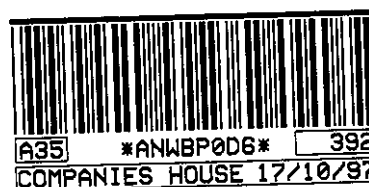


BRITISH NUCLEAR FUELS plc

ANNUAL REPORT AND ACCOUNTS

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ANNUAL REPORT AND ACCOUNTS 1996-97

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CHAIRMAN'S REVIEW

The last year has seen many considerable achievements for BNFL but it also marks the beginning of a challenging time for the company.

Let me start by looking at our financial performance. Turnover, this year, is down to £1262 million compared with the record £1549 million last year. The main reason for this reduction is the planned shutdown of our Magnox reprocessing plant at Sellafield so that it can be refurbished to continue operations well into the next century. This shutdown, coupled with a lower than expected delivery of Magnox fuel for reprocessing has severely reduced throughput from 1590 tonnes of fuel in 1995-96 to 601 tonnes this year.

With this temporary downturn in one of our core businesses, everybody in the company has been working hard to make up for the Magnox shortfall and the result is a creditable £216 million profit before tax and a total dividend of £46 million to our shareholder, the British Government.

Last year's profit and dividend figures were a record for BNFL and, when we announced them, I indicated that such record figures would not be sustained for this year. Nevertheless, an ongoing cost reduction programme coupled with a re-focusing of our business strategy has helped to mitigate some of the negative effects of the Magnox shutdown. In the years ahead, we shall be driving forward with this cost reduction programme in all areas of BNFL.

Cost reduction is only one of a number of avenues which we in BNFL will be pursuing in order to safeguard a profitable future. We must also continue to grow our business base both in the UK and overseas. The recent agreement worth up to £1.8 billion with one of our biggest customers, British Energy, illustrates what is possible when we work with and respond to our customers' needs. Growth opportunities overseas have also been realised during the year with our US subsidiary, BNFL Inc., more than doubling its order-book with major contract successes at Savannah River, Hanford, Rocky Flats and Oakridge. The subsidiary's order-book now stands at some \$2 billion. Our export earnings in 1996-97 were £422 million and we aim to double this figure in the years ahead.

In order to develop a clear strategy for future growth, the BNFL Board initiated a fundamental strategic review last Summer. The project, which we called 'Beyond 2000', is aimed at setting a clear context for future decision making throughout the company. Such clarity will be essential in the years ahead as we seek to be a leading supplier of nuclear services in our selected product and geographic areas.

To be a leading supplier means we must be world-class and cost effective in everything we do. To be successful in our selected markets means we must be targeted and prioritise so as to maximise our impact in those markets where we can best succeed. The 'Beyond 2000' strategy exercise has served to confirm that there is enormous potential within BNFL - the challenge in the years ahead will be to realise this potential.

Of course, an integral part of our business performance is, and must remain, our safety performance. It is therefore pleasing to see that we continue to make good progress in the areas of both conventional and radiological workforce safety.

But whilst we are successfully meeting the challenges posed on safety issues, we must also face the uncertainties raised by the previous Secretary of State for the Environment's decision to refuse UK Nirex planning permission for their proposed Rock Characterisation Laboratory near our Sellafield site.

In the light of this decision, intermediate-level waste could continue to be stored safely in a managed, monitored and retrievable fashion in surface stores at Sellafield until a final decision is made as to its disposal. However, a decision on the way forward will need to be taken by the Government. The issue of waste management requires careful consideration if public confidence is to be maintained.

Another milestone for the year was the signing, by BNFL and Magnox Electric, of a 'Memorandum of Understanding' (MoU). Signing the MoU has not settled the detailed terms of integration and there is much discussion still to be held to ensure that the terms under which BNFL would accept the Magnox stations do not compromise the success and future objectives of our existing business operations. Nevertheless, it represents a step forward in achieving our joint objective that the Magnox workhorses should operate for as long as it is safe and economic to do so.

The year has had many highlights, not least the fact that Thorp commissioning went to schedule with the plant meeting all of its targets for the year. Commissioning of the Sellafield Mixed Oxide Fuel Plant is scheduled to begin later this year. The year also saw the official opening of the Oxide Fuels Complex at Springfields and of our new Product Development Centre at Capenhurst. Significant progress continues to be made in cleaning up the historic legacy at our Sellafield site and our waste management techniques continue to lead the world.

All of these achievements, and many more besides, would not have been possible without our first-class workforce underpinned by our world-class technical know-how. It is the quality of our people, more than anything else, which convinces me that BNFL will be able to rise to the challenge of the future and continue to grow profitably in the years ahead.

John R S Guinness CB
Chairman

CHIEF EXECUTIVE'S REVIEW

Despite lower than expected receipts of Magnox fuel for reprocessing during the financial year, BNFL has met all of its financial targets.

The shortfall was largely made up by 'self help' in the form of cost reductions and the pursuit of new commercial opportunities. In the years ahead, more of this 'self help' will be essential as we move into a more competitive international trading environment.

I am reporting to you at the end of my first full year as Chief Executive. In that year, I have become convinced that we have the people, the assets and the know-how necessary for continued growth into a world-class company. The challenge in the years ahead will be to deliver that potential and build upon the achievements of the past year by growing our international business, particularly in North America and Asia.

Last summer, the management team in BNFL set itself five key change objectives for the years ahead:

- achieving world-class safety performance
- being customer driven in everything we do
- being an international cost efficient competitor
- having a flexible, empowered and accountable workforce
- having proactive systems in place to lead and motivate our people and to help them realise their full potential.

To help us achieve these five objectives we have set ourselves some stretching targets:

- to maintain a continuing downward trend in our employee accident rate which will be targeted year on year
- to achieve a measurable, 25 % improvement in our customer satisfaction levels
- to reduce our controllable costs by 25 % (£200 million) by 2000-2001.

Other targets in the areas of human resources, environmental care and international growth are currently being developed.

As we move forward to achieve our targets - it is essential that we have a clear strategic framework against which we can make the right decisions for the future. The 'Beyond 2000' strategy review, which the Board initiated last Summer, is designed to provide just such a framework. The full outcome from this review is expected later

this year, but the initial work indicates that there are some huge commercial prizes to be won, providing we are successful in achieving our change objectives.

But why the urgent need for change? This year's annual results serve to illustrate just how important the UK nuclear market is for BNFL. BNFL's biggest customers, British Energy and Magnox Electric, are operating in an increasingly competitive market as UK electricity prices continue to fall. Their cost pressures are our cost pressures. Furthermore, overseas electricity markets are also de-regulating, bringing the same cost pressures to bear on all of our customers.

For BNFL to grow profitably in these trading conditions, we have no alternative but to reduce our costs, whilst growing our existing business and developing new opportunities both in the UK and overseas.

It was against this background that we re-structured BNFL into four distinct Business Groups last Autumn:

Spent fuel management (Thorp): which includes oxide fuel reprocessing; our spent fuel and waste transport operations; our MOX fuel supply business and the interim storage of spent fuel.

Magnox: which encompasses Magnox reprocessing and electricity generation.

Fuel: encompassing the manufacture and transport of fresh fuel for the front end of the nuclear fuel cycle.

Waste management and decommissioning: which will focus on worldwide waste retrieval and decommissioning opportunities; the treatment and clean-up of Sellafield site effluents and the development of BNFL's engineering competencies.

The creation of these four business groups is designed to add clarity and focus to our operations as we move forward. To help us to achieve our five key change objectives, we have also created a number of functional groups whose responsibility it will be to drive for world-class performance across the business.

We now have a company structure in place and an evolving strategy designed to take us forward. We have also identified the objectives and the targets we need to meet in the medium-term. I am pleased to say that the achievements of the past year give me great encouragement that we can meet them. Let me give just a few examples:

During 1996 we bettered our lost-time accident rate target of 0.3 per 100,000 hours worked by achieving a figure of 0.29. Our target for 1997-98 is 0.2, this compares with a figure of 0.45 in 1995. In radiological safety, we maintained our world-class position, although two incidents at the beginning of 1997 served to remind us that constant care and attention is required at all times.

Major contract successes both in the UK and overseas demonstrated the potential to further grow our business by responding positively to our customers changing needs.

Cost reduction initiatives already underway have started to yield results. We will build upon these initiatives in the future and ensure activity across the company is coordinated at a rate and pace which is manageable as we continue to deliver our operational targets.

The development of more structured long-term relationships with our key suppliers is starting to yield significant savings, whilst enabling them to plan more long-term from a more secure financial base.

Finally, in moving forward we should not forget our responsibilities to our workforce and to the communities in which we operate. To succeed in the challenging market conditions ahead, we will need to work together through some difficult times. I and my executive team are committed to BNFL's profitable growth. We are equally committed to achieving this objective in partnership with our workforce, our customers, our suppliers and with the communities in which we operate. I am convinced that during the last year we have laid the foundations for us to achieve these goals.

John Taylor
Chief Executive

FINANCIAL REVIEW

Financial performance

Turnover is £1262 million (compared to £1549 million in 1995-96). The main reason for the reduction was the planned shutdown of Magnox reprocessing from December through year end for routine maintenance and connection of the refurbished south dissolver and plutonium evaporator. This shutdown, coupled with a significant reduction in deliveries from Magnox Electric, resulted in a 62% lower Magnox reprocessing throughput compared to last year.

Operating profits are £116 million (compared to £233 million in 1995-96), with the reduction again being due primarily to the lower Magnox reprocessing throughput.

Profit before tax is £216 million (compared to £316 million in 1995-96) and tax charges of £91 million have resulted in a profit after tax of £125 million (compared to a loss, after the exceptional deferred tax charge, of £88 million in 1995-96). The effective tax rate is 42%, after disallowance of certain payments and provisions.

Treasury activities

A portfolio of investments has been established to fund certain of the group's long-term nuclear liabilities. At the balance sheet date, the value of this long-term fund is £640 million and is included in fixed assets, reflecting its long-term nature. The group remains committed to ensuring that funds are available to meet its long-term liabilities.

The group's current asset investment portfolio has been expanded to include medium-term gilt investments intended to be held to redemption and short- and medium-term managed investments.

The group's strong cash flow, combined with the above changes in the investment portfolio have resulted in a 10% increase in investment income.

Dividends

An interim dividend of £15 million was paid in December. The Board proposes a final dividend of £31 million, making a total of £46 million for the year (compared to £93 million in 1995-96).

Cash flow

The group's net cash inflow from operating activities is £636 million (compared to £461 million in 1995-96). The increase is primarily as a result of the receipt of monies in settlement of customers' obligations for AGR (Advanced Gas-cooled Reactor) fuel plants decommissioning at Springfields and the fact that the 1995-96 cash flow was depressed by the purchase of uranium stocks from Scottish Nuclear.

The group's net cash inflow before use of liquid resources and financing is £96 million (compared to an outflow of £401 million in 1995-96). The increase is due to the increase in operating cash flows already noted, increased investment income and the fact that 1995-96 figures reflected the establishment of the nuclear liabilities investment portfolio.

