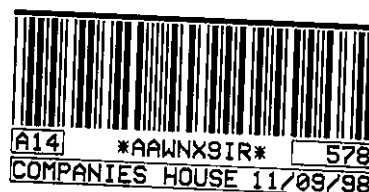


BRITISH NUCLEAR FUELS plc

ANNUAL REPORT AND ACCOUNTS

31 MARCH 1998

REGISTERED NO: 1002607



BRITISH NUCLEAR FUELS plc

ANNUAL REPORT AND ACCOUNTS 1997-98

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Introduction

BNFL provides the full range of high-quality, cost-effective integrated nuclear products and services to customers both at home and overseas.

The company's expertise spans uranium procurement, the manufacture of new fuel and the recycling of used fuel, electricity generation, transport of radioactive materials, engineering, waste management and decommissioning. Continued investment in research and technology enables BNFL to provide and maintain such a diverse range of nuclear services. Today the company is a multi-million pound export earner for the UK and has an order book worth £13 billion.

The company's export success is strengthened through our US company, BNFL Inc., based in North America, and our offices in Japan, Germany, China, South Korea, Belgium and France. The international nuclear services market continues to grow and it is estimated to be worth more than \$35 billion annually by the early part of the next century. The emerging nuclear waste management and decommissioning markets in the UK, Western Europe and the USA are estimated to be worth over \$250 billion in total.

BNFL has the world-class technology and skills to win a significant share of this business, whilst also maintaining its responsibilities to the environment, its workforce and the communities in which it operates.

Chairman's Review

On January 30th, 1998 BNFL embarked upon a new phase in its development with the transfer of Magnox Electric plc into the Group. The acquisition of six operating and three power stations undergoing decommissioning, together with Magnox Electric's 3,600 skilled workforce was good news for BNFL, Magnox Electric and the UK Government who can now substantially reduce their nuclear liability funding commitments.

Integration will combine the skills of BNFL and Magnox Electric in order to:

- Maximise the value of the Magnox business by operating the stations for as long as it is safe and economic to do so;
- Provide further incentives to reduce the costs of discharging nuclear liabilities by combining the financial responsibility for the Magnox liabilities with their management and the creation of a separate internal liabilities fund;
- Bring together BNFL's existing global clean-up skills and order-book with Magnox Electric's reactor decommissioning experience to create a strong player in the global nuclear market;

To realise these goals, the integrated Group must now build upon the best practices of both companies in the years ahead. The challenge will be to achieve the cost and efficiency savings which will allow the Magnox stations to successfully compete for profitable electricity sales in the UK market.

This will be my last report as Chairman of BNFL, as I have announced my intention to retire at the end of 1998 after more than six years with the Group. It is therefore pleasing to be able to report on another successful year for the Company. A year of steady growth despite some considerable challenges.

Financial performance

After adjusting for the two month impact of consolidating Magnox Electric's results, profit before tax for BNFL on a standalone basis is the same as last year at £216 million. This was a creditable performance achieved despite a 280 tonne shortfall in the Magnox reprocessing throughput target of 800 tonnes for the financial year. This shortfall was due to problems in bringing the Magnox reprocessing plant at Sellafield back up to normal levels of production following the major refurbishment project which was completed in 1997. I am happy to report that these difficulties have been largely overcome and that the plant is now set to operate until well into the next century.

The Thorp reprocessing plant continued to operate well during the year and has now exceeded its cumulative throughput target by some 30 tonnes. As a result, overseas turnover for the group increased from £422M to £445M and now represents more than a third of total group turnover.

I am happy to report that the Board has proposed a total dividend of £53M for the year. This compares to £46M paid to our shareholder, the UK Government, in the previous year.

Future strategy

During my six years with BNFL, it has been my privilege to build upon the work of my predecessors in transforming BNFL from a North West based fuel processing company into a truly international world-class nuclear services company. Under the leadership of John Taylor, the Group now has a clear strategy for achieving this goal in the years ahead.

Called 'Beyond 2000', the overall aim of our strategy is to create a prosperous long-term future for the Group, its shareholder, its other stakeholders and its employees and the communities around its sites. We believe we can triple the value of BNFL by:

- maximising the value of our used fuel management business, including winning more Thorp and MOX fuel business;
- growing the global 'clean-up' business, while reducing the costs of eliminating our own liabilities;
- maximising the value of the remaining life of the Magnox generation business;
- participating in the restructuring and consolidation of the global nuclear industry which is now underway;
- delivering on our current UK and international contracts.

But to achieve these objectives we must:

- achieve world-class performance in safety and plant operations;
- reduce our cost base by 25% to protect existing, and compete for, new business;
- manage the international political and regulatory environment;
- continually improve customer satisfaction, with an initial 25% improvement target;
- transform our behaviour and close our competency gaps.

As you will read in John Taylor's review, we have made much progress on all of these areas during the year and we have plans in place to ensure this progress continues in the future.

With the integration of Magnox Electric, BNFL is now responsible for providing around eight per cent of the UK's electricity needs. Last year this nuclear electricity saved the emission of some 10 million tonnes of the greenhouse gas CO₂ when compared with gas-fired power generation. Worldwide, nuclear power annually saves the emission of almost two billion tonnes of CO₂ compared to fossil fuels. The world is beginning to wake up to the environmental benefits of nuclear power which has for too long been wrongly labelled as the 'dirty man' of the energy business.

'Beyond 2000'

BNFL's 'Beyond 2000' strategy will enable the Group to grow, even in a stagnant world nuclear market, but it will also position the Group to benefit from any future upturn in nuclear power when it occurs. It was therefore pleasing to see the UK Government's Trade and Industry Select Committee stating recently that "While a major effort would be required to turn around public opinion, and despite the currently unfavourable economic case for new nuclear plant, the question as to eventual new nuclear build cannot and must not be ducked any longer. We recommend that a formal presumption be made now for purposes of long-term planning that new nuclear plant may be required in the course of the next two decades."

The challenge for BNFL in the future is to ensure that it continues to build public confidence by operating and decommissioning nuclear plants safely and with care for the environment, whilst improving the economics of nuclear power by offering competitive, efficient and world-class services to its customers.

My six years with the Group have left me in no doubt that it has the people, the capabilities and the technology to deliver all of these objectives and to earn its rightful place as a leading global company of the next century.

It has been a great privilege being Chairman of BNFL for the past six years. I was particularly delighted that, after two years of frustration, our Thorp plant, one of the great achievements of British engineering in the second half of the 20th century, started to operate on 27 March 1994 and has already reprocessed over 1400 tonnes of fuel. I am confident that Thorp will continue to progress from strength to strength. I am also delighted that, together with our partners Morrison Knudsen, we are very close to agreeing the purchase of one of the great companies in the nuclear industry, Westinghouse. This deal will greatly strengthen two of our main lines of business, nuclear fuel production and our worldwide nuclear waste management and decommissioning business, where we have already been working closely with both Westinghouse and Morrison Knudsen. This purchase, coupled with our integration with Magnox Electric, will give BNFL every chance of developing into a truly world-class company - to the benefit of all our stakeholders.

