1999 reduction £10 million). The effect of this change on the balance sheet is as follows:

| | Group | | Parent | |
|--|-------|------|--------|------|
| | 2000 | 1999 | 2000 | 1999 |
| | £m | £m | £m | £m |
| Balance sheet | | | | |
| Decrease in fixed assets investments | (36) | (50) | (13) | (27) |
| Decrease in current asset investments | (4) | (14) | (4) | (14) |
| | (40) | (64) | (17) | (41) |
| Decrease in other reserves | (40) | (54) | (17) | (43) |
| Increase/(decrease) in profit and loss account reserve | — | (10) | — | 2 |
| | (40) | (64) | (17) | (41) |

26 Capital expenditure authorised

| | Group | | Parent | |
|-------------------------------------|-------|------|--------|------|
| | 2000 | 1999 | 2000 | 1999 |
| | £m | £m | £m | £m |
| Contracted for but not provided for | 41 | 61 | 31 | 45 |

Notes on the accounts

27 Pensions and other post-retirement benefits

a The majority of the employees of the Group are covered by four defined benefit (final salary) pension schemes. These are:

The Combined Pension Scheme of the United Kingdom Atomic Energy Authority
The BNFL Group Pension Scheme
The Westinghouse Electric Company Pension Plan
The Electricity Supply Pension Scheme

The Combined Pensions Scheme was set up with effect from 1 July 1997 as a result of merging the previous UKAEA Principal Non-Industrial Superannuation Scheme (PNISS) and the UKAEA Industrial Superannuation Scheme (ISS). The Group's contributions to pension schemes are as follows:

| | 2000 £m | 1999 £m |
|--|------------|------------|
| Combined Pension Scheme | — | — |
| BNFL Group Pension Scheme | 6 | 6 |
| Westinghouse Electric Company Pension Plan | 8 | — |
| Electricity Supply Pension Scheme | 8 | 11 |
| | 22 | 17 |

b For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. For the purpose of preparing scheme accounts, the surplus of the contributions over benefits paid are deemed to be invested in notional portfolios of investments and therefore the scheme is notionally funded. The most recent triennial actuarial valuation of the scheme took place as at 31 March 1997. The entry age method was used and the main long term assumptions made were as follows:

| | |
|---|----------------|
| Investment yield net of pay increase | 2.0% per annum |
| Investment yield net of price inflation | 3.5% per annum |

The results of the valuation were as follows:

| | |
|--------------------------------------|----------------|
| Market value of notional investments | £1,530 million |
| Level of funding | 132% |

The surplus will be eliminated by a contribution holiday from 1 April 1998 to 31 March 2013 (the average remaining service life of current members). Thereafter the contribution rate will revert to a regular rate of 12.4%.

c The BNFL Group Pension Scheme is a funded scheme. Contributions are paid into investment funds operated by the Clerical Medical Investment Group. The first triennial valuation of the scheme took place as at 31 March 1998. The projected unit credit method was used and the main long term assumptions made were as follows:

| | |
|----------------------------------|----------------|
| Investment return (past service) | 6.3% per annum |
| (future service) | 6.8% per annum |
| Salary increase | 4.2% per annum |
| Pensions increase | 2.7% per annum |

The results of the valuation were as follows:

| | |
|-------------------------------|-------------|
| Market value of scheme assets | £62 million |
| Level of funding | 105% |

The subsidiaries contribute to the scheme at rates recommended by the scheme's actuaries. These rates range from 7.5% to 9.0% depending on the subsidiary concerned.