Net cash outflows from management of liquid resources and financing of £8 million result in an increase in cash of £88 million in the year. Net funds have increased by £101 million to £1380 million.

Balance sheet

Tangible fixed assets have increased by £97 million, reflecting the group's continued investment in excess of depreciation. This expenditure mainly related to continuing our clean-up programme and the MOX plant at Sellafield. Fixed asset investments have increased from £676 million to £844 million due to the build up of the nuclear liabilities investment portfolio.

Working capital has decreased by £45 million, but this is after further cash invested in the nuclear liabilities investment portfolio of £161 million which is classified in fixed assets.

Long-term creditors and provisions have increased from £5677 million to £5833 million primarily as a result of increased long-term advance payments. The group now has only £6 million of long-term borrowings and long-term nuclear provisions have only increased by inflation and the reversal of one year of discounting.

Shareholders' funds have increased from £503 million to £567 million, a 13% increase. The return on average shareholder's funds is 23%.

Accounting policies

No accounting policy changes have been made and, with the exception of changes required as a result of FRS8 (related party transactions) and FRS1 revised (cash flow statement), the accounts are prepared on a consistent basis with the previous year.

Corporate governance

For the full year ended 31 March 1997, the company has complied with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

SPENT FUEL MANAGEMENT

Thorp Business Group provides a comprehensive range of spent fuel management services to domestic and overseas power utilities.

During the year, the group has made a major contribution to the company's drive to achieve world-class performance. Demanding targets have been achieved or exceeded in areas such as personal safety among the workforce.

Many operational and logistical challenges associated with plant commissioning have also been met and this has enabled Thorp's annual production programmes to be safely achieved. This accomplishment is a tribute to the many skilled and professional teams working within both the Thorp Business Group plants and the many key support facilities and associated services. The application for a licence for full operation was submitted to the Nuclear Installations Inspectorate at the end of 1996.

Following a period of uncertainty, the situation for existing reprocessing contracts in Germany has stabilised, with some prospects for additional business. In the UK, Thorp Business Group is playing a major role in developing our business relationship with British Energy.

The Sellafield Mixed Oxide (MOX) Fuel Plant, situated adjacent to the main Thorp complex, has had an equally successful year. The demanding schedule for the construction of the facility has required the highest level of commitment from everyone involved. This year has seen the completion of civil construction with all plant and equipment now being installed. As areas of the plant are completed, commissioning teams are beginning comprehensive and exhaustive test programmes.

In support of this major project, the MOX Demonstration Facility, also on the Sellafield site, continues to manufacture fuel to our customer's quality specifications. BNFL's MOX fuel continues to perform successfully in reactors in Germany and Switzerland. Customer interest in MOX fuel, to recycle the plutonium recovered in Thorp, continues to grow.

The transport of both spent nuclear fuel and the products of reprocessing is a key company activity where we have a worldwide reputation for quality of service. In March, the Pacific Teal safely arrived in Japan with a shipment of vitrified residue from France, again highlighting the company's competency in this area.

The range of services offered by the group continued to expand during the year, with the submission of a tender for the provision of interim storage facilities at the Chernobyl site in the Ukraine, while Direct Rail Services, our rail transport subsidiary, had the honour of providing the locomotives for the royal train during the visit of Her Majesty the Queen to North Wales in May.

MAGNOX

The Magnox Business Group, embodies Magnox reprocessing and electricity generation, comprising the operation of the Calder Hall and Chapelcross reactors. The Sellafield shared services business unit is also part of the group and provides essential services to the entire Sellafield site.

Magnox Reprocessing

Improvements in efficiency and productivity have contributed to a significant reduction in operating costs of around 10% for the financial year. This includes savings in both materials and workforce.

All customer requirements in terms of flask handling and fuel deliveries to Sellafield have been met and some 601 tonnes of Magnox fuel were reprocessed during the year. This was achieved against a background of lower than expected deliveries of fuel from customers and a planned shutdown for major refurbishment of the reprocessing plants.

The planned shutdown began in December and all major engineering milestones on key plant replacement had been achieved safely and to time.

These milestones included:

- remote cutting and welding of the highly radioactive raffinate line to the new south dissolver
- removal of redundant vessels and pipework from the plutonium evaporator cell
- removal of a reactor vessel in the uranium finishing plant.

In early February, an incident occurred which released contamination from the now redundant north dissolver which was being dismantled. This did not significantly delay engineering work and progress to date indicates that reprocessing will recommence within a few days of the original schedule.

Construction of the new plutonium oxide store has now been completed with handover for commissioning during 1997. This is well ahead of the requirement for the store to be operational.

Extension of the Advanced Gas-cooled Reactor (AGR) waste store has also been completed and the AGR dismantler has been in operation conditioning fuel for reprocessing by Thorp.

As part of the drive towards world-class safety standards, Magnox reprocessing has achieved a 50% reduction in lost-time accidents and a 30% reduction in all accidents compared to 1995.

Electricity generation

BNFL's two Magnox power stations continue their impressive operation and although output is slightly down on recent years, both stations again turned in world-class performances.

Chapelcross in Southern Scotland recorded the highest capacity factor of Magnox stations world wide in 1996 slightly in excess of 90%. Calder Hall, which celebrated its fortieth anniversary during the year, came in fourth with a factor of over 82%.

Throughout 1996-97, the two stations generated the equivalent of around 3060 gigawatt hours of electricity, which equates to more than 1% of the total electricity demand for England and Wales and is sufficient to meet the needs of the city of Manchester.

Recognition of the sound design, construction and safe operation of the stations came when the Nuclear Installations Inspectorate (NII) agreed to extend the operation of the stations for a further ten years up to a potential age of 50 years. This continued operation is conditional upon ongoing satisfactory results from the comprehensive programme of inspection and monitoring.

Fellside Heat and Power, the joint venture between BNFL and Scottish Hydro Electric, continues to successfully operate the 168 megawatt Combined Heat and Power Plant at Sellafield. The plant provides a proportion of the Sellafield electrical load, with the remainder of its output exported to the National Grid.

Shared Services

Sellafield shared services provides a comprehensive range of services to support operations across the Sellafield site. The emphasis has continued to be on improved value for money, whilst maintaining the highest standards of safety.

All cost reduction and efficiency targets have been met during the past year, and service provision continues to be more closely aligned with the requirements of the operational groups. This is being achieved by radical changes to working practices and by forging closer partnership links with external suppliers.

FUEL

Fuel Business Group has had another successful year with continuing improvements in efficiency and cost reduction.

Great emphasis has been placed on safety and there have been continuing reductions in worker radiation doses. Although our conventional safety record levelled out in 1996 compared to 1995, new efforts are now underway to make further improvements.

The business group has worked hard to build links both with our customers and with the local residents around our Springfields site near Preston in North West England.

During the year, the official opening of the Oxide Fuels Complex was carried out by the Rt. Hon. Ian Lang, former President of the Board of Trade. The ceremony was attended by many senior representatives from our customers. Commissioning of the Oxide Fuels Complex itself continues to make good progress.

A new Combined Heat and Power Station has now been successfully brought on line, reducing electricity and steam costs for the Springfields site, whilst reducing the environmental impact of our activities.

Line 4 Hex Plant, which was opened in 1995, has had an extremely good year and achieved its production design capacity, setting a production record at Springfields for a single plant.

We are also working closely with our major customers such as Magnox Electric and British Energy for the mutual benefit of all involved.

The training and development of all employees continues to be of great priority within the business group and further improvements in flexibility, efficiency and the effectiveness of the workforce have been achieved. Employee representatives and management are working together on a number of issues, including stress, equal opportunities and obtaining external business for our Skills Training Centre.

Fuel Business Group also encompasses the Uranium Asset Management organisation and the company's shareholdings in Urenco. Both of these organisations continue to do well.

WASTE MANAGEMENT AND DECOMMISSIONING

The Waste Management and Decommissioning Group are committed to providing customers with value for money world-class solutions and increased efforts have been made over the past year in improving our customer care and meeting their needs.

Established on 1st October 1996, the new business group covers a range of activities worldwide, including the characterisation, retrieval and treatment of waste and effluents; waste encapsulation and storage of high-level waste and intermediate-level waste and the disposal of low-level waste and metals recycling.

Establishment of the group enables the company to focus more clearly on our customers, on technology development and the coordination of key resources across our markets. An important step forward has been the establishment of the 'Customer Club' with UK liabilities customers. This has resulted in some significant changes in relationships and joint working.

Excellent progress has been made in the removal and treatment of wastes from redundant plants at Sellafield. Two compartments used to store pieces of Magnox fuel containment cans (swarf) for many years have now been emptied ahead of programme and the retrieved swarf safely encapsulated. Large volumes of sludge have also been retrieved from the original decanning plant.

A high priority is being placed on improving our effectiveness in existing areas of operation. Last year, worker radiation doses were reduced, together with discharges to the environment. Lost-time accidents, a key measure of safety performance, have been significantly reduced through a major programme involving all of the workforce. Our commitment to continuous improvement in all we do is a key factor in our success.

The treatment of current waste arisings and the accumulated historic backlog at the Sellafield site has been ongoing during the year and in excess of £500 million of expenditure is now approved.

In the Liquid Effluent Plants, the critical task of processing three tanks of historic waste was achieved ahead of programme.

The backlog of solid low-level waste accumulated at our low-level waste repository at Drigg is also being steadily reduced as material is returned to Sellafield and treated in the Waste Monitoring and Compaction Plant which began operation in 1994. Similarly, the first transfer of plutonium contaminated material from Drigg to Sellafield has taken place. This material has been stored for many years, pending the design and construction of a treatment process. Active commissioning of the new Waste Treatment Complex began at the start of 1997.

A plant intended to treat contaminated waste solvent is now also being commissioned in readiness to go active in 1998.

In total, the number of containers of intermediate-level waste processed to its final, encapsulated form now exceeds 13,000. The first Encapsulated Product Store will be full during 1998 and the second store is currently being commissioned.

Some 250 canisters of vitrified high-level waste were also produced during the year. This was sufficient to deal with the arisings of highly active material and to keep the liquid stocks within the anticipated range. Also, a project has been established to see if it is feasible to increase the capacity of the existing plants by about 100 containers per year.

Projects to deal with all of the waste retrieved from redundant plants now represent the largest capital investment programme in the company. The successes of these and other projects continue to demonstrate our world leadership in the field of decommissioning.

Decommissioning of the first cell in the Butex recovery plant has also been successfully completed and the Windscale Piles Chimney project has moved into the next significant phase with the removal of the filter gallery on the Pile 2 chimney.

At our Capenhurst site in Cheshire, the £100 million project to decommission old fuel enrichment plant, is nearing completion. This will lead to a further small reduction in the workforce, which currently stands at 280. This project has attracted major international interest.

The upgrade and refurbishment of uranium storage facilities at Capenhurst is also nearing completion, equipping the site to fulfil its storage role for many years to come.