However, I have derived my greatest satisfaction from working with and often becoming close friends with BNFL's many stakeholders. First and foremost, I would like to pay tribute to the incredibly talented and committed people, who work for BNFL at all levels. The many visitors I have brought around BNFL have been equally impressed by the sheer ability of BNFL people, with whom they have come into contact. Our workforce, together with the unions involved, have invariably been among the company's most effective advocates, as they know that the company maintains the highest standards of safety and environmental practice and also the contribution it makes for the benefit of the whole nation. This last point was brought out very clearly, when the new Labour Government announced last Autumn that it was able to allocate an extra £100 million to the National Health Service as a result of our commercial success overseas.

I would also like to pay tribute to our customers. Without customers, demanding but good customers, there would be no BNFL and no jobs. As a company we have always tried to look after their interests and to be customer friendly. I think we have made great progress in this direction over the past six years, and I am sure that we shall make still further progress in this direction in the years ahead.

Finally, I would like to thank all those in the communities surrounding our plants and particularly the people of West Cumbria, where our largest plant is located, for all of their support and friendship. Both a very large number of the individuals working for BNFL and the company itself are closely involved in virtually every aspect of local life and play a very positive role in these communities. Before taking up my job, I expected to be confronted with a good deal of NIMBY (Not In My Back Yard) sentiment, but instead invariably found constructive dialogue, support and friendship. To all of BNFL's stakeholders I offer my most sincere personal thanks and my best wishes for the future.

Chief Executive's Review

Company performance

BNFL's consistent financial performance in 1997/98, despite a continued downturn in Magnox reprocessing throughput, is testament to the major progress we have made over the past few years in diversifying our income streams, internationalising our business, reducing our costs and winning new business.

For the second year in a row, Magnox reprocessing throughput has fallen from a peak of nearly 1,600 tonnes in 1995/96 to 600 tonnes in 1996/97 and 520 tonnes in 1997/98. Despite this fall, BNFL has met all of its financial targets with turnover and profit remaining largely the same as last year.

With the integration of Magnox Electric into BNFL in January this year, we have now essentially lost the income from one of our largest customers. More of the 'self-help' we have been deploying over the past two years will therefore be necessary in the future to ensure we gain the major long-term benefits I see flowing from Magnox integration whilst maintaining our short-term profitability. Our performance in 1997/98 has convinced me that we can achieve both of these objectives. We will be accelerating many change initiatives across the business in the coming year, although I expect next year's profits to be depressed as a result of integration but improving rapidly thereafter.

With the acquisition of the Magnox power stations, we have now established the Magnox Generation Business Group within BNFL. The business group consists of the six operating Magnox stations and their technical support teams acquired on integration, BNFL's existing Magnox stations at Chapelcross and Calder Hall and the Magnox fuel reprocessing facilities at Sellafield. A full strategic review of this integrated business has just been completed confirming that significant long-term opportunities for enhancing revenues and reducing liabilities will come from the bringing together of BNFL and Magnox Electric.

Winning new business

Major contracts signed during the year include the complete nuclear services deal with British Energy, worth up to £1.8 billion; and the £54 million contract to decommission the Windscale Pile 1 at Sellafield. Our US company, BNFL Inc., continued to grow, progressing its \$2.5 billion worth of cumulative clean-up contracts with the US Department of Energy at Savannah River, South Carolina; Rocky Flats, Colorado; Oak Ridge, Tennessee; Idaho Falls, Idaho and Hanford, Washington State during the year. We will continue to grow our clean-up business in the years ahead and to build upon our newly acquired reactor decommissioning skills to broaden our market base.

With the integration of Magnox Electric, some 40% of BNFL's business is now directly linked to the UK electricity pool price and a further 20% indirectly linked through our UK customers. Electricity market deregulation continues to drive down prices not only in the UK but also internationally. Such market pressures present both challenges and opportunity. The challenge for BNFL is to continue the process of reducing our costs so that we can help our customers compete. In 1997/98 BNFL, on a standalone basis, achieved a 7% reduction (£57 million) in its controllable costs. Magnox Electric made an 11% (£39 million) saving. Challenging cost reduction targets for the current financial year are already being pursued across the group.

The opportunities presented by deregulation come from the re-structuring and consolidation of the global nuclear industry which increased competition is beginning to bring.

Internationalisation

At the date of approval of these accounts we anticipate that BNFL will take a major step towards becoming a major international nuclear services provider following the \$1.2 billion acquisition of Westinghouse's nuclear business with our US partner Morrison Knudsen. The deal is due for completion by the end of 1998.

The deal will strengthen a number of BNFL's businesses, including fuel manufacturing, which it will transform into a world leader. It will also increase BNFL's business with US utility customers and give access to other world markets. It will also help build a broader platform on which to grow our global clean-up business in one of the world's most significant nuclear markets.

Westinghouse has a world-renowned brand, has an accomplished management team and is a leader in nuclear technology. Combining this with BNFL's unrivalled technology base and order book, and Morrison Knudsen's long-established working relationships with the US Government will create a world-beating combination.

World-class standards

As we move firmly into the implementation stage of our 'Beyond 2000' strategy, one of the most important objectives which we have set ourselves is the achievement of world-class performance standards in safety and plant operations.

Amongst the more notable achievements of the year was Thorp exceeding its cumulative throughput targets by over 30 tonnes. The high-level waste vitrification plant exceeded its 300 container target by more than 10%. At our Springfields site, a total of 80 tonnes of fuel was produced in the newly-built Oxide Fuel Complex. Our newly integrated Magnox colleagues are also to be congratulated on achieving their 21 terawatt hour production target with special congratulations to Oldbury power station for achieving a UK record of 741 days continuous operation to March 31st.

In the drive for a world-class engineering organisation to deliver its major projects, the company also successfully completed the integration of its Engineering Division into BNFL Engineering Ltd to form a single organisation. We have made clear our intention for a world-class engineering organisation and there is now a clear way forward to achieve this.

Change initiatives

A key ingredient to achieving world-class standards in safety and plant operations is the effective leadership, development and empowerment of our people. A wide-ranging behavioural change initiative is currently underway in BNFL aimed at increasing efficiency and enhancing our competencies.

A highlight of the year has been the steady development of a partnership between management and workforce representatives for the implementation of change.

New employee principles were established and discussions progressed well on the implementation of a new employment contract, which we aim to have in place by April next year.

In pursuit of our target to improve customer satisfaction levels by 25%, we have also made notable progress during the year. But in all aspects of business, there is no room for complacency as a number of disappointments clearly illustrate.

The year was marred by an increase in the number of radiological and environmental incidents at Sellafield, including a Waste Vitrification Plant ruthenium release, a spillage of plutonium in the finishing plant, a release of caustic soda into the River Calder and a highly publicised contamination of pigeons from some of the older buildings on the site.