27 Pensions and other post-retirement benefits continued

d The Electricity Supply Pension Scheme is a funded scheme. Magnox Electric plc employees are covered by the Magnox Electric Group of the scheme. The most recent triennial actuarial valuation of the scheme took place on 31 March 1998. The projected unit method was used and the main long term assumptions made were as follows:

| | |
|-------------------|-----------------|
| Investment return | 8.75% per annum |
| Salary increase | 6.0% per annum |
| Pensions increase | 4.5% per annum |

The results of the valuation were as follows:

| | |
|-------------------------------|----------------|
| Market value of scheme assets | £1,216 million |
| Level of funding | 109.5% |

The surplus will be utilised by:

- a reduction in the company contributions from the regular rate of 12% to 6% between 1 April 1999 and 31 March 2002, followed by a different reduction yet to be determined after 31 March 2002;
- deficiency costs for early pension payments for redundancies paid up to an agreed level;
- improvements in benefits for members from 1 April 1999; and
- an amount to be held in a general reserve as a contingency.

e Westinghouse Electric Company employees were provided certain pension and post-retirement benefits. The post-retirement benefits include medical, dental and life insurance benefits. As part of the acquisition of the Westinghouse Electric Company business, there is agreement to provide similar benefits, subject to the previous owner retaining pension liability related to accrued benefits in respect of employees and former employees for service prior to the completion date. Westinghouse Electric Company is therefore only liable for benefits accruing to employees after 22 March 1999. The first UK actuarial valuations of these plans will be carried out as at 31 March 2003.

28 Contingent liabilities

At 31 March 2000, the Parent company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the directors, no material losses are expected to arise. Details are:

a Guarantees, indemnities and charges have been given to banks and insurance companies in respect of credit and foreign exchange facilities of £407 million in respect of overseas group companies.

b Letters of support have been provided to certain subsidiaries, in particular Magnox Electric plc, in order for them to continue operating safely and to meet their liabilities as they fall due for the foreseeable future. The net liabilities of Magnox Electric plc, as disclosed in its accounts, amount to approximately £1.9 billion.

c The Group and its subsidiaries have entered into various guarantees in respect of contract performance, working capital facilities, technical services and plant maintenance, in the ordinary course of business.

d There is an agreement with a customer that, in the event of a contractual default by a subsidiary company, the customer may deduct amounts owed by that subsidiary from payments due to the Parent company, up to a maximum of £17.6 million.

In addition the following contingencies exist in relation to legal proceedings:

a During 1997, the Pensions Ombudsman ruled against The National Grid Company plc in relation to its use of surplus arising from the 1992 actuarial valuation of the Electricity Supply Pension Scheme (ESPS). National Grid appealed this ruling to the High Court. National Power plc also sought a declaration from the High Court that its use of the 1992 and 1995 valuation surpluses was lawful. In both cases, the High Court held that the use of surplus was lawful. Both cases have been taken to the Court of Appeal, which has found in favour of the appellants, but has also given companies leave to appeal to the House of Lords. A similar claim has been brought against Magnox Electric plc and the Trustees of the Magnox Electric Pension Group of the ESPS. Resolution of the case will depend in part on the final outcome of the National Grid and National Power cases. The maximum potential liability which could arise on Magnox Electric as a result of its use of the surplus is approximately £35 million plus accrued interest.

b On 21 March 1994, four residents of Dundalk, Ireland commenced proceedings in the High Court of Dublin against Ireland and the Attorney General and BNFL. The UK Secretary of State for the Environment was also served with the proceedings as a Notice Party. The first part of the plaintiffs' claim relates to regulatory matters, specifically to allegations that EEC Directives have not been fully complied with by BNFL. The second part is a tort claim in which damages are sought for alleged assault, nuisance, trespass, wrongful acts and unlawful interference with the plaintiffs constitutional right of bodily integrity, which it is claimed have arisen as a result of discharges from Sellafield. BNFL are committed to vigorously defend the action. It is thought unlikely that this matter will come to trial before 2001. As the proceedings are at an early stage, it is not practical to estimate the financial effects of the conduct of the case or its outcome.