Over the past year, the group has more than doubled its external clean-up business in the UK. Work to decommission a research reactor in the North East of England is on target for completion in January 1998 and, at Aldermaston, a number of projects to clean up facilities have been successfully completed. At Dounreay, we have won a contract to undertake optioneering work on waste retrieval and we are also assisting with work considering a replacement dissolver. We have also recently won a contract with Hunterston power station in Scotland for the decontamination and disposal of pond skips. All of this new business has been achieved in a highly competitive market.

A significant new business is being launched at Capenhurst - metals recycling. This involves the cleaning of remaining radioactive contamination from metals used in the nuclear industry so that they can be recycled. This is an environmentally and economically attractive alternative to land burial and is attracting considerable interest. The business is based upon skills and equipment first deployed in the site's diffusion plant decommissioning project, and will be enhanced with further investment of some £10 million in the years ahead.

Engineering

BNFL Engineering Ltd provides a full range of project management, engineering, safety and technical services to the BNFL group and to customers worldwide across the nuclear fuel cycle. BNFL Engineering Ltd has been trading for two years from its headquarters at Salford Quays in Manchester.

The main business drivers for Engineering are to :

- support BNFL's existing operations
- help in the development of new markets
- demonstrate value for money
- win profitable business.

The past year has seen the completion, to time and cost, of several major capital projects at Sellafield, including the second Encapsulated Product Store, the Solvent Treatment Plant, the Water Treatment Plant and also the Product Development Centre at Capenhurst. Contributions have also been made to support the successful operation of Thorp and to other BNFL capital projects.

Major capital projects currently under construction at Sellafield are the third operating line for the Vitrification Plant, a Silo Emptying Plant for the recovery of intermediate-level waste from concrete silos, the Drypac Plant for conditioning the waste retrieved by the Silo Emptying Plant and the Mixed Oxide (MOX) Fuel Plant, for the manufacture of MOX fuel.

Construction of the BNFL Technology Centre, which will provide the company with 'state-of-the-art' research and development facilities commenced in May 1997.

A major focus for BNFL Engineering Ltd is to develop a significant income stream by winning non-BNFL business. The Company has supported BNFL Inc. in winning US Department of Energy contracts at Idaho, Rocky Flats and Hanford; and the Fuel Business Group in securing an order for the design and supply of equipment for uranium powder production in Japan.

On the home front, a major contract has been secured at the Devonport Royal Dockyard for design and safety analysis work associated with the naval submarine refit programme. The safety and technical skills of BNFL have also led to international recognition and a number of contracts in Central and Eastern Europe funded by the European Commission. Success in these external markets is reflected in a growing order-book with new orders in 1996 and 1997 exceeding £30 million.

BNFL Engineering Ltd places the highest importance on quality, safety, health and environmental matters and has Lloyds Register Quality Assurance Ltd certification in:

- Quality Management System Standards (BS EN ISO 9001: 1994 and BS 5882: 1996).
- Environmental Management System Standards (BS EN ISO 14001: 1996).

Engineering contributes to BNFL's goal of world-class safety performance by considering safety and environmental impact throughout the design, construction, operation and decommissioning of nuclear plants. This commitment to safety management has been recognised with an award from the National Joint Council for the Engineering Construction Industry for over two million hours without a reportable accident. The company received four RoSPA gold awards and one silver award for safety performance in managing construction projects at Sellafield.

BNFL Instruments Ltd

Building on the success of early operations, BNFL Instruments Ltd has concentrated on providing an expanded range of radiometric products and services to the nuclear industry worldwide. At the heart of this drive has been a vigorous new product development programme.

Success has been achieved with three existing products:

- the Spent Fuel Monitor for the characterisation of spent fuels - already in demand by US utilities, providing a unique capability to achieve cost savings,
- the DISPIM system for monitoring plutonium during plant decommissioning - successful in the UK and continental Europe and now on full-scale demonstration with the US Department of Energy,
- the innovative RadScan 600 automated radiation mapping system - sales in Europe and service contracts in the US have already been won.

Quality is critical in underpinning BNFL Instruments' drive into the external market - the company is certified to ISO 9001 and is aiming to achieve the Investors In People standard in 1997.

BNFL INC.

BNFL Inc.'s order-book now stands at some \$2 billion. 1996 was BNFL Inc.'s most successful year to date for winning contracts in the United States.

During the year, it more than doubled its total order-book with major contracts won in US Government waste management privatisation initiatives.

BNFL Inc. continues to grow at a rapid pace and, for the fifth year in a row, the company exceeded its previous year's total revenue by over one-third. Operating revenues in 1996 totalled \$36.6 million and profit before interest and tax exceeded target.

BNFL Inc. won its second Department of Energy (DoE) site operations contract as the Solid Waste Management Contractor of the Westinghouse team for the Savannah River Site in Aiken, South Carolina. This management and operating contract is worth around \$600 million over five years.

Continuing with its strategy of investing in the areas of clean-up and decontamination in the USA, BNFL Inc. targeted DoE privatisation contracts as a significant future growth area. In this regard, the company pursued and won the two largest privatisation contracts released by the DoE.

The first, the Tank Waste Remediation System project at Hanford in Washington State, is estimated to be worth between three and four billion dollars if fully implemented. The contract covers the design, licensing, construction, operation and eventual decommissioning of a vitrification facility to create and stabilise at least one to two million gallons of the 55 million gallons of high-level waste stored in 177 tanks at Hanford. Successful completion of this phase would virtually assure follow-on work to process the remaining waste.

The second, the Advanced Mixed Waste Treatment project in Idaho covers the design, licencing, construction, operation and eventual decommissioning of a facility to treat and package at least 65,000 cubic metres of plutonium contaminated and alpha mixed waste for final disposal at the Waste Isolation Pilot Plant in New Mexico. The contract value of over one billion dollars includes an option for treating an additional 120,000 cubic metres of waste.

BNFL Inc. also won a \$53 million contract to design and install plutonium stabilisation and packaging systems for the US DoE at the Rocky Flats, Hanford and Savannah River sites. In addition, BNFL-designed containers would become the DoE standard for plutonium packaging.

BNFL Inc. and a consortium of partners are leading negotiations to decontaminate and decommission three buildings in the K-25 Gaseous Diffusion Plant at Oak Ridge, Tennessee. These three buildings comprise around 40% of the entire plant and will result in the first real clean-up of facilities at the former weapons material site.

BUSINESS, TECHNOLOGY, PEOPLE & THE COMMUNITY

Commercial

The commercial development of BNFL has been pursued vigorously throughout the year with substantial success. Further new business amounting to some £3 billion has been won in both the UK and overseas. In addition to winning new business for the group, a major effort throughout the year has been to improve BNFL's marketplace performance, especially with respect to present and future customers. A new 'Customer First' initiative, designed to raise levels of customer service and awareness across the group, has played a significant role in this.

The development of a more constructive working relationship with British Energy has been a milestone in improving customer service. It has helped the agreement of terms and conditions for a further contract for nuclear services worth up to £1.8 billion which was signed in early June 1997. We anticipate that there will be significant further benefits from the partnership and other Customer First activities both in the UK and overseas.

Elsewhere, BNFL's commercial activity has been successful with multi-million pound contracts won in Japan, Germany and Switzerland, as well as in the United States through our American subsidiary, BNFL Inc. BNFL is now the 41st largest UK exporter in the FT Exporters' League Table.

As well as winning business for today, we are also concerned with building an infrastructure to win significant further business into the future.

With this objective in mind, the company's overseas offices have also been increased. BNFL SA in Paris and BNFL Deutschland in Frankfurt have started operations, and new resources are being focused on Russia and the Ukraine. Our Japanese, Chinese and Korean offices are continuing to build closer relationships with key Asian customers.

In China, good progress has been made on two pre-feasibility studies and research and development (R&D) collaboration. In Korea, some small orders have been won and R&D collaboration is developing. In Japan, opportunities for further reprocessing and MOX business are being explored.

In Russia and the Ukraine, BNFL is positioning itself for major clean-up work. Both Chernobyl and the Kola Peninsular in North West Russia present major technical challenges and BNFL is a member of major international consortium for each opportunity. For the Kola Peninsula work it is partnering with Norwegian, Swedish and French companies to help recover spent submarine fuel and related waste. BNFL has played a key role in identifying funding routes for this important environmental work.

Research and Technology

During the financial year, BNFL spent some £76 million on research and technology - ensuring that the company retains its international lead in key technologies and processes.

Research and Technology aims to provide a high-quality service to the business groups. To achieve this, several initiatives have begun during the year.

These include:

- the re-organisation of the company technology base to enable greater flexibility
- benchmarking of our innovation process and portfolio management, resulting in a more effective system for managing technical project development within the company
- continued investment in infrastructure, with the completion of the Springfields Development Centre, the opening of the Product Development Centre at Capenhurst and the construction of the new Technology Centre at Sellafield.

Key achievements over the past year:

- the Research and Technology function has provided major support to the Oxide Fuels Complex, the MOX Demonstration Facility and the Sellafield MOX Plant
- at Springfields, support to the Line 3 Hex Plant and the fuel production plants has been provided, whilst at Capenhurst, research and technology is supporting the growing aluminium recycling business
- at Sellafield, technical assistance has been provided to the commissioning of analytical instruments in Thorp and the Vitrification Plant. There have also been key developments in dealing with site wastes, contributions to major safety reviews and assistance in the safety cases for reactor life extensions at Calder Hall and Chapelcross
- research and technology have successfully sponsored the development of safety analysis techniques which incorporate the latest requirements of the Health and Safety Executive. These are now being tested within the company and some may be adopted as 'best practice' by the rest of the nuclear industry.

New technology evaluation and development has continued to ensure that BNFL retains its technological edge into the future. Successes have been in the fields of biotechnology, supercritical fluids, micro chemical engineering, membrane separations and uranium catalysis, all of which are now being evaluated for commercialisation. Examples of new product development include the BNFL Heavy Duty Manipulator and Critical Incident Detector Systems.

BNFL has continued to develop its international research and technology links by building on earlier successes and recognising the need to collaborate globally to achieve advances in fuel cycle technologies. For example:

- in Korea, a broad-ranging collaboration agreement was signed with the Korean Atomic Energy Research Institute, covering the long-term development of all aspects of the nuclear fuel cycle. This includes the potential use of recycled uranium in Korean CANDU reactors. A similar agreement has been signed with the Canadian research organisation, Atomic Energy of Canada Limited
- in Europe, eight out of ten applications for European funding have been successful, extending the number of nuclear-related projects in which BNFL participates to 15.

Human Resources

The year saw the establishment of the Group Human Resource Change Management Function which is responsible for transforming our behaviour and performance through developing and implementing new processes and programmes. These will create a culture of an empowered flexible workforce, capable of taking on the challenges facing the company as it moves towards the year 2000 and beyond.

Corporate Community Involvement

BNFL continues to forge business, educational and social links with local communities. As well as providing support to the economies of North West England and the Scottish Border regions through direct employment, the company also invests in a range of community initiatives involving economic regeneration, education, academia, charitable support and sponsorship.