While production targets were exceeded in both Thorp and the Waste Vitrification Plant, there was the disappointing shortfall in Magnox reprocessing and the late start-up of the Waste Treatment Complex for plutonium contaminated material, resulting in just 56 drums being processed against the target of 350.

At the time of writing, we are also still awaiting decisions from the Government on two major issues - permission to proceed with the commissioning of the Sellafield MOX Plant and the variation to the Sellafield Aerial and Liquid Discharge Authorisation.

Future challenges

Of vital importance to our business is our determination to become world-class in the areas of safety, health and environmental care.

Safety is the top priority for all of us. We have made great improvements in our radiological safety record where I believe we can now truly call ourselves world-class, but we can never become complacent as the incidents I mentioned earlier have clearly shown.

Reducing injuries in the workplace is an equally vital part of BNFL's commitment to achieving world-class Safety, Health and Environmental (SH&E) performance. Progress is being made with the number of injuries resulting in absence from work for more than three days falling from 52 in 1996/97 to 39 in 1997/98.

This is a rate of 0.2 per 100,000 hours worked, which is some 60% better than the average in 1996 for the UK Chemical Industry as a whole and compares with a figure for BNFL of 0.29 for 1996.

The introduction of the Occupational Safety and Health and Administration (OSHA) system for recording accidents and incidents at work will give us an even clearer picture of the direction in which we are going in the future.

We have had a successful year in many areas and we have set challenging targets for the years to come. We can only achieve these targets, and grow into a truly world-class organisation, with the support and dedication of our highly-skilled workforce and the communities who live around our sites. In the coming year, I will be working with my Executive team to grow BNFL into a truly global nuclear company for the benefit of all of its stakeholders.

Financial Review

Financial performance

Turnover is £1341 million (compared to £1262 million in 1996-97), with Magnox Electric plc (Magnox) electricity sales accounting for £123 million. After adjusting for the impact of eliminating BNFL/Magnox intercompany turnover in the final two months of the year, turnover is comparable with 1996-97 at £1257 million.

Profit before interest and tax (PBIT) is £43 million (compared to £129 million in 1996-97) with net financing gains of £156 million (1996-97 £87 million) resulting in a profit before tax (PBT) of £199 million (compared to £216 million in 1996-97). After adjusting for the impact of consolidating Magnox results, profit before tax for the BNFL standalone group is the same as the prior year at £216 million.

Tax charges of £77 million have resulted in a profit after tax of £122 million (compared to £125 million in 1996-97). After adjusting for the impact of consolidating Magnox results, profit after tax for the BNFL standalone group is £153M.

Shareholders' returns

An interim dividend of £20 million was paid in December. The Board proposes a final dividend of £33 million, making a total of £53 million for the year (compared to £46 million in 1996-97).

Shareholders' funds have increased by £65 million to £632 million, and the pre-tax return as a percentage of average shareholders' funds is 33%.

Cash flow

The Group's strong cash flows have continued, with a £303 million inflow before use of liquid resources and financing (compared to a £96 million inflow in 1996-97). This figure is after a £25 million outflow in respect of Magnox for the final two months of the year. Increases in cash inflows from operations of £47 million (due to the net effect of changes in contract payment profiles with certain customers and cash outflows in respect of Magnox), combined with increased investment income of £37 million and reductions in tax payments and dividends totalling £77 million have resulted in the improved cash flow.

Net funds have increased from £1380 million to £4447 million with £2764 million of this increase being due to the acquisition of Magnox. These funds, however, are not 'free cash'. A significant proportion represents advance payments from customers where funds will be required to cover the cash outflows of the remaining work. In addition, a proportion is required to be retained to cover future nuclear liabilities expenditure.

Acquisition of Magnox

The acquisition of Magnox on 30 January has had a fundamental impact on the financial structure of the Group. That having been said, there was no impact on the Group's net assets position at 30 January 1998 as a result of the acquisition. The fair value to the Group of the net assets acquired was equal to the consideration paid and therefore no goodwill arose on the acquisition. An increase of £8 billion in provisions for nuclear liabilities has been offset by nuclear liabilities investment portfolios and other investments of £3.4 billion, an undertaking provided by the Government for £3.7 billion, and £900 million of other assets. The Government undertaking includes an agreed payment profile and interest at 4.5% above inflation on the outstanding amount as payments are not scheduled to commence until 2008 and will be spread over an 8 year period. Further details are set out in note 10 to the accounts.

Nuclear liabilities

The Group's share of total future discounted nuclear liabilities is £10.1 billion (compared to £1.6 billion in 1996-97) with provisions having already been made in the Group balance sheet for over 90%. Of the increase, £8.6 billion is as a result of the acquisition of Magnox and the consequent consolidation of both Magnox site liabilities and their share of BNFL site liabilities. The Group remains committed to ensuring that funds are available to meet these long-term nuclear liabilities as they fall due and nuclear liabilities investments portfolios and the Government undertaking funds have been specifically earmarked for this purpose. These funds, combined with costs which will be recovered from customers under contracts, result in funds at 31 March 1998 being sufficient to cover 75% of future discounted nuclear liabilities. Further cash and short-term investments in current assets have already been earmarked to bring the level of funding up to 90%.

Corporate governance

For the full year ended 31 March 1998, the company has complied with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

Year 2000

As is well known, Computer Based Systems may not work correctly when the date progresses towards, through and beyond the year 2000. These systems have typically utilised two digits to record the year and may fail or behave erroneously when this registers 00. Any system which processes dates could be affected by this problem. Further, the operation of our business depends not only on our own systems, but to some degree on those of our suppliers and customers. The issue is referred to as the 'Year 2000 Problem'.

Within BNFL, a Company-wide project has been running since 1996 to ensure that the safety, commercial, environmental and legal interests of BNFL are fully protected from the impact of the 'Year 2000 Problem'. This project is being coordinated centrally and resourced locally. A four-stage approach is being adopted; "bottom-up"

inventory based assessment; "top-down" safety based assessment; contingency planning; and supply chain management. Investigation through to implementation and certification is being carried out on a risk/priority basis, with safety being the main driver. All potentially date aware items and all safety related items are being taken through the steps of a best-practice methodology which will result in Year 2000 Certification of each item. Within Magnox, a comparable project has been running since 1997.

In both projects, inventories have been established and risk assessments carried out, enabling plans to be developed to address the risks in time to avoid any adverse impact on the business. These plans include rectification (where appropriate), testing and implementation.

The cost of Year 2000 compliance is expected to be around £25 million (BNFL and Magnox) including both internal and external costs.

Thorp Business Group

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

Thorp Business Group, with its substantial asset base, covers all aspects of used fuel management and recycling. The past year has seen major progress in business development.