Notes on the accounts

29 Consolidated cash flow statement

a Reconciliation of operating profit to net cash inflow from operating activities

| | 2000 £m | 1999 Restated £m |
|--|------------|------------------------|
| Operating (loss)/profit | (412) | 16 |
| Nuclear liabilities charged to operating costs | (525) | 118 |
| Nuclear liabilities discharged | (318) | (262) |
| Other provisions charged to operating costs | 280 | 135 |
| Other provisions discharged | (290) | (117) |
| (Profit)/loss on disposal of fixed assets | (1) | 2 |
| Depreciation/amortisation/impairment charges | 1,256 | 412 |
| (Increase) in debtors | (14) | (54) |
| Increase/(decrease) in creditors | 104 | 146 |
| (Increase) in stock and work in progress | (90) | (40) |
| Grants released | (2) | (4) |
| Increase in advance payments | 243 | 285 |
| Investment provisions | 14 | (23) |
| | 245 | 614 |

b Analysis of cash flows for headings netted in the cash flow statement

| | 2000 £m | 1999 Restated £m |
|--|--------------|------------------------|
| Dividends from joint ventures and associates: | | |
| Joint ventures | 2 | 2 |
| Associates | 7 | 7 |
| Net cash inflow from dividends from joint ventures and associates | 9 | 9 |
| Returns on investment and servicing of finance: | | |
| Interest received | 185 | 353 |
| Interest paid | (5) | (9) |
| Bank commissions | (3) | (2) |
| Net cash inflow for returns on investments and servicing of finance | 177 | 342 |
| Taxation: | | |
| UK corporation tax (paid)/received | (95) | 73 |
| Net cash (outflow)/inflow on taxation | (95) | 73 |
| Capital expenditure and financial investment: | | |
| Purchase of tangible fixed assets | (489) | (507) |
| Purchase of intangible fixed assets | (3) | – |
| Proceeds from disposal of tangible fixed assets – Exceptional (note 4) | 10 | 37 |
| – Other | 5 | 4 |
| Net outflow/(inflow) to nuclear liabilities investment portfolio | 83 | (2,424) |
| Net cash outflow for capital expenditure and financial investment | (394) | (2,890) |

29 Consolidated cash flow statement continued

b Analysis of cash flows for headings netted in the cash flow statement continued

| | 2000 £m | 1999 Restated £m |
|---|-------------|------------------------|
| Acquisitions and disposals: | | |
| Acquisitions of subsidiary undertakings | 15 | (23) |
| Net cash acquired with subsidiary undertakings | — | 31 |
| Acquisitions of joint ventures | — | (48) |
| New loans/advances to joint ventures | (7) | (22) |
| New loans/advances to associates | (3) | — |
| Loans repaid by joint ventures | 3 | 52 |
| Acquisitions of associates | (3) | (1) |
| Disposals of subsidiary undertakings | 9 | — |
| Net cash disposed of with subsidiary undertakings | (3) | — |
| Other investments | (10) | (3) |
| Net cash inflow/(outflow) for acquisitions and disposals | 1 | (14) |
| Equity dividends paid: | | |
| Dividends paid to shareholders | (49) | (49) |
| Net cash outflow on equity dividends | (49) | (49) |
| Management of liquid resources: | | |
| Net (investment)/realisation of short term deposits and current investments | (30) | 2,465 |
| Net cash inflow/(outflow) from management of liquid resources | (30) | 2,465 |
| Financing: | | |
| Repayment of loans and long term credit | (1) | (15) |
| New loans | 106 | 54 |
| Net cash inflow from financing | 105 | 39 |

c Analysis of changes in net funds

| | At 31 March 1999 Restated £m | Cash flow £m | Non-cash movements £m | At 31 March 2000 £m |
|-----------------------------|---------------------------------------|-----------------|-----------------------------|---------------------------|
| Cash at bank and in hand | 2 | 106 | — | 108 |
| Cash in short term deposits | 791 | (121) | — | 670 |
| Overdrafts | (3) | (16) | — | (19) |
| Loans due after one year | (4) | (89) | (1) | (94) |
| Loans due within one year | (54) | (17) | — | (71) |
| Finance leases | (7) | 1 | — | (6) |
| Current asset investments | 1,834 | 30 | (6) | 1,858 |
| | 2,559 | (106) | (7) | 2,446 |