BNFL Enterprise Ltd contributes to regional economic development by making equity investments in small, technology-based companies and using the returns to help finance future activity.

Sound Alert Limited, a BNFL Enterprise portfolio company has recently won the coveted 1997 Prince of Wales Award for Innovation. Sound Alert was the first to benefit from an injection of £386,000 of European Regional Development Fund money which contributed to the business development fund set up by BNFL.

The entrepreneurial spirit in BNFL is being encouraged by extending the 'New Horizons' scheme to all sites. The scheme, operated jointly with management and trade unions, offers staff leaving the Company the opportunity to start their own business by providing loans and support services.

During the year the company announced a package of up to £16 million over the next five years to support West Cumbrian economic regeneration initiatives. This major contribution will build upon previous support aimed at diversifying the economic base in West Cumbria.

contribution will build upon previous support aimed at diversifying the economic base in West Cumbria.

In all of its community initiatives, BNFL looks to complement the activities of others, and work in partnership with them to support our local communities. To this end BNFL is a keen supporter of 'Business in the Community' which encourages business to support worthy causes.

Some examples of the community activities supported by BNFL over the last year include:

- an educational environmental hide at Pennington Flash, Wigan
- Henshaw's Society for the Blind
- the High Sheriff of Cumbria's 'crime beat' programme
- the Keppleway Project - an activity centre pioneering new ways of bringing disabled and able people together
- the National Playing Fields Association aimed at encouraging pupils to participate in physical education.

As a high technology company, BNFL supports the teaching of science in schools by providing educational packs on various scientific topics. Also, in response to concerns about the falling number of students pursuing science and technology, BNFL sponsored an event held at Manchester University where more than 280 young women were given the opportunity to learn about science and physics and how it fits into the modern business world.

BNFL also aims to increase the involvement of its own employees in community projects and initiatives such as the Prince's Youth Business Trust and the Prince's Youth Volunteers continue to be well supported.

SAFETY, HEALTH AND ENVIRONMENT

World-class safety and environmental performance is our goal

Overall, 1996 was an excellent year for BNFL's Safety, Health and Environmental (SHE) performance, although a number of minor incidents served to underline that there is always room for further improvement in this crucial aspect of the company's operations.

BNFL is committed to achieving world-class levels in safety, health and environmental performance. This is a key goal following a top-level review of how SHE is managed in the company.

Reducing injuries in the work place is a vital part of BNFL's commitment to achieving this goal. During 1996 the company was able to meet its lost-time accident rate target of 0.3 per 100,000 hours worked by achieving a figure of 0.29. This compares with a figure of 0.45 for 1995. In 1997-98 we are targeting a figure of 0.2.

A number of behavioural safety programmes, involving the workforce at all levels, have also been introduced across the sites. New approaches to creating a 'safety culture' are now paying dividends with a measurable improvement in the company's performance. Achievements worth noting were Sellafield construction site's two million hours without a reportable injury, whilst, prior to restructuring, UK Group at Sellafield achieved the one million hour mark, and Low Active Effluent Group recorded a full year without a lost-time accident. For all of its activities during 1996 the company received a total of 5 RoSPA gold awards and 2 silver awards.

Control of radiation exposure to the workforce continued to improve during 1996. The number of BNFL radiation workers at the higher dose levels decreased significantly compared to 1995. At the same time, the additional average radiation dose received by BNFL radiation workers was once again well below the average exposure that UK residents receive from natural background radiation.

During the year, ways of approaching stress issues amongst the workforce were examined in order to develop policy in this important area. Using the guidance provided in the Management of Health and Safety at Work Regulations, the company has developed a broad policy approach incorporating anticipation, planning and reporting activities.

The principles of this approach have been supported by the BNFL Board. Discussions are now under way with the workforce to turn these principles into practice.

In March 1996, the Committee on the Medical Aspects of Radiation in the Environment (COMARE), the Government's independent advisers, published their fourth report reviewing the possible causes of childhood cancer and leukaemia in Seascale, a village near Sellafield.

The report suggests that environmental or occupational radiation exposure from Sellafield was very unlikely to be the cause of the excess of leukaemia and non-Hodgkins lymphoma in young people in the Seascale vicinity. Scientific opinion now seems to be firmly moving towards infection or population mixing theories to better explain a wider range of UK and overseas leukaemia clusters/distributions.

The company's 1996 Environmental Annual Report contains a wide range of information on chemical and radiological discharges and has once again been verified by an independent team of experts. A second annual report, entitled 'Radioactive Discharges and Monitoring of the Environment', will be published later this year. This report gives a more detailed insight into the company's radiological discharges.

Gaseous and liquid radioactive discharges from BNFL's operating sites continued to be well within authorised limits. Even for the most exposed members of the public living near to our Sellafield site, the radiation dose they could receive due to discharges from the sites during 1996 was at very low levels - equivalent to the enhanced level of radiation dose received from cosmic radiation at high altitude when taking a return flight from London to the Far East.

During 1996, excellent progress was made towards developing and implementing environmental management systems within the company. During 1996, several areas in the company received certification to BS7750 or its international successor, ISO14001. Other areas are expected to follow this year.

The company Environmental Council brings together key BNFL people and eminent individuals from outside the company in order to provide an authoritative and independent overview of the company's approach to environmental protection. During the year the Council met at Chapelcross and Springfields. At Chapelcross, it reviewed BS7750 experience and the company approach to energy and water management; whilst at Springfields the Council reviewed the company's safety, health and environmental performance.

Report of the Directors

For the year ended 31 March 1997

1. The Directors of British Nuclear Fuels plc have pleasure in submitting to the shareholders their twenty-sixth Annual Report together with the audited accounts for the year ended 31 March 1997.

Review of the year

2. Group results

Information on the Group's results is contained in the Financial review on pages 6 and 7

3. Dividend

The Directors recommend that a final dividend of £31M should be paid making a total of £46M for the year.

4. Post balance sheet events

On 24 April 1997 a Memorandum of Understanding relating to the proposed integration of BNFL and Magnox Electric plc was signed. BNFL and the Government are in the early stages of discussing the financial terms appropriate for integration. If the Magnox Electric integration proceeds, it is expected that the first step towards full integration would be for Magnox to become a wholly owned subsidiary of BNFL by 1 October 1997. Given that the financial terms are still under negotiation, the Directors are not in a position to be able to estimate the financial effect of the integration.

5. Finance

a. Group capital expenditure of £372M (parent £365M) has been incurred during the year, mainly on the continued upgrading of reprocessing, waste management and service facilities at Sellafield and fuel manufacturing plants at Springfields.

b. In the course of the year, the Group's new finance requirements were principally met by internally generated funds and advance payments from customers. A total of £112M of long-term loans were repaid.

6. Activities

There were no significant changes in the main activities of the Group, which are:

a. Nuclear fuel services

The conversion of uranium; the manufacture and supply of uranium and plutonium based fuels and the provision of related fuel cycle services for nuclear power stations; and the reprocessing of nuclear fuel after use and associated waste treatment and storage.

b. Electricity generation

The supply of electricity from the Calder Hall and Chapelcross nuclear power stations.

c. Other activities

These include research, development and the design and construction of plant and equipment associated with the Group's activities.

Information on the activities and developments of the business of the Group during the year is contained in the Operational Review on pages 8 to 22.

7. Research and development

The Group has a significant research and development programme and this will continue. During the year, expenditure amounted to some £76M (1996 £72M) which includes expenditure of £50M (1996 £44M) not specifically recoverable directly from customers and as such charged against profits. The principal areas are referred to in the Operational Review on pages 18 and 19.

8. Decommissioning

The general features of the Company's approach to the decommissioning of its radioactive facilities are as follows:

a. The Company operates nuclear reactors and fuel cycle plants which, by the nature of the process involved, become radioactive during their life. When the plants come to the end of their useful life it is the Company's policy to carry out their decommissioning in a manner that provides for the protection of the health and safety of the workforce, the public and the environment.

b. The principal stages of decommissioning involve the decontamination and dismantling of plant and equipment and the demolition of buildings.

The initial stage of decommissioning commences as soon as reasonably practicable after the end of the plant's useful life. This involves the decontamination of the plant and the immobilisation of residual radioactivity so that safety is subsequently maintained by surveillance and maintenance.

The subsequent stages are undertaken on a timescale which takes into account inter alia the effective utilisation of waste treatment facilities, manpower and equipment resources and the possible re-use of buildings and structures.

c. All decommissioning activities conform to the Company's health, safety and environmental protection policies and requirements; disposals of the resulting radioactive waste conform with the regulations laid down by the appropriate authorities.

This approach has been reviewed during the year and reaffirmed.

9. Personnel

The average number of persons employed by the Group during the year was 12977 (1996 13451). Further information is given in the Notes on the Accounts on page 43.

The Company places considerable value on the involvement of its employees 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.

10. The Board of Directors

The names of the Directors of the Company during the year were, Mr J R S Guinness, Mr L N Chamberlain, Mr J J Taylor, Mr G L Watts, Mr R A N Chiese, Mr G R Smith (appointed 28 November 1996) Dr G G Butler (resigned 31 December 1996), Mr K G Jackson (resigned 31 December 1996), Sir Norman Wooding, Mr D J S Roques, Miss K M H Mortimer, Mr R R Knowland (resigned 31 March 1997), Prof A G J MacFarlane and Lady Shuttleworth.

The Secretary of State for Trade and Industry is considered to be a Shadow Director of the Company within the meaning of Section 741, Companies Act 1985.

11. Directors' shareholdings and interests

No 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.

12. Contributions for political or charitable purposes

No contributions were made for political purposes. Charitable contributions during the year amounted to £2.4M (1996 £2.1M).

13. Policy on the payment of suppliers

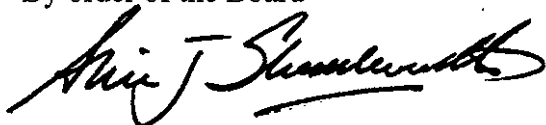
It is the policy of the Company to pay suppliers' invoices promptly in accordance with the contract and to abide by the Prompt Payers Code of Practice drawn up by the CBI. Further information and copies of the Code can be obtained from the Head of Corporate Purchasing, Sellafield, Seascale, Cumbria CA20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

The Company's commitment to the Prompt Payment Initiative was reaffirmed during the year with close attention being paid to improvement measures and rigorous monitoring of payment performance. Net Monthly Account payment is the Company standard, except where otherwise agreed, with over seventy five percent of Net Monthly Account invoices being paid on time during the financial year. Efforts continue to improve payment processes and procedures with the intent of achieving as close to one hundred percent on time payment as is practicable. The Company's number of days creditors at 31 March 1997 was 43.3 days.

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 handwritten signature in black ink, appearing to read 'A J Shuttleworth', with a stylized flourish at the end.