The Thorp plant operated particularly well during the year, exceeding (by 30 tonnes) its cumulative target of 1430 tonnes of recycled fuel since the start of operations. It has operated at peak rates of over five tonnes per day. Progress on the encapsulation of waste is also good.

Just as production has improved, so too has safety and environmental performance during the year.

Accident rates and radiation doses to workers have reduced and all discharges have been kept within authorised limits. In recognition of this, the Group has been awarded two gold awards from the Royal Society for the Prevention of Accidents (RoSPA).

Improvements were also made in the reduction of electricity and water consumption and in recycling or reducing the use of plant materials. The Group was also accredited to ISO 14001, the standard for environmental management systems by Lloyds Register.

The year has seen a number of major commercial successes - the highlight being the concluding of a deal worth up to £1.8 billion with British Energy. A significant part of this deal covers the reprocessing and storage of the remaining used fuel from British Energy's Advanced Gas-cooled Reactor power stations. The deal demonstrated the value of a new partnership approach, which is now being extended to other key customers.

The order book for Thorp's second ten years of operation (2004-14) is now more than half full.

The new Sellafield MOX Plant also nears completion with all equipment in the manufacturing areas of the plant installed. Testing of equipment and non-active commissioning is now well advanced.

At the time of writing, BNFL is currently awaiting final approval to begin commissioning the plant from the Secretary of State following the Environment Agency's review of both the environmental impact and economic benefit of the plant.

The smaller-scale facility (MDF) continued to make fuel for European customers and during the year received accreditation to the international quality standard ISO9002.

Once again, the year has also seen some notable successes in transport.

The distance covered by the Pacific fleet operating between Europe and Japan is now more than four and a half million miles - all completed without any incident resulting in a release of radioactivity to the environment.

BNFL continues to transport UK and continental used fuel and has recently set up a rail company - Direct Rail Services (DRS) - for the transport of used fuel in the UK. Preparations have now been made to carry fuel to Sellafield from both British Energy and Magnox stations in the years ahead.

Magnox

Magnox generation business group

The integration of BNFL and Magnox Electric widens the company's presence in the UK and combines the technological skills and expertise of some 40 years in the nuclear field.

The process of integrating Magnox Electric plc and BNFL began with share transfer at the end of January 1998. A new Magnox Generation Business Group has now been established, incorporating the six operating Magnox Electric power stations, BNFL's Calder Hall and Chapelcross power stations and the Magnox reprocessing plant at Sellafield.

The transfer represents a very significant milestone in the development of the nuclear industry in the UK. It will enable BNFL to maximise the value of the Magnox business by operating the stations for as long as it is safe and economic to do so.

These stations, the workhorses of the nuclear generating industry, continued to supply an important part of the country's electricity needs with an electrical capacity of 3400 megawatts and a current annual output of 24 billion kilowatt hours, the Magnox power stations safely and reliably produced a combined output equivalent to 8% of the electricity demand for England and Wales.

The new Magnox Generation Business Group must now build upon the best practices of both companies in the years ahead. The challenge will be to achieve the cost and efficiency savings which will allow the Magnox stations to successfully compete for profitable electricity sales in the UK market.

During the past year, Magnox reprocessing has successfully continued to build on improvement initiatives for safety and cost reduction, while meeting customers' needs in respect of fuel receipt, storage and reprocessing.

Safety statistics reflect the significant successes in this area with the lost-time accident frequency rate in the financial year down to 0.19 per 100,000 hours worked, compared to the 1997 figure of 0.3.

Minor accidents have also reduced by 10% and close attention paid to the management of radiological dose has meant that the number of staff who received more than 10 millisieverts (mSv) has reduced to six from 16 in the previous year, despite a major engineering programme.

The emphasis on safety was further highlighted by the implementation of the 'Behavioural Safety Culture Change' programme which, focuses on specific behaviour which may lead to accidents, and also the 'Safe and Unsafe Acts' (SUSA) analysis, which is being introduced throughout the business area. SUSA is an observation and discussion technique for injury prevention.

In June last year, Magnox reprocessing was granted certification under ISO 14001, the standard for environmental management systems. Accreditation for 'Investors in People' was also gained.

Connection of the new south dissolver and the installation of a new plutonium evaporator in the reprocessing plant were successfully completed to time and budget during a 34-week outage. This is a major achievement for the business and will secure the availability of Magnox reprocessing until well into the next century.

However, active commissioning of the new installation took longer than anticipated and reprocessing operations throughout the remainder of the year were disrupted. Considerable effort has been put into restoring normal levels of production.

The Site Ion Exchange Effluent Plant (SIXEP), which treats low-level liquid waste before discharge to the sea, has now completed 12 years of trouble-free operation with more than 99% availability.

The AGR fuel dismantler has also operated steadily preparing fuel for reprocessing in Thorp and maintaining stocks of undismantled fuel in the Fuel Handling Plant at minimum levels.

In order to store naval submarine fuel as part of a contract with the Ministry of Defence, work on a new Wet Inlet Facility is continuing to programme to meet the operational date of 2001.

There was continued progress on the reduction of operating costs throughout the business with an 8 % reduction achieved during the financial year. A significant contribution to this was the pilot implementation of 'Total Production Manufacturing' techniques with workforce involvement and training to improve performance throughout the business.

Fuel Business Group

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

During the year, Fuel Business Group has consolidated previous improvements in safety, efficiency and cost reduction and carried out a thorough review of its future strategy.

Great emphasis was once again placed on safety and there were continued reductions in worker radiation doses. Conventional safety records also improved in 1997 compared to the previous year and efforts are continuing to make even greater progress. The Business Group did not have a single lost-time accident greater than three days in the last six months of the financial year.

The Business Group has continued to build and maintain links with the local residents around its Springfields site near Preston in the North West of England and has also worked closely with its major customers such as British Energy for the mutual benefit of all involved.

The Oxide Fuels Complex has continued to improve in reliability and efficiency with the majority of AGR fuel now being manufactured in this state-of-the-art manufacturing facility. Indeed, five of the UK's seven AGR power stations are now supplied by the Oxide Fuels Complex.

The training and development of all employees was once again given the highest priority within the Group and further improvements in flexibility, efficiency and effectiveness among the workforce were achieved. Employee representatives and management are working together on a number of issues, including change and stress management, equal opportunities and the winning of external business for the Skills Training Centre.

Fuel Business Group also encompasses the Uranium Asset Management Organisation and the company's shareholding in Urenco. Both of these organisations continue to perform well.

Waste Management and Decommissioning

The Waste Management and Decommissioning Business Group is committed to providing customers with cost-effective world-class solutions to manage their nuclear liabilities.

The Waste Management and Decommissioning Business Group manages the ongoing operational wastes and the historical legacy at Sellafield.

The Business Group's experience gained at Sellafield provides an excellent platform on which to build an external global clean-up business, providing customers with safe, cost-effective, world-class solutions to manage their nuclear liabilities.