Notes on the accounts

29 Consolidated cash flow statement continued

d Reconciliation of net cash flow to movement in net funds

| | 2000 £m | 1999 Restated £m |
|---|--------------|------------------------|
| Increase in cash in the year | (31) | 589 |
| Net funds/(debt) acquired with subsidiaries | — | (4) |
| Translation differences | (1) | (1) |
| Amortisation, indexation and revaluation of current asset investments | (6) | 46 |
| Cash flow from financing | (105) | (39) |
| Cash flow from management of liquid resources | 30 | (2,465) |
| Movement in net funds in the period | (113) | (1,874) |
| Opening net funds | 2,559 | 4,433 |
| Closing net funds | 2,446 | 2,559 |

30 Related party transactions

The following are considered to be related parties with whom transactions have taken place in the year:

- i) Undertakings under common control of the Government
 - The Ministry of Defence
 - The Atomic Energy Authority
- ii) Associated undertakings – the principal associated undertakings are listed on page 79.
- iii) Joint ventures – the principal joint ventures are listed on page 79.

The following table summarises the disclosures required by FRS 8 regarding related parties.

| | Turnover £m | Purchases £m | Amounts due from related parties at 31 March Trading £m | Amounts due to related parties at 31 March Trading £m |
|-----------------------------------|----------------|-----------------|---|---|
| 1999-2000 | | | | |
| Undertakings under common control | 118 | 15 | 119 | — |
| Joint ventures | 6 | 34 | 1 | — |
| Associated undertakings | 6 | 13 | 10 | — |
| 1998-1999 | | | | |
| Undertakings under common control | 107 | 13 | 53 | — |
| Joint ventures | 6 | 36 | 3 | 2 |
| Associated undertakings | 3 | 12 | 7 | 1 |

For further details regarding equity and loan transactions with associated undertakings and joint ventures refer to note 11.

Principal subsidiary and associated undertakings and joint ventures

(Subsidiary and associated undertakings and joint ventures whose results did not, in the opinion of the directors, materially affect the profit or the assets of the Group are not shown.)

Subsidiary undertakings

Magnox Electric plc

It is wholly owned by BNFL and its purpose is to generate and supply electricity.

Westinghouse Electric Company LLC

It is wholly owned by BNFL Nuclear Services Inc (BNSI) which in turn is wholly owned by BNFL USA Group Inc. Its purpose is to pursue business opportunities related to the commercial nuclear power industry. Its headquarters is The Energy Centre, Monroeville, Pennsylvania.

BNFL Inc

Incorporated in the United States of America. It is wholly owned by BNFL USA Group Inc and its purpose is to identify and pursue business opportunities in North America.

BNFL Engineering Limited

It is wholly owned by BNFL and its purpose is to provide worldwide engineering services.

BNFL Instruments Limited

It is wholly owned by BNFL and its purpose is to develop, manufacture and market advanced radiometric and related systems and services.

International Nuclear Fuels Limited (INFL)

It is wholly owned by BNFL and its purpose is to develop international business through collaboration.

INFL has a 62.5% shareholding in Pacific Nuclear Transport Limited, whose main purpose is the transport of spent fuel and associated services.

BNFL Uranium Asset Management Company Limited

It is wholly owned by INFL and its purpose is to provide uranium contract management services.

Direct Rail Services Limited

It is wholly owned by BNFL and its purpose is to provide rail transport services within the UK.

Deva Manufacturing Services Limited

It is wholly owned by BNFL and its purpose is to manufacture waste drums and associated equipment.

Hinton Insurance Limited

Incorporated in Guernsey. It is wholly owned by BNFL and its purpose is to act as an insurer for BNFL Group undertakings.

Rutherford Indemnity Limited

Incorporated in Guernsey. It is wholly owned by BNFL and its purpose is to underwrite BNFL Group undertakings' liability risks.

Electricity Producers Insurance Company Limited

Incorporated in the Isle of Man. It is wholly owned by Magnox Electric plc and its purpose is to act as an insurer.

Electricity Producers Insurance Company (Bermuda) Limited (formerly Nuclear Insurance Limited)

Incorporated in Bermuda. It is wholly owned by Magnox Electric plc and its purpose is to act as an insurer.