A J Shuttleworth, Secretary
26 June 1997

Corporate Governance

Statement of compliance

For the full year ended 31 March 1997 the Company has complied with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

Internal financial control

The Directors are responsible for ensuring that the Company 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. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described under the following headings:

- ***Control environment***

There is a clearly defined organisational structure within which individual 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 Company 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 Company'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 reforecasts for the year.

- ***Main control procedures***

The Company has identified a number of key 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.

- ***Monitoring***

The Company has an established internal audit function which 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 summaries are provided to the Audit Committee, which meets twice a year.

The Board through the Audit Committee reviews the operation and effectiveness of this framework on a regular basis. Having reviewed its effectiveness, the Directors are not aware of any significant weakness or deficiency in the Group's system of internal financial control during the period covered by this Report and Accounts.

Going concern

The Directors also report that in connection with paragraph 4.6 of the Code, after making enquiries, they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Report by the Auditors

To British Nuclear Fuels plc on corporate governance matters

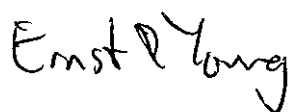
In addition to our audit of the accounts we have reviewed the directors' statement on pages 27 and 28 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice recommended for our review by the Cadbury Committee. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with guidance issued by the Auditing Practices Board, and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 27 and 28 other than the opinion on effectiveness, which is outside the scope of our report, and going concern on page 28, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on pages 27 and 28 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.



Ernst & Young
Chartered Accountants
London

26 June 1997

Report of the Remuneration Committee

Compliance

The Board of the Company has adopted a voluntary compliance stance in respect of the Code of Best Practice ('the Code') contained in the Report of the Study Group on Directors' Remuneration. The Remuneration Committee ('the Committee') therefore seeks to comply with the principles set out in the Code.

Composition of the Committee

The Committee consists exclusively of Non-Executive Directors with no personal interests in the matters to be decided.

The members of the Committee are:

Sir Norman Wooding (Chairman)
Mr D J S Roques
Mr R R Knowland (resigned 31 March 1997)
Prof A G J MacFarlane (appointed 26 June 1997)

Policy on Remuneration of Directors

The Committee 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 shareholder.

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
- 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 shareholder whose decision is final.

The remuneration of Non-Executive Directors is set by the Shareholder.

Policy on contracts of service

There is one Executive Director service contract that provides for a period of notice in excess of one year. This contract relates to Mr L N Chamberlain, has a notice period of 2 years, and was entered into prior to the publication of the Code.

Directors' Emoluments

	Basic salary £	Fees £	Benefits £	Annual bonus £	Total emoluments excluding pensions		Pensions 1997 £	Pensions 1996 £
					1997 £	1996 (restated) £		
Executive								
J R S Guinness	92125	-	11936	25150	129211	129229	9846	8803
J J Taylor	225000	-	65163	61425	351588	19677	20550	1638
L N Chamberlain	156600	-	20013	42752	219365	230329	17539	16995
G G Butler *	89349	-	4093	-	93442	166446	10007	12870
K G Jackson *	82997	-	7524	18094	108615	166926	9296	11955
G L Watts	132078	-	23166	37781	193025	190653	8402	8402
R A N Chiese	169383	-	28412	49300	247095	244014	15000	15000
G R Smith *	46667	-	3552	17780	67999	-	5284	-
	<u>994199</u>	<u>-</u>	<u>163859</u>	<u>252282</u>	<u>1410340</u>	<u>1147274</u>	<u>95924</u>	<u>75663</u>
Non-Executive								
N Wooding	-	11000	-	-	11000	13900	-	-
D J S Roques	-	11000	-	-	11000	11000	-	-
K M H Mortimer	-	10000	-	-	10000	10000	-	-
R R Knowland	-	10000	-	-	10000	10000	-	-
A G J MacFarlane	-	12000	-	-	12000	14500	-	-
Lady Shuttleworth	-	10000	-	-	10000	8167	-	-
	<u>-</u>	<u>64000</u>	<u>-</u>	<u>-</u>	<u>64000</u>	<u>67567</u>	<u>-</u>	<u>-</u>
Total	<u>994199</u>	<u>64000</u>	<u>163859</u>	<u>252282</u>	<u>1474340</u>	<u>1214841</u>	<u>95924</u>	<u>75663</u>

* Directors for part of the year only

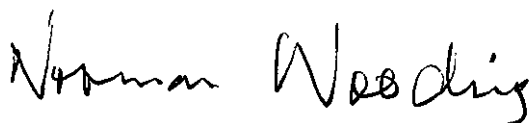
Benefits include amounts assessed by the taxation authorities in respect of relocation and of costs of travel and accommodation of certain Directors visiting corporate offices located at a distance from their homes.

Pension contributions for Mr J J Taylor, Mr R A N Chiese and Mr G L Watts are made to their personal defined contribution pension schemes. Pension contributions for the other Executive Directors are made to the UKAEA Principal Non-Industrial Superannuation Scheme.

Prior year figures have been restated to include bonuses and Non-Executive Directors' fees on an earned rather than paid basis. Bonuses are earned for the achievement of individual targets and targets linked to the Group's performance, for example, in profit before tax.

Pensions paid to former Directors amounted to £43,877 (1996 £83,939). Dr GG Butler was paid £237,342 as compensation for loss of office. In addition £26,500 was paid into the BNFL Supplementary Pension Scheme on his behalf.

On behalf of the Remuneration Committee



Sir Norman Wooding - Chairman

26 June 1997

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 34 to 59, which have been prepared under the historical cost convention, modified to include the market value of certain fixed and current asset investments, and on the basis of the accounting policies set out on pages 34 to 38. We have also examined the amounts disclosed relating to the emoluments of the directors which form part of the report of the Remuneration Committee on pages 30 and 31.

Respective responsibilities of Directors and Auditors

As described on page 32, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

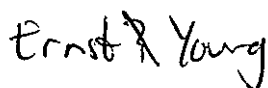
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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.

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 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

26 June 1997

Accounting Policies

Determination of policies

The Group's activities are described in the Directors' Report and the Operational Review, which contains a detailed review of the year's operations. To a large extent, the Company's plants have been or are being constructed for the purpose of servicing specific trading agreements and contracts with both United Kingdom and overseas customers for the provision of nuclear fuel services. Certain of these contracts are of a long-term nature and are not scheduled for completion until the end of this century or beyond. The processes involved are of a highly technical nature. The Group is subject to external regulatory requirements and keeps under constant review the safety standards appropriate to its present or proposed activities. These factors have affected the Group's determination of two of its major accounting policies, namely, Policy 4 - Provisions and Long-Term Commitments and Policy 6 - Depreciation Policies for Fixed Assets.

The accounts have been prepared under the historical cost convention, modified to include the market value of certain fixed and current asset investments, and in accordance with all applicable accounting standards. The full accounting policies are as follows:

1. Consolidation

- a. The consolidated accounts include the accounts of British Nuclear Fuels plc and all its subsidiary undertakings made up to 31 March 1997.
- b. The consolidated accounts also include the Group's share of the net assets shown by the accounts of its associated undertakings. The accounts of the associated undertakings are made up to 31 December in each year.
- c. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings 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. Goodwill arising on consolidation, representing the excess of purchase consideration over the fair value of net tangible assets acquired, is written off against reserves in the year of acquisition.

2. Turnover

Turnover, 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.

3. 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 each contract after allowing for contingencies. Full provision is made for losses on contracts in the year in which they are first identified.

4. Provisions and long-term commitments

In the majority of cases, the Company's contracts provide for the recovery of future costs associated with each particular contract.

a. To the extent that all costs are not considered to be recoverable from customers by way of a specific charge:

i. Provision for decommissioning the Group's radioactive facilities is made over their useful life and covers complete demolition within 100 years of being taken out of service, together with disposal of the associated waste.

ii. Provision is made for the defuelling, reprocessing and waste management of the final cores of the Group's reactors.

iii. The costs associated with arisings of 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. Provision is made for the treatment, handling and disposal of the Group's remaining waste products.

iv. Provision is made for future reprocessing costs which are expected to arise on fixed price contracts entered into at the balance sheet date, whether or not work on these contracts has commenced.

These provisions, which are expressed at current price levels, are based on the latest technical assessments of the processes and methods likely to be used in the future and represent estimates derived from a combination of the latest technical knowledge available, existing legislation and regulations and commercial agreements.

b. These liabilities will not crystallise until reasonably distant dates and, in accordance with the practice in other sections of the industry, the provisions for them are discounted at an appropriate real rate of return to take account of the delay in meeting the expenditure. These estimates are reviewed annually and any consequential changes to the provision that are required, including price level changes, are taken up in the accounts for the year in which they arise, together with the recognition of a real rate of return on past provisions.

5. 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.

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.

6. Fixed assets

a. Tangible assets

Depreciation is calculated to write off the historical cost of assets, generally by equal annual instalments, over the period assessed as their useful lives or, in the case of contractually committed assets acquired to meet specific contracts, over the period in which the cost of these assets is recoverable from the customers. 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.

7. Investments

a. Fixed asset investments

Fixed asset investments comprise investments in and loans to subsidiary and related undertakings, together with investment portfolios held to fund certain long term nuclear liabilities.

The nuclear liabilities portfolio of investments is to be maintained as a long term fund. It comprises a portfolio of Government gilt-edged securities (gilts) 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 so as to amortise to redemption value over the period of maturity. 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 market value at the balance sheet date. Any unrealised gains or losses arising from changes in market value together with related taxation are taken to revaluation reserve. Realised gains and losses are taken to the profit and loss account.

b. **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.

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

The policies for managed investments, excluding investments held by insurance subsidiaries (see policy 12a) are the same as the policies for the managed portfolio stated above.

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

8. **Stocks and work in progress**

Stocks and work in progress 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 factory overhead expenses.

9. **Pensions**

The Group operates pension schemes for the benefit of the majority of its employees. The schemes are funded by contributions, partly from the employees and partly from the Group, to separately administered funds. 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 in the year in which the contributions are made.

10. **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.

11. **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 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.

12. **Insurance subsidiaries**

a. Investments

Investments are stated at market value at the balance sheet date. The gain or loss on the change in market values of investments is taken to the profit and loss account. The gain or loss arising on disposals 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.

13. **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.