Safety is widely recognised and accepted as taking the highest priority in all of the Group's activities, with the number of lost-time and minor injuries continuing to decline. Radiation dose uptake also continues to fall throughout the Group. The number of employees exceeding 10 mSv annual dose is now the lowest ever. In recognition of management commitment to training, Waste Management and Decommissioning at Sellafield and Risley now has 'Investors in People' accreditation.

The Waste Management Services Group won a RoSPA gold award to reflect its continuous safety improvements over the last three years.

The Business Group played a major part in acquiring ISO 14001, the standard for environmental management systems at Sellafield and has successfully passed its first audit since accreditation.

A 5% energy saving further reflects the Group's commitment to environmental matters as well as business efficiency.

Following the transfer of Magnox Electric plc shares to BNFL earlier this year, the Business Group is now working to integrate the Berkeley, Hunterston A and Trawsfynydd Magnox reactors, which are currently being decommissioned to form a reactor decommissioning business unit.

The clean-up programme of historic waste at Sellafield is now firmly established, with over £500 million of capital projects underway.

Production on the Vitrification Plant achieved a record 336 containers. The programme of upgrading this vitrification facility is progressing, and includes some particularly significant process improvements.

Plants treating historic and operational intermediate-level waste by encapsulation reached significant milestones, with the Wastes Encapsulation Plant and the Waste Packaging and Encapsulation Plant achieving 10,000 and 4000 drums respectively. The Wastes Encapsulation Plant has now started active commissioning of the second drum store, with the first drum being received into the store in December 1997.

The Waste Treatment Complex completed its first phase of active commissioning and moved into the second phase following regulator approval. This enabled compaction and grouting of drums to commence early in March this year. Such experience has contributed to winning a \$1.2 billion US privatisation contract for BNFL Inc. at Idaho Falls.

The Group, together with BNFL's engineering arm, is actively seeking to use the operational and technical experience gained at Sellafield and other UK sites to establish itself as a major player in the global nuclear clean-up market.

There are huge opportunities to apply our waste management and decommissioning expertise to new and existing customers in the UK, North America, the former Soviet Union, Eastern Europe and Asia.

BNFL's track record provides a 'showcase' for the company to demonstrate to potential customers how we can apply world-class solutions to complex nuclear liability problems.

Over the last two years, the Group has also established a significant position in the very competitive UK decommissioning market with contracts won at Dounreay, Aldermaston, Harwell, Hunterston and Trawsfynydd.

Winning the £54 million Windscale Pile 1 contract was a major success, and was achieved in collaboration with BNFL Engineering Ltd, Rolls Royce and Nukem.

A cooperative R&D agreement with the Idaho National Engineering and Environmental Laboratory (INEEL) was also signed regarding bio-decontamination technology. This partnership will have particular relevance to the Advanced Mixed Waste Treatment Plant privatisation project which BNFL Inc. are pursuing on the same Idaho site.

Engineering

The main business drivers for BNFL Engineering Ltd continue to be to provide project management, engineering and safety support to BNFL's operations in existing and future businesses. Engineering continues to demonstrate value for money by competing successfully for both BNFL and external work.

During 1997, the engineering organisation was successfully integrated into a single unit operating under BNFL Engineering Ltd management. The organisation operates from several locations to give clients a flexible and responsive service.

The company places the highest importance on quality, safety, health and environmental matters. In 1997, the company won five prestigious RoSPA gold awards, two silver, one bronze and two merit awards in recognition of the high safety standards on construction sites at Sellafield. BNFL Engineering Ltd is also accredited to the standard ISO 14001 for environmental management systems.

A significant portion of the company's work is focused on supporting internal BNFL customers at Sellafield. These include major capital projects under construction such as the third operating line for the Waste Vitrification Plant, the Silo Emptying Plant for recovering waste from concrete silos, and the Drypac Plant for conditioning retrieved waste.

The Sellafield MOX Plant, which will recycle plutonium into highly-efficient mixed oxide fuel, was handed over to the MOX Operations Group in June 1997, and the engineering team continues to provide design and technical support during commissioning. Progress continues on the BNFL Technology Centre at Sellafield which will provide the company with world-class research and development facilities. Engineering is also involved in a wide range of other work associated with new and existing facilities at Sellafield.

In its drive to continually improve customer satisfaction, the company has also worked to develop partnerships during the year.

A joint venture with Amec Construction Ltd resulted in the successful award of a major contract for the design and construction of a Waste Retrieval and Process Building for the Sellafield site.

The company is also working as part of an international alliance to design and construct the new Trident submarine refurbishment and refit facility at Plymouth for Devonport Management Ltd.

Support for BNFL Inc. continues in pursuing US Department of Energy contracts at Idaho Falls, Rocky Flats and Hanford. A number of contracts for waste management and decommissioning in Central and Eastern Europe have also received funding from the European Commission during the year.

BNFL Engineering Ltd has also recently acquired a 49% stake in the German nuclear engineering company, Kraftwerks and Anglagenbau (KAB). KAB has experience which will

help give BNFL easier access to nuclear engineering skills and technology in Eastern Europe and the former Soviet Union.

In Japan, further contracts have been won, building on the Technology Transfer Agreement with Japan Nuclear Fuels Ltd.

The company's first equipment contract in China for the Beijing Institute of Nuclear Engineering saw the completion of the design and manufacture of a special purpose transport container for the Lanzhou Nuclear Fuel Complex.

BNFL Instruments Ltd

On 1 October 1997, BNFL Instruments Ltd and the Pajarito Scientific Corporation (PSC) of Los Alamos, New Mexico, USA, were integrated to form a global nuclear material assay business.

The integration of the two companies will strengthen BNFL Instruments' position as a world leader in the supply of radiometric products and services to the worldwide nuclear industry.

The company's vigorous new product development programme continued to prove successful during the year, with new instrumentation contracts secured in Germany, France, Japan, Kuwait, USA and the UK.

BNFL Instruments has also formed a new company in the United States, called Mobile Characterisation Services LLC. Together with US partners, Canberra Nuclear and VJ Technologies Inc., the new company will pursue the US market for the analysis of waste in drums and crates using suites of instruments mounted in mobile trailers.

BNFL Inc.

BNFL Inc.'s order book now stands at some \$2.5 billion. 1997 was again a successful year where the company doubled its revenue.

BNFL Inc. once again had a very successful year, with the signing of a number of new contracts. The US company's order book is now worth some \$2.5 billion. For the sixth year in a row, BNFL Inc. more than doubled its revenue to a total of \$67.6 million in 1997. For the first time in its history, the company made a net profit after interest and tax.

Although 1997 was mainly a year of progress for the company's existing projects, it was marked by the award of a \$238 million contract for the decontamination and decommissioning of the US Department of Energy's (US DoE) Gaseous Diffusion Plant (GDP) at Oak Ridge, Tennessee.

This is the first such project to clean-up gaseous diffusion plants in the United States and is part of a national effort to return such facilities to industrial use.