Joint ventures

Westinghouse Government Environmental Services Company LLC

Its purpose is to pursue non defence-related US Government and environmental business. Its headquarters is The Energy Centre, Monroeville, Pennsylvania.

BNSI holds a 40% membership interest. The remaining membership interest is held by Washington Group International Inc. BNSI has the right to nominate two directors and the concurrence of these directors is required for a number of strategic policy decisions.

Westinghouse Government Services Company LLC

Its purpose is to pursue business opportunities related to the defence programme of the US Department of Energy and the US Department of Defense. Its headquarters is The Energy Centre, Monroeville, Pennsylvania.

BNSI does not hold any legal membership interest but has been assigned a 40% economic interest by Washington Group International Inc. BNSI has the right to nominate one director and the concurrence of this director is required for a number of strategic policy decisions.

United Kingdom Nirex Limited

Its purpose is to provide disposal services for low- and intermediate-level waste.

BNFL holds 39.5% of the ordinary shares and Magnox Electric plc holds 35%. The remainder are held by other United Kingdom organisations. The Group does not exercise control as strategy decisions are subject to unanimous shareholders approval.

Fellside Heat and Power Limited

Its purpose is to produce electricity through combined heat and power.

BNFL holds 50% of the ordinary shares. The remainder are held by Scottish and Southern Energy plc.

Associated undertakings

Urenco Limited

Its main purpose is the supply of enriched uranium produced in enrichment plants using the centrifuge process. INFL holds one-third of the shares. The remainder are held by Dutch and German organisations.

Financial statistics

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|--|---------------|----------------|----------------|-------|-------|-------|
| | £m | Restated £m | Restated £m | £m | £m | £m |
| Assets employed | | | | | | |
| Fixed assets | 11,407 | 10,713 | 7,438 | 5,280 | 5,015 | 4,502 |
| Net current assets | 10,687 | 10,065 | 12,004 | 1,121 | 1,166 | 958 |
| | 22,094 | 20,778 | 19,442 | 6,401 | 6,181 | 5,460 |
| Financed by | | | | | | |
| Loans and advance payments | 3,819 | 3,588 | 3,330 | 3,902 | 3,848 | 3,428 |
| Provisions for liabilities and charges | 17,538 | 16,253 | 15,306 | 1,913 | 1,808 | 1,317 |
| Accruals and deferred income | 425 | 359 | 285 | 18 | 21 | 30 |
| Share capital | 33 | 33 | 33 | 33 | 33 | 33 |
| Profit and loss account and reserves | 277 | 543 | 486 | 534 | 470 | 651 |
| Shareholders' funds | 310 | 576 | 519 | 567 | 503 | 684 |
| Minority interests | 2 | 2 | 2 | 1 | 1 | 1 |
| | 22,094 | 20,778 | 19,442 | 6,401 | 6,181 | 5,460 |
| Turnover and profits | | | | | | |
| Turnover: | | | | | | |
| Home | 955 | 1,062 | 896 | 840 | 1,048 | 879 |
| Export | 1,109 | 503 | 445 | 422 | 501 | 425 |
| | 2,064 | 1,565 | 1,341 | 1,262 | 1,549 | 1,304 |
| (Loss)/profit before investment income, interest and taxation | (359) | 125 | 32 | 129 | 247 | 97 |
| Net financing income (expense) | 22 | 93 | 128 | 87 | 69 | (23) |
| (Loss)/profit on ordinary activities before taxation | (337) | 218 | 160 | 216 | 316 | 74 |
| (Loss)/profit for the financial year | (262) | 132 | 91 | 124 | (88) | 45 |
| Dividends | — | (65) | (53) | (46) | (93) | (45) |
| Retained (loss)/profit for the year | (262) | 67 | 38 | 78 | (181) | — |

Note:

The figures stated above have been taken from the published accounts for each year with the exception of the 1999 and 1998 figures which have been restated for the effects of accounting policy changes which were made during 2000 and 1999 respectively as a result of the adoption of revised accounting policies and the publication of new accounting standards.