Consolidated profit and loss account

For the year ended 31 March

	Note	1997 £M	1996 £M
Turnover - Continuing operations	1	1262	1549
Less net operating costs and expenses	2	<u>(1146)</u>	<u>(1316)</u>
Operating profit from continuing operations	1	116	233
Income from interests in associated undertakings		<u>13</u>	<u>14</u>
		129	247
Investment income	5	155	141
Less interest payable and similar charges	6	<u>(68)</u>	<u>(72)</u>
Profit on ordinary activities before tax		216	316
Tax on profit on ordinary activities - normal	7	<u>(91)</u>	<u>(48)</u>
- exceptional	7	<u>-</u>	<u>(356)</u>
Profit (loss) on ordinary activities after tax		125	(88)
Profit attributable to minority interests		<u>(1)</u>	<u>-</u>
Profit (loss) for the financial year		124	(88)
Dividends	8	<u>(46)</u>	<u>(93)</u>
Retained profit (loss) for the year		78	(181)

Statement of total recognised gains and losses

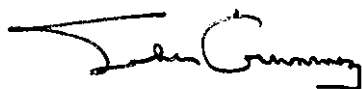
For the year ended 31 March

	1997 £M	1996 £M
Profit (loss) for the financial year	78	(88)
Currency translation differences on foreign currency net investments	<u>(10)</u>	<u>5</u>
Unrealised loss on investments at market value	<u>(1)</u>	<u>-</u>
Total recognised gains and losses relating to the year	67	(83)

Balance sheets

As at 31 March

As at 31 March			Group		Parent	
	Note	1997 £M	1996 £M	1997 £M	1996 £M	
Assets employed						
Fixed assets:						
Tangible assets	9	4436	4339	4411	4316	
Investments	10	844	676	959	780	
		<u>5280</u>	<u>5015</u>	<u>5370</u>	<u>5096</u>	
Current assets:						
Stocks	11	192	193	84	185	
Debtors	12	405	489	701	619	
Investments and short-term deposits	13	1455	1632	1252	1444	
Cash at bank and in hand		40	34	-	1	
		<u>2092</u>	<u>2348</u>	<u>2037</u>	<u>2249</u>	
Less creditors: amounts falling due within one year	14	<u>(971)</u>	<u>(1182)</u>	<u>(980)</u>	<u>(1166)</u>	
Net current assets		<u>1121</u>	<u>1166</u>	<u>1057</u>	<u>1083</u>	
Total assets less current liabilities		<u>6401</u>	<u>6181</u>	<u>6427</u>	<u>6179</u>	
Financed by						
Creditors: amounts falling due after more than one year	15	3902	3848	3902	3835	
Provisions for liabilities and charges	16	1913	1808	1900	1795	
Accruals and deferred income	17	18	21	18	21	
Capital and reserves:						
Called up share capital	18	33	33	33	33	
Other reserves		(4)	7	(1)	-	
Profit and loss account	19	538	463	575	495	
		<u>567</u>	<u>503</u>	<u>607</u>	<u>528</u>	
Shareholder's funds - equity interests		<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	
Minority interests - equity interests		<u>6401</u>	<u>6181</u>	<u>6427</u>	<u>6179</u>	



John R S Guinness)

)

) Directors



Ross Chiese)

26 June 1997)

Consolidated cash flow statement

For the year ended 31 March

		1997	1996
	Note	£M	Revised £M
Net cash inflow from operating activities	24a	636	461
Returns on investment and servicing of finance	24b	137	96
Taxation	24b	(70)	(11)
Capital expenditure and financial investment	24b	(509)	(863)
Acquisitions and disposals	24b	(18)	(38)
Equity dividends paid	24b	(80)	(46)
Net cash inflow/(outflow) before use of liquid resources and financing		96	(401)
Management of liquid resources	24b	104	410
Financing	24b	(112)	(136)
Increase/(decrease) in Cash in year	24d	88	(127)

Comparatives have been restated to comply with FRS1 revised

Notes on the accounts

1. Segmental information

a. Total assets less current liabilities (net assets), turnover and operating profit by the different classes of business within the Group are as follows:

	Net assets		Turnover		Operating profits	
	1997	1996	1997	1996	1997	1996
	£M	£M	£M	£M	£M	£M
Nuclear fuel services	4223	4024	1113	1406	85	209
Electricity	129	133	111	121	31	33
Other business	11	9	38	22	-	(9)
			<u>1262</u>	<u>1549</u>	<u>116</u>	<u>233</u>
Net operating assets	4363	4166				
Unallocated net assets	2038	2015				
	<u>6401</u>	<u>6181</u>				

Other business includes engineering services, information technology services and chemicals sales (comparatives have been restated). Unallocated net assets comprise investments in associated undertakings and other investments less non-operating liabilities.

b. All material turnover, operating profit and net assets of the Group relate to origins within the United Kingdom. Turnover by destination, analysed by business area is as follows:

	Export				Total Exports	Home	Total
	Europe EC	Other	Japan & Far East	North & South America			
	£M	£M	£M	£M	£M	£M	£M
1996-97							
Fuel and related materials	11	-	11	6	28	206	234
Enrichment	-	-	-	-	-	6	6
Engineering	3	-	2	-	5	5	10
Transport	10	-	23	-	33	2	35
Waste Disposal	-	-	-	-	-	10	10
Waste Management & Decommissioning	4	-	3	29	36	235	271
Magnox Reprocessing	6	-	7	-	13	104	117
Thorp	86	33	182	-	301	139	440
Electricity	-	-	-	-	-	111	111
Other	-	2	3	1	6	22	28
	<u>120</u>	<u>35</u>	<u>231</u>	<u>36</u>	<u>422</u>	<u>840</u>	<u>1262</u>
1995-96							
Fuel and related materials	36	-	10	5	51	186	237
Enrichment	-	-	-	-	-	7	7
Engineering	2	-	2	-	4	2	6
Transport	7	3	41	-	51	2	53
Waste disposal	-	-	-	-	-	13	13
Waste management & decommissioning	3	-	5	15	23	293	316
Magnox reprocessing	2	-	20	-	22	231	253
Thorp	97	34	213	-	344	183	527
Electricity	-	-	-	-	-	121	121
Other	4	-	-	2	6	10	16
	<u>151</u>	<u>37</u>	<u>291</u>	<u>22</u>	<u>501</u>	<u>1048</u>	<u>1549</u>

2. Net operating costs and expenses

	1997 £M	1996 £M
Net operating costs and expenses are made up as follows:		
Raw materials and consumables	236	241
Employee costs	410	404
Depreciation	274	331
Provisions for liabilities and charges	106	187
Research and development not specifically recoverable directly from customers	50	44
Other external and operating charges (a)	231	220
Operating costs and expenses	<u>1307</u>	<u>1427</u>
Less:		
Changes in stocks of finished goods and work in progress	13	(47)
Own work capitalised	126	119
Own work on manufacture of components	14	20
Regional development grants released	3	11
Other operating income	5	8
	<u>1146</u>	<u>1316</u>

- a. Other external and operating charges include Auditors' remuneration of £427,000 (1996 £426,000) of which £202,000 (1996 £202,000) 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 subsidiaries amounted to £6,854,000 (1996 £3,410,000). Non-audit fees relate mainly to business process re-engineering projects. These projects are part of the Company's continuing drive to improve quality and efficiency and hence reduce costs.

3. Employee information

	1997 Number	1996 Number
The figures given below include information on parent company Executive Directors		
a. The average number of persons employed by the Group during the year was:		
Non-Industrial	6596	6667
Industrial	6193	6584
Officers and ratings of transport ships	188	200
	<u>12977</u>	<u>13451</u>
	1997 £M	1996 £M
b. Employee costs:		
Wages and salaries	335	330
Social security costs	29	27
Other pension costs (note 22)	20	21
Other employee costs (early retirement etc)	26	26
	<u>410</u>	<u>404</u>

4. Directors' emoluments and other statutory information

For further details refer to the Report of the Remuneration Committee on pages 30 and 31.

5. Investment income

	1997 £M	1996 £M
Income from nuclear liabilities investment portfolio	44	4
Income from current asset investments	103	130
Interest on loans to associated undertakings	8	7
	<u>155</u>	<u>141</u>

6. Interest payable and similar charges

	1997 £M	1996 £M
Interest on loans	12	19
Bank commissions etc	5	10
Adjustments to opening provisions arising from changes in price levels (see note 16)	51	44
Realised exchange gains	-	(1)
	<u>68</u>	<u>72</u>

7. Tax on profit on ordinary activities

	1997 £M	1996 £M
Corporation tax:		
Current year	101	99
Advance corporation tax written back	-	(51)
Adjustment in respect of prior years	-	(7)
Overseas taxation	-	1
Associated undertakings' taxation	3	6
Tax credits on dividends received	1	-
	<u>105</u>	<u>48</u>
Deferred tax:		
Current year	(17)	-
Adjustment in respect of prior years	3	-
Exceptional charge	-	356
	<u>91</u>	<u>404</u>

8. Dividends

	1997 £M	1996 £M
Interim dividend paid	15	28
Final dividend proposed	31	65
	<u>46</u>	<u>93</u>

9. Fixed Assets - Tangible Assets

a. A summary of the tangible assets held by the Group is as follows:

	Land and buildings			Fixtures fittings tools and equipment	Assets in course of construction	Total
	Long leasehold	Freehold	Plant and machinery			
	£M	£M	£M	£M	£M	£M
Cost at 1 April 1996	4	2941	2782	65	753	6545
Additions	-	-	3	4	365	372
Disposals	-	(1)	(1)	(3)	-	(5)
Reclassifications	-	(1)	1	-	-	-
Transfers	4	12	125	9	(150)	-
Cost at 31 March 1997	8	2951	2910	75	968	6912
Depreciation at 1 April 1996	-	644	1521	41	-	2206
Charge for the year	1	138	126	9	-	274
Disposals	-	(1)	(1)	(2)	-	(4)
Reclassifications	-	(1)	1	-	-	-
Depreciation at 31 March 1997	1	780	1647	48	-	2476
Net book value at 31 March 1997	7	2171	1263	27	968	4436
Leased assets included in the above:						
Net book value at 31 March 1997	-	-	3	-	-	3

b. A summary of the tangible assets held by the Parent Company is as follows:

	Land and buildings			Fixtures fittings tools and equipment	Assets in course of construction	Total
	Long leasehold	Freehold	Plant and machinery			
	£M	£M	£M	£M	£M	£M
Cost at 1 April 1996	2	2940	2644	46	753	6385
Additions	-	-	-	1	364	365
Disposals	-	(1)	(1)	-	-	(2)
Reclassifications	-	(1)	1	-	-	-
Transfers	4	13	125	8	(150)	-
Cost at 31 March 1997	6	2951	2769	55	967	6748
Depreciation at 1 April 1996	-	644	1396	29	-	2069
Charge for the year	-	138	125	7	-	270
Disposals	-	(1)	(1)	-	-	(2)
Reclassifications	-	(1)	1	-	-	-
Depreciation at 31 March 1997	-	780	1521	36	-	2337
Net book value at 31 March 1997	6	2171	1248	19	967	4411
Leased assets included in the above:						
Net book value at 31 March 1997	-	-	-	-	-	-

10. Fixed assets - investments

	Group		Parent	
	1997 £M	1996 £M	1997 £M	1996 £M
Subsidiary undertakings	-	-	245	242
Other investments	9	8	-	-
Associated undertakings	195	206	74	76
Nuclear liabilities investment portfolio	640	462	640	462
	844	676	959	780

See pages 66 and 67 for details of principal subsidiary and associated undertakings.

a) Subsidiary undertakings

	Parent		Total £M
	Shares £M	Loans £M	
Cost and net book value			
At 1 April 1996	216	26	242
New share issues/loans	7	-	7
Transfers to other group undertakings	(4)	-	(4)
At 31 March 1997	219	26	245

b) Other investments

	Group		Parent	
	1997 £M	1996 £M	1997 £M	1996 £M
Balance at 1 April 1996	8	-	-	-
Additions	1	8	-	-
Balance at 31 March 1997	9	8	-	-

c) Associated undertakings

	Group			Parent		
	Share of net assets £M	Loan and advances £M	Total £M	Shares £M	Loan and advances £M	Total £M
Balance at 1 April 1996	93	113	206	20	56	76
Additions	3	17	20	-	17	17
Investment repaid	(1)	(3)	(4)	-	(2)	(2)
Share of retained profit and reserves	(10)	-	(10)	-	-	-
New amounts provided	-	(17)	(17)	-	(17)	(17)
Balance at 31 March 1997	85	110	195	20	54	74

The Group's share of retained profit and reserves of associated undertakings at 31 March 1997 is £4M (1996 £14M). Cumulative amounts provided against investments in associated undertakings are £200M for both Group and Parent (1996 £183M).