The contract involves the dismantling, decontamination and removal of the process equipment and other materials within three of the GDP buildings, as well as the recycling of valuable metals for future use.

The first building will be decontaminated and ready for reuse by the year 2000 and the remaining two buildings by 2003. By the end of the year, the project had achieved all of its major milestones and had completed 330 days without a lost-time accident.

During the year, BNFL Inc. also ensured that all of the resources were in place to tackle the major technical challenges presented by its two largest contracts to date at Hanford, Washington and at Idaho Falls, Idaho.

Work on the first phase of the Tank Waste Remediation System project at Hanford, has progressed steadily. This project involves the design, licensing, construction, operation and finally the decommissioning of a vitrification facility to treat and immobilise liquid high-level radioactive waste currently stored in 177 tanks.

The company's other major award, the \$1.18 billion contract to design, build and operate an advanced mixed waste treatment plant at the Idaho National Engineering and Environmental Laboratory is also moving forward.

This facility involves the separation, treatment and packaging of at least 65,000 cubic metres of plutonium contaminated waste for final disposal at the Waste Isolation Pilot Plant in New Mexico.

In addition to its major role in privatised clean-up activities for the US DoE, BNFL Inc. has also significantly contributed to management and clean-up operations at two former nuclear weapons production sites.

In its second year at the Rocky Flats site in Colorado, the company's subsidiary, Rocky Mountain Remediation Services, achieved a 'Best in Class' industrial safety rating for the entire DoE complex. In addition, it achieved almost 100% of its set performance measures.

At the Savannah River site in South Carolina, another subsidiary, the BNFL Savannah River Corporation, received excellent performance ratings that resulted in higher-than-planned award fees for the year. From its inception, the company has operated for more than one million hours without a lost-time accident.

Safety, Health and the Environment

BNFL strives to achieve world-class performance in the fields of both conventional and radiological safety.

BNFL is committed to achieving world-class safety, health and environmental (SH&E) performance and, during 1997, the company made steady progress towards achieving this goal.

Reducing injuries in the workplace is a vital part of BNFL's commitment to achieving world-class SH&E performance, so it is pleasing to record that the number of injuries resulting in absence from work for more than three days fell from 52 in 1996/97 to 39 in 1997/98.

For the financial year 1997/98, the company achieved its lost-time accident rate target of 0.2 per 100,000 hours worked.

Unfortunately, a number of incidents and two safety-related prosecutions indicated both the need for further improvement and the significant amount of work still required to achieve the necessary standards in some areas.

Behavioural safety is a key step towards world-class safety performance and is now being extended to all company sites.

A key feature of this process is the involvement of the entire workforce, resulting not only in a reduction in injuries, but also improvements in safety culture.

During the year, five major construction projects received gold awards and two received silver awards from RoSPA.

To help reduce injuries even further in the future, BNFL is now using the American Occupational Safety and Health Administration (OSHA) injury and ill-health recording system. This system records not only lost-time injuries but also those injuries which do not result in absence from work. Focusing on the causes of these injuries should help us to move towards the long-term target of zero injuries.

The radiological protection of our workforce, contractors and visitors remains a key activity. BNFL goes further than the current legal dose limit of 50 mSv by adopting a voluntary annual dose restriction of 20 mSv and a target of 15 mSv.

Control of radiation exposure of the workforce continued to improve during 1997 with reductions in both average and collective dose to BNFL employees from occupational exposure. However, one employee and one contractor exceeded 20 mSv during the year, but both were within the 50 mSv legal limit.

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.

The challenge of world-class performance in occupational health was met by the establishment of an occupational health task-force with wide representation from within the company. This has reviewed the overall provision of occupational health and identified and prioritised measures to achieve a high-quality service. Among measures put in place have been policies on stress and work-related upper limb disorders.

The company's 1997 Safety, Health and Environment 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 'Discharges and Monitoring of the Environment', will be published later this year. This report gives a more detailed insight into the company's discharges to the environment of both radioactive and non-radioactive materials.

Gaseous and liquid radioactive discharges from BNFL's operating sites continued to be well within all authorised limits. Even for the most exposed members of the public living near to our sites, the maximum radiation dose they could receive due to discharges from the sites during 1997 was at very low levels - equivalent to the background radiation dose they would receive from spending nine days in Cornwall, where natural radiation levels are more than three times the UK national average.

Breaches in the authorised limits for non-radioactive discharges has been a major area of difficulty during 1997, particularly at our Springfields and Sellafield sites. Each event is investigated to identify and eliminate shortcomings.

One of these incidents resulted in an accidental discharge of caustic soda from the Sellafield site into the River Calder, resulting in the killing of a significant number of fish. BNFL was subsequently prosecuted and fined for this incident.

The company's SH&E Council brings together key BNFL people and eminent individuals from outside the company to provide an authoritative and independent overview of the company's approach to safety, health and environmental protection.

One of the main aims of the Council is to encourage and raise the profile of SH&E performance improvement across the company. This is being achieved through the introduction of an annual award for the most significant improvement in SH&E performance. This award was won by a support team from Chapelcross who discovered a more efficient and safe replacement for the chemical hydrazine which is used to control corrosion in the steam generating circuits of the reactors.

Business, Technology, People and the Community

Commercial

During the year, BNFL signed contracts worth more than £2.5 billion. Underpinning this achievement was an increased emphasis on being customer-driven in every way.

Last year, BNFL's exports increased by £23 million to £445 million.

In China, strong long-term relationships are being built and some significant engineering business has been won, while in South Korea, BNFL has won business in uranium hex fluoride conversion and transport services. In partnership with Hyundai Engineering Co. Ltd., BNFL has also secured the decommissioning scheme contract for two research reactors in Seoul.

The company's overseas offices provide an important link with our customers, and last year BNFL extended its overseas presence to the Ukraine.

BNFL is firmly committed to further expanding its overseas business, and its presence in various parts of the globe is helping to build and strengthen relationships and develop a better understanding of the politics, economics and culture of many different countries.

Research and Technology

BNFL has a strong technology base underpinning its business and, as such, the ongoing investment in technology is significant, with an expenditure of more than £69 million last year.

This investment covers a wide range of activities - including direct plant support, the preparation of safety cases and the application of existing technologies in novel ways. All of this work helps win new business by building confidence in the company's technical competence.

The introduction of a new BNFL Innovation Process (BIP) has enabled a systematic, auditable and consistent approach to be applied to the technology portfolio. This has enabled BNFL's businesses to critically evaluate their technology needs and determine which projects they should invest in.

It is this focusing of the business group needs which has enabled Research and Technology to provide a targeted technology portfolio which aligns with the company's business drivers. Through considerable effort, the 'year end' has seen business sponsorship of the portfolio rise from 50% to 80%.

The Thorp and Waste Management and Decommissioning businesses saw the greatest investment in research and technology over the year. Principally, this was in support of the ramp-up of the Thorp plant, support for the Sellafield MOX Plant and in support of various capital programmes in the waste management area.

Substantial effort has also been put into BNFL Inc.'s clean-up and decommissioning contracts in the United States. In the fuel area, much of the effort has been in the day-to-day support of the manufacturing plants.

Most of the 20% corporately-sponsored work has continued to be directed at maintaining an innovative, progressive technology and science base, with investment in longer-term projects. In particular, the programme aims to provide a continued supply of novel and innovative technical ideas into the portfolio and the development of new generic capabilities.

The company has continued to invest outside BNFL, with 150 contracts currently placed with 50 universities, and an annual expenditure of some £4 million. The future intention is to build true partnerships with a small number of key universities.

On the international front, Research and Technology has provided technical expertise in laying the foundations for longer-term relationships.

This is an ongoing strategy, illustrated by:

- the agreements with Korea and Canada for the supply of Thorp-derived recycled uranium;
- providing input to the European Commission's Fifth Framework programme on nuclear energy systems to ensure that it is relevant to BNFL's own fuel cycle portfolio. This includes looking at what direction the company should be taking in future long-term programmes and in its European alliances;
- two-way secondments of staff with Japanese research and technology organisations.

The technology base is now consolidated into a single Research and Technology organisation across the company focused on providing a safe, effective, and value for money service.

Human Resources

People present a significant value to BNFL in that it is the people who make our strategies come alive and drive the company to become world-class in all of its operations.

During the year, substantial investment has been made in the human resource processes, people development and trade union relationships which resulted in a two-year pay deal for all employees. These activities form the basis of a new contract of employment currently under discussion to create a flexible, and multi-skilled workforce.

A Business Leader Development Programme, designed and delivered by the Institute of International Management Development in Lausanne was launched and Change Implementation Workshops have been introduced in the company which will give managers, team leaders and union representatives the skills, tools and techniques to help introduce change throughout the company.

Following the merger with Magnox Electric earlier this year, Human Resource Principles were agreed on the way to handle the full integration of the two companies to ensure transparency and equity of treatment of any transfer between the two organisations. The

company's role in the community continued with plans to integrate employee development with work experience in a variety of community projects.

Corporate Community Involvement

BNFL's policy is to establish long-term relationships with the local communities around its sites and to work in partnership with them to achieve a vibrant and healthy community environment.

Over the years, BNFL has demonstrated a commitment to the local communities in the North West of England and South of Scotland. The range of projects supported spans economic regeneration, education, charitable help and sponsorship.

The company has also made major investments in helping the West Cumbrian economy through its support for the past 10 years of the West Cumbria Development Fund together with various development companies, investment and enterprise agencies.

BNFL has also provided substantial financial support to the Westlakes Research Institute where it is hoped the post-graduate college will develop further, and help to engender an entrepreneurial spirit to bring about greater diversification in the local West Cumbrian economy.

BNFL Enterprise Ltd has continued to contribute to regional economic development and, in the last year, has helped two ex-employees to set up their own company 'Fluorogas' by making an equity investment. This brings BNFL Enterprise's portfolio of companies to three.

BNFL aims to work in partnership with the communities in which it operates and is a keen supporter of 'Business in the Community', Prince's Trust Volunteers and Prince's Youth Business Trust. Our community support programme is based upon tackling some of today's more difficult social issues.

Examples of the projects BNFL has supported include:

- a home for the blind, in Whitehaven was given a grant to install the latest alarm system for building evacuation;
- Jibcraft, Barrow, which provides workshop facilities for the long-term unemployed, and people with disabilities;
- The funding of two development posts at the Keppleway Project at Broughton-in-Furness, in the Lake District. This is an education and activity centre, which offers programmes of learning, activity or rest for disabled and abled people;
- The establishment of the West Cumbria Charitable Trust which has been set up to support organisations and groups dealing with urban/rural regeneration, environmental improvement and helping the young and elderly;
- Life Education Centre in Lancashire promoting drug awareness;

- A further development of the partnership with the Medlock inner city community in Manchester is providing funds over a three-year period for a sports centre manager. This initiative attracted Sportsmatch funding from the Government's Business Sponsorship Incentive Scheme for sport;
- An Open Arts Project in Runcorn to raise the self-esteem and confidence in young people who have become disaffected through exclusion from school, being in care, or experiencing trouble with the law.

BNFL believes that the real power of community involvement is in the company's workforce who give their time, their concern and their commitment to helping others. The company's policy is to support its workforce in their work in the community and encourages all forms of volunteering.

BNFL, 'Where Science Never Sleeps', also supports the teaching of science, technology and engineering by commissioning the production of educational resources to help teachers at primary and secondary school levels to deliver the national curriculum.

The company launched two major educational resources this year. 'KINGDOM', a CD-ROM designed to encourage interest and careers in engineering and 'Investigating the Sellafield Visitors Centre', which consists of teaching notes and a video based on the Centre. This was produced to help students gain a GNVQ in Leisure and Tourism.

Support is provided to environmental projects for young children through the Yottenfews nature trail project based at Sellafield and a nature trail located on the Springfields site.

Report of the Directors

For the year ended 31 March 1998

1. The Directors of British Nuclear Fuels plc have pleasure in submitting to the shareholders their twenty-seventh Annual Report together with the audited accounts for the year ended 31 March 1998.

Review of the year

2. Group results

Information on the Group's results is contained in the Financial Review on pages 9 to 11.

3. Dividend

The Directors recommend that a final dividend of £33M should be paid making a total of £53M for the year (1997 £46M).

4. Activities

On 30 January 1998 the Group acquired the entire issued share capital of Magnox Electric plc. Further details are included in note 9 to the accounts.

There were no significant changes in the main activities of the Group although the electricity generation activity has increased significantly in scale following the acquisition of Magnox Electric plc.

The main activities are as follows:

a. Nuclear fuel services and waste management and decommissioning
The procurement of uranium; the manufacture and supply of uranium and plutonium based fuels and the provision of related fuel cycle services for nuclear power stations; the transportation of radioactive materials; the reprocessing of nuclear fuel after use and associated waste treatment and storage; and the provision of cost-effective, world-class solutions to managing nuclear liabilities.

b. Electricity generation
The generation and supply of electricity from predominantly 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 12 to 28.

5. Research and development

The Group has a significant research and development programme and this will continue. During the year, expenditure amounted to some £69M (1997 £76M) which includes

expenditure of £41M (1997 £50M) not specifically recoverable directly from customers and as such charged against profits. The principal areas are referred to in the Operational Review on pages 25 and 26.

6. Personnel

The average number of persons employed by the Group during the year was 13,183 (1997 12,977). At 31 March 1998 the total number of persons employed by the Group was 16,226 including 3,618 employed by Magnox Electric plc. Further information is given in the Notes on the Accounts on page 49.

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.

7. 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, Sir Norman Wooding, Mr D J S Roques, Miss K M H Mortimer, Prof A G J MacFarlane, Lady Shuttleworth, Sir John Boyd (appointed 30 October 1997) and Mr J D Rimington (appointed 29 January 1998).

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.

8. 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.

9. Contributions for political or charitable purposes

No contributions were made for political purposes. Charitable contributions during the year amounted to £5.5M (1997£2.4M). These contributions include £4.3M to support West Cumbrian economic regeneration initiatives.

10. 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 was the Company standard which operated throughout the year, except where otherwise agreed, with almost 80% of Net Monthly Account invoices being paid on time. 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 average age of invoices outstanding at 31 March 1998 was 39 days (1997 43.3 days).

11. 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', written over a horizontal line.

A J Shuttleworth, Secretary
25 June 1998

Corporate Governance

Statement of compliance

For the full year ended 31 March 1998 the Group 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 Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. 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 Group and developing appropriate policies to manage those risks. A risk management approach is used to focus the work of the internal audit function on the Group's most significant areas of risk and to determine key control objectives.

- ***Information systems***

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

- ***Main control procedures***

The Group 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 Group 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 Group 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

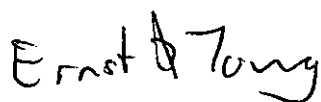
In addition to our audit of the accounts we have reviewed the directors' statement on pages 32 and 33 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice recommended for our review by the Cadbury Committee. The objective of our review is to draw attention to any non-compliance 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 32 and 33 other than the opinion on effectiveness, which is outside the scope of our report, and going concern on page 33, 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 32 and 33 appropriately reflects the company's compliance with the other paragraphs of the Code recommended for our review.



Ernst & Young
Chartered Accountants
London

25 June 1998

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
Prof A G J MacFarlane

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 two 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 1998 £	Pensions 1997 £
					1998 £	1997 £		
Executive								
J R S Guinness	94889	-	11456	28087	134432	129211	9408	9846
J J Taylor	231750	-	22373	68598	322721	351588	20550	20550
L N Chamberlain	161298	-	9744	47744	218786	219365	18065	17539
G L Watts	144200	-	18518	42827	205545	193025	10983	8402
R A N Chiese	194560	-	24248	59513	278321	247095	18640	15000
G R Smith	144200	-	9965	43981	198146	67999	16150	5284
Former Directors	-	-	-	-	-	202057	-	19303
	<u>970897</u>	<u>-</u>	<u>96304</u>	<u>290750</u>	<u>1357951</u>	<u>1410340</u>	<u>93796</u>	<u>95924</u>
Non-Executive								
N Wooding	-	12000	-	-	12000	11000	-	-
D J S Roques	-	11000	-	-	11000	11000	-	-
K M H Mortimer	-	10000	-	-	10000	10000	-	-
A G J MacFarlane	-	19700	-	-	19700	12000	-	-
Sir John Boyd	-	4212	-	-	4212	-	-	-
J D Rimington	-	1722	-	-	1722	-	-	-
Lady Shuttleworth	-	10000	-	-	10000	10000	-	-
Former Director	-	-	-	-	-	10000	-	-
	<u>-</u>	<u>68634</u>	<u>-</u>	<u>-</u>	<u>68634</u>	<u>64000</u>	<u>-</u>	<u>-</u>
Total	<u>970897</u>	<u>68634</u>	<u>96304</u>	<u>290750</u>	<u>1426585</u>	<u>1474340</u>	<u>93796</u>	<u>95924</u>

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

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 Combined Pension Scheme of the UKAEA. Details of these Directors' pension benefits are as follows:

	Accrued pension benefits		Increase after inflation £	Accumulated lump sum		Increase after inflation £	Transfer value of increases £
	1998 £	1997 £		1998 £	1997 £		
J R S Guinness	9185	8871	-	27556	26613	145	16189
L N Chamberlain	75141	70996	2015	225424	212987	6047	66433
G R Smith	69546	65772	1801	208640	197314	5407	58966
	<u>153872</u>	<u>145639</u>	<u>3816</u>	<u>461620</u>	<u>436914</u>	<u>11599</u>	<u>141588</u>

Bonuses are earned for the achievement of individual targets and targets linked to the Group's performance, for example, in profit before tax.

On behalf of the Remuneration Committee

Norman Wooding

Sir Norman Wooding - Chairman
25 June 1998

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 39 to 65, 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 39 to 43. 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 35 and 36.

Respective responsibilities of Directors and Auditors

As described on page 37, 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 1998 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

Ernst & Young
Chartered Accountants
Registered Auditor
London

25 June 1998

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 1998.
- 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 the contracts 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, together with disposal of the associated waste.

ii. Provision is made for the defuelling, reprocessing and waste management of the used nuclear fuel from 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.

Pending resolution by the Government of the strategy for handling intermediate and high-level waste, the Group continues to base its provisions on a deep depository strategy.

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. For one of the schemes, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. Actuaries complete valuations at least every three years and, in accordance with their recommendations, annual contributions from the Group are paid to the scheme to secure the benefits as set out in the rules. The cost of these is charged against profits so as to spread the costs of pensions over employees' working lives.

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	1998 £M	1997 £M
Turnover - Continuing operations	1		
ongoing		1218	1262
acquisitions - Magnox Electric plc		123	-
		<u>1341</u>	<u>1262</u>
Less net operating costs and expenses	2	<u>(1316)</u>	<u>(1146)</u>
Operating profit from continuing operations	1		
ongoing		59	116
acquisitions - Magnox Electric plc		(34)	-
		<u>25</u>	<u>116</u>
Income from interests in associated undertakings		<u>18</u>	<u>13</u>
		<u>43</u>	<u>129</u>
Investment income	4	250	155
Less interest payable and similar charges	5	(94)	(68)
Profit on ordinary activities before tax		<u>199</u>	<u>216</u>
Tax on profit on ordinary activities	6	(77)	(91)
Profit on ordinary activities after tax		<u>122</u>	<u>125</u>
Profit attributable to minority interests		-	(1)
Profit for the financial year		<u>122</u>	<u>124</u>
Dividends	7	<u>(53)</u>	<u>(46)</u>
Retained profit for the year		<u>69</u>	<u>78</u>

Statement of total recognised gains and losses

For the year ended 31 March

	1998 £M	1997 £M
Profit for the financial year	122	124
Dividends	(53)	(46)
Currency translation differences on foreign currency net investments	(4)	(10)
Unrealised profit on investments at market value	18	(1)
Total recognised gains and losses relating to the year	<u>83</u>	<u>67</u>

Balance sheets

As at 31 March

As at 31 March			Group		Parent	
	Note	1998 £M	1997 £M	1998 £M	1997 £M	
Assets employed						
Fixed assets:						
Tangible assets	8	4748	4436	4503	4411	
Investments	9	1606	844	1064	959	
		<u>6354</u>	<u>5280</u>	<u>5567</u>	<u>5370</u>	
Current assets:