10. Fixed assets - investments *continued*

	Group	Parent
	£M	£M
d) Nuclear liabilities investment portfolio		
Gilts investment portfolio		
Balance at 1 April 1996	462	462
Revaluation	17	17
Balance at 31 March 1997	479	479
Managed portfolio		
Balance at 1 April 1996	-	-
Additions	150	150
Revaluation	11	11
Balance at 31 March 1997	161	161
Total nuclear liabilities investment portfolio	640	640

The portfolio at 31 March 1997 includes £607M of investments listed in the UK (1996 £462M). The aggregate market value of these investments at 31 March 1997 was £604M (1996 £448M). The historic cost of these investments at 31 March 1997 was £592M (1996 £464M).

11. Stocks

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Raw materials and consumables	117	158	45	156
Work in progress	56	25	24	22
Finished goods	19	10	15	7
	192	193	84	185

Work in progress in both the Group and Parent is stated after deducting progress payments of £97M (1996 £130M).

12. Debtors

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Trade Debtors	252	295	222	284
Amounts recoverable on long term contracts	68	88	68	88
Amounts owed by Group undertakings	-	-	350	154
Amounts owed by associated undertakings	13	9	3	2
Prepayments and accrued income	72	97	58	91
	405	489	701	619

Debtors include £24M (1996 £15M) due in more than one year.

At the end of the year, there were 120 loans amounting to £754,000 outstanding with non-Director employees of the Group (1996 108 loans amounting to £592,000). Of these loans 107 amounting to £652,000 were in the Parent (1996 106 loans amounting to £582,000).

13. Current asset investments and short-term deposits

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Gilts investments - Medium term maturity	405	-	405	-
Managed investments	606	108	409	-
Other investments	-	65	-	-
Short-term deposits	444	1459	438	1444
	<u>1455</u>	<u>1632</u>	<u>1252</u>	<u>1444</u>

The amount of listed investments included in the above at market value was £916M of which £780M relates to the parent company (1996 £108M and £NIL). The historic cost of these investments at 31 March 1997 was £909M of which £773M relates to the parent company (1996 £116M and £NIL).

14. Creditors: amounts falling due within one year

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Current portion of long-term loans (note 15)	109	102	109	101
Bank loans and overdraft	-	161	37	161
Payments received on account	453	472	443	469
Trade creditors	85	85	66	67
Amounts owed to Group undertakings	-	-	42	41
Amounts owed to associated undertakings	6	3	3	3
Taxation	61	68	63	65
Social security	7	7	7	7
Dividends	32	66	31	65
Accruals and deferred income	106	110	68	80
Current portion of provisions (note 16)	112	108	111	107
	<u>971</u>	<u>1182</u>	<u>980</u>	<u>1166</u>

15. Creditors: amounts falling due after more than one year

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Loans	3	121	3	111
Obligations under finance leases	3	3	-	-
Payments received on account	3896	3723	3899	3723
Other	-	1	-	1
	<u>3902</u>	<u>3848</u>	<u>3902</u>	<u>3835</u>

15. Creditors : amounts falling due after more than one year *continued*

a. Loans	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Amounts repayable by instalments:				
Within one year	109	102	109	101
Between one and two years	3	118	3	108
Between two and five years	-	3	-	3
	<u>112</u>	<u>223</u>	<u>112</u>	<u>212</u>

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 provided within periods from the balance sheet date of:	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
From one to five years	1933	1619	1933	1619
Over five years	1963	2104	1966	2104
	<u>3896</u>	<u>3723</u>	<u>3899</u>	<u>3723</u>

c. Analysis of changes in financing during the year	1997	1996
	£M	£M
Total at 1 April	226	362
Cash flow from financing - Loan Repayments	(112)	(136)
Exchange adjustments	1	-
Total at 31 March	<u>115</u>	<u>226</u>
Proportion falling due:		
Within one year	109	102
After more than one year	6	124
	<u>115</u>	<u>226</u>

d. Obligations under finance leases and hire purchase contracts	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Amounts payable:				
Within one year	-	-	-	-
Within two to five years	2	2	-	-
After five years	1	1	-	-
	<u>3</u>	<u>3</u>	<u>-</u>	<u>-</u>

16. Provisions for liabilities and charges

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

	Decom- missioning (note a)	Final reactor core costs (note a)	Waste products (note a)	Future re- processing costs on fixed price contracts (note a)	Deferred tax (note b)	Other provisions (note c)	Total
Group	£M	£M	£M	£M	£M	£M	£M
Balance at 1 April 1996	412	29	541	138	340	456	1916
Adjustment arising from changes in price levels and interest credited	21	1	22	1	-	6	51
Charge/(release) in the year	(35)	2	49	(6)	(14)	96	92
Expenditure in the year	(1)	-	(13)	(3)	-	(62)	(79)
ACT movement	-	-	-	-	45	-	45
Balance at 31 March 1997	397	32	599	130	371	496	2025
Analysed as follows:							
Amounts due within one year	1	-	22	3	-	86	112
Amounts due after one year	396	32	577	127	371	410	1913
	397	32	599	130	371	496	2025
Parent							
Balance at 1 April 1996	412	29	541	138	339	443	1902
Adjustment arising from changes in price levels and interest credited	21	1	22	1	-	6	51
Charge in the year	(35)	2	49	(6)	(14)	95	91
Expenditure in the year	(1)	-	(13)	(3)	-	(61)	(78)
ACT movement	-	-	-	-	45	-	45
Balance at 31 March 1997	397	32	599	130	370	483	2011
Analysed as follows:							
Amounts due within one year	1	-	22	3	-	85	111
Amounts due after one year	396	32	577	127	370	398	1900
	397	32	599	130	370	483	2011

16. Provisions for liabilities and charges *continued*

- a. These provisions have been discounted. The table below analyses total costs still to be incurred at the Company's sites (both undiscounted at current prices and discounted to the balance sheet date), BNFL's share of these costs and the amounts provided to date:

	Total costs		BNFL share		Provided to date £M
	Undiscounted £M	Discounted £M	Undiscounted £M	Discounted £M	
Decommissioning	5698	2872	1331	680	397
Waste management and other costs	11743	8469	1058	801	761
At 31 March 1997	17441	11341	2389	1481	1158
At 31 March 1996	17317	10925	2615	1575	1120

The difference between total discounted costs of £11341M and £1158M provided to date represents costs of £9860M which are to the charge of customers and costs of £323M which will be provided over remaining plant lives in accordance with the Group's accounting policy.

- b. Deferred tax has been provided in full as follows:

Capital allowances in advance of depreciation:

	1997 £M	1996 £M
Parent Company	831	806
Subsidiary undertakings	1	1
Group	832	807

Other timing differences:

Parent Company	(422)	(383)
Subsidiary undertakings	-	-
Group	(422)	(383)

Recoverable advance corporation tax:

Parent Company	(39)	(84)
Subsidiary undertakings	-	-
Group	(39)	(84)

Total:

Parent Company	370	339
Subsidiary undertakings	1	1
Group	371	340

16. Provisions for liabilities and charges *continued*

c. Other provisions can be analysed as follows:-

	Contract provisions £M	Restructuring provisions £M	Other sundry cost provisions £M	Total £M
Group				
Balance at 1 April 1996	260	118	78	456
Adjustment arising from changes in price levels and interest credited	1	4	1	6
Charge in the year	54	14	28	96
Expenditure in the year	(7)	(28)	(27)	(62)
Balance at 31 March 1997	308	108	80	496
Analysed as follows:				
Amounts due within one year	25	25	36	86
Amounts due after one year	283	83	44	410
	308	108	80	496
Parent				
Balance at 1 April 1996	260	118	65	443
Adjustment arising from changes in price levels and interest credited	1	4	1	6
Charge in the year	54	13	28	95
Expenditure in the year	(7)	(27)	(27)	(61)
Balance at 31 March 1997	308	108	67	483
Analysed as follows:				
Amounts due within one year	25	25	35	85
Amounts due after one year	283	83	32	398
	308	108	67	483

17. Accruals and deferred income

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
This comprises capital grants held as a deferred credit	<u>18</u>	<u>21</u>	<u>18</u>	<u>21</u>

18. Called up share capital

	1997	1996
	£M	£M
Ordinary shares of £1 each authorised	<u>43</u>	<u>43</u>
Allotted, called up and fully paid	<u>33</u>	<u>33</u>

19. Profit and loss account

	Group	Parent
	£M	£M
Balance at 1 April 1996	463	495
Retained profit for the year	78	80
Goodwill written off	(3)	-
Balance at 31 March 1997	<u>538</u>	<u>575</u>

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

20. Reconciliation of movements in shareholder's funds

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Profit (loss) for the financial year	124	(88)	126	(97)
Dividends	(46)	(93)	(46)	(93)
Goodwill written off	(3)	(5)	-	-
Exchange gains/(losses)	(10)	5	-	-
Unrealised losses on investments	(1)	-	(1)	-
	<u>64</u>	<u>(181)</u>	<u>79</u>	<u>(190)</u>
Opening shareholder's funds	503	684	528	718
Closing shareholder's funds	<u>567</u>	<u>503</u>	<u>607</u>	<u>528</u>

Cumulative goodwill written off to reserves amounts to £50M (1996 £47M).

21. Capital expenditure authorised

	Group		Parent	
	1997	1996	1997	1996
	£M	£M	£M	£M
Contracted for but not provided for	<u>92</u>	<u>122</u>	<u>90</u>	<u>122</u>

22. Pensions

- a. The majority of the employees of the Group are covered by four defined benefit (final salary) schemes. The UKAEA Principal Non-Industrial Superannuation Scheme (PNISS), the UKAEA Industrial Superannuation Scheme (ISS), the BNFL Group Pension Scheme and the UKAEA Protected Persons Superannuation Scheme (PPSS) (which is now closed to new employees of the Company). The Group's contributions were as follows:

	1997 £M	1996 £M
Principal non-industrial scheme	15	15
Industrial scheme	4	4
Protected persons scheme	-	-
BNFL Group Pension Scheme	1	2
	<u>20</u>	<u>21</u>

The charge to the profit and loss account in respect of the PNISS, the ISS and the BNFL Group Pension Scheme is identical with the funding costs. For the PPSS, no further funding is required.

- b. For the UKAEA schemes, 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 contributions over benefits paid are deemed to be invested in notional portfolios of redeemable UK Government stocks and local authority stocks. The schemes are therefore notionally funded.

For each scheme, the date of the most recent triennial actuarial investigation, and the outcome of that investigation together with the main assumptions made are given below :

	PNISS	ISS	PPSS
i) Actuarial report data			
Next investigation report date (31 March)	1994	1995	1996
Date of the most recent investigation for which information is available (31 March)	1991	1992	1993
Market value of notional investments	£515M	£263M	£45M
Level of funding	100%	130%	119%
Deficiency on a current funding level basis	Balance	Surplus	Surplus
ii) Actuarial methods and assumptions			

The 'entry age' method was used for PNISS and ISS and a modified 'attained age' method was used for PPSS. The main long-term assumptions made in respect of the investigations were :

	PNISS %	ISS %	PPSS %
Investment yield (pa) net of pay increase	1.5	2.0	2.0
Investment yield (pa) net of price inflation	3.0	3.5	3.5

22. **Pensions** *continued*

iii) **Funding**

The Company has followed the Government Actuary's advice as set out below in respect of funding payments, none of which give rise to a prepayment.

PNISS - BNFL should pay a contribution of 11.2% of members' and new entrants' total pensionable pay from 1 April 1992 to 31 March 2008 and that such rates of contribution would be adequate to meet benefits payable.

ISS - BNFL should pay a contribution of 3.9% of members' and new entrants' total pensionable pay from 1 April 1993 to 31 March 2010 and 9.3% thereafter and that such rates of contribution would be adequate to meet benefits payable and eliminate the current funding surplus.

PPSS - No contributions are required.

- c. For the BNFL Group Pension Scheme, contributions are paid into investment funds operated by the Clerical Medical Investment Group. The first triennial valuation of the scheme will be carried out in 1997/98.

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

23. **Contingent liabilities**

At 31 March 1997, 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. Guarantee and indemnity given by BNFL to a bank in respect of an option to purchase the majority of equity in an overseas company amounting to US \$9M.
- b. Guarantee given to a bank of US \$50M in respect of a loan facility granted to BNFL Inc.
- c. Indemnity given to a bank of £0.9M in respect of bonds provided to a customer.
- d. Warranty given to Urenco Ltd in respect of unexpected higher cost obligations of the future disposal of tails. The maximum contingent liability is £18M.
- e. Deposit of US \$4.2M with a bank, pledged in support of a letter of credit facility for an overseas company.

24. Consolidated cash flow statement

	1997 £M	1996 £M
a. Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	116	233
Loss on disposal of fixed assets	-	1
Depreciation charges	274	331
(Increase)/decrease in debtors	38	(126)
Increase/(decrease) in creditors	34	(169)
(Increase)/decrease in stock and work in progress	1	(56)
Grants released	(3)	(11)
Increase in provisions	27	91
Increase in advance payments	133	136
Investment provision	17	33
Other non cash movements	(1)	(2)
	<u>636</u>	<u>461</u>
b. Analysis of cash flows for headings netted in the cash flow statement		
	1997 £M	1996 £M
Returns on investment and servicing of finance:		
Dividends received from associated undertakings	9	6
Interest received	148	125
Interest paid	(13)	(24)
Bank commissions	(5)	(9)
Dividends paid by subsidiary undertakings to minority interests	(2)	(2)
Net cash inflow for returns on investments and servicing of finance	<u>137</u>	<u>96</u>
Taxation:		
UK corporation tax paid	(70)	(10)
Overseas tax paid	-	(1)
Net cash outflow on taxation	<u>(70)</u>	<u>(11)</u>
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(357)	(399)
Additions to nuclear liabilities investment portfolio	(152)	(464)
Net cash outflow for capital expenditure and financial investment	<u>(509)</u>	<u>(863)</u>
Acquisitions and disposals:		
Acquisitions of subsidiary undertakings	-	(3)
Net investment in associated undertakings and other investments	(18)	(35)
Net cash outflow for acquisitions and disposals	<u>(18)</u>	<u>(38)</u>
Equity dividends paid:		
Dividends paid to shareholder	(80)	(46)
Net cash outflow on equity dividends	<u>(80)</u>	<u>(46)</u>
Management of liquid resources:		
Net realisation of short term deposits and current investments	104	410
Net cash inflow from management of liquid resources	<u>104</u>	<u>410</u>
Financing:		
Repayment of loans and long-term credit	(112)	(136)
Net cash outflow from financing	<u>(112)</u>	<u>(136)</u>

24. Consolidated cash flow statement *continued*

c. Analysis of changes in net funds:

	At 31 March 1996	Cash Flow	Other Non-cash changes	At 31 March 1997
	£M	£M	£M	£M
Cash at bank and in hand	34	6	-	40
Cash in short term deposits	81	(79)	-	2
Overdrafts	(161)	161	-	-
Loans due after 1 year	(121)	-	118	(3)
Loans due within 1 year	(102)	112	(119)	(109)
Finance leases	(3)	-	-	(3)
Current asset investments	1551	(104)	6	1453
	<u>1279</u>	<u>96</u>	<u>5</u>	<u>1380</u>

d. Reconciliation of net cash flow to movement in net funds

	1997 £M	1996 £M
Increase/(decrease) in cash in the year	88	(127)
Cash outflow from increase in debt and lease financing	112	136
Cash inflow from decrease in liquid resources	(104)	(410)
Translation difference	5	-
Movement in net funds in the period	101	(401)
Opening Net funds	1279	1680
Closing Net funds	1380	1279

25. 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 following entities have been identified within this category:

Magnox Electric plc
the Ministry of Defence
the Atomic Energy Authority

ii) Associated undertakings

The principal associated undertakings are listed on page 59.

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

	Turnover	Purchases	Amounts due from related parties at 31 March 1997	Amounts due to related parties at 31 March 1997
	£M	£M	£M	£M
Undertakings under common control	433	20	161	2
Associated undertakings	8	51	13	6

For further details regarding equity and loans transactions with associated undertakings refer to note 10 (c).

26. Post balance sheet events

On 24 April 1997 a Memorandum of Understanding relating to the proposed integration of BNFL and Magnox Electric plc was signed. BNFL and the Government are in the early stages of discussing the financial terms appropriate for integration. If the Magnox Electric integration proceeds, it is expected that the first step towards full integration would be for Magnox to become a wholly owned subsidiary of BNFL by 1 October 1997. Given that the financial terms are still under negotiation, the Directors are not in a position to be able to estimate the financial effect of the integration.

Principal subsidiary and associated undertakings

(Subsidiary and associated undertakings 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

International Nuclear Fuels Limited (INFL)

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

INFL has a 62½% shareholding in Pacific Nuclear Transport Limited, incorporated in Great Britain, whose main purpose is the transport of spent fuel and associated services.

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.

F2 Chemicals Limited (formerly BNFL Fluorochemicals Limited)

Incorporated in Great Britain. It is wholly owned by BNFL and its purpose is to produce and market fluorine-based products. The company also has a 100% shareholding in Fluorochem Limited.

Deva Manufacturing Services Limited

Incorporated in Great Britain. 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.

BNFL Engineering Limited

Incorporated in Great Britain. It is wholly owned by BNFL and its purpose is to provide worldwide engineering services.

Nuclear Liabilities Management Company Limited

Incorporated in Great Britain. It is wholly owned by BNFL and its purpose is to minimise the cost of discharging nuclear liabilities on BNFL's sites.

BNFL Instruments Limited

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

BNFL Uranium Asset Management Company Limited

Incorporated in Great Britain. It is wholly owned by BNFL and its purpose is to provide uranium contract management services.

Principal subsidiary and associated undertakings *continued*

International Energy Systems Limited

Incorporated in Great Britain. It is wholly owned by BNFL and its purpose is to develop, manufacture and sell flywheel energy storage systems.

BNFL SA

Incorporated in France. It is wholly owned by BNFL and its purpose is to provide services for the transport of spent nuclear fuels.

Asssociated undertakings

Urenco Limited

Incorporated in Great Britain. Its main purpose is the supply of enriched uranium produced in enrichment plants using the centrifuge process.

BNFL holds one-third of the shares. The remainder are held by Dutch and German organisations.

United Kingdom Nirex Limited

Incorporated in Great Britain for the purpose of providing disposal services for low- and intermediate- level waste.

BNFL holds 39½% of the ordinary shares. The remainder are held by other United Kingdom organisations.

Fellside Heat and Power Limited

Incorporated in Great Britain for the purpose of the production of electricity through combined heat and power.

BNFL holds 50% of the ordinary shares. The remainder are held by Scottish Hydro Limited.

International Environmental Resources LLC

Incorporated in the United States of America for the purpose of constructing and leasing out a radioactive scrap metals recycling facility.

BNFL Inc. has a 32% governance interest. The remainder is held by American corporations.

Financial statistics

	1997 £M	1996 £M	1995 £M	1994 £M	1993 £M
Assets employed					
Fixed assets	5280	5015	4502	4527	4619
Net current assets	1121	1166	958	318	60
	<u>6401</u>	<u>6181</u>	<u>5460</u>	<u>4845</u>	<u>4679</u>
Financed by					
Loans and advance payments	3902	3848	3428	2972	2865
Provisions for liabilities and charges	1913	1808	1317	1139	1054
Government grants	18	21	30	47	68
Share Capital	33	33	33	33	33
Profit and loss account and reserves	534	470	651	651	647
	<u>567</u>	<u>503</u>	<u>684</u>	<u>684</u>	<u>680</u>
Shareholders' funds					
Minority interests	1	1	1	3	12
	<u>6401</u>	<u>6181</u>	<u>5460</u>	<u>4845</u>	<u>4679</u>
Turnover and profits					
Turnover:					
Nuclear fuel services - home	702	915	772	872	756
- export	411	491	425	150	186
Electricity	111	121	107	111	107
Other	38	22	-	-	-
	<u>1262</u>	<u>1549</u>	<u>1304</u>	<u>1133</u>	<u>1049</u>
Operating profits	116	233	86	104	149
Net financing income (expense)	87	69	(23)	(35)	(76)
Profit before tax	216	316	74	81	76
Profit (loss) for the financial year	124	(88)	45	75	59
Dividends	(46)	(93)	(45)	(26)	(26)
Retained profit (loss) for the year	<u>78</u>	<u>(181)</u>	<u>-</u>	<u>49</u>	<u>33</u>
Profit before tax as a percentage of average shareholders' interest	<u>40%</u>	<u>53%</u>	<u>11%</u>	<u>12%</u>	<u>11%</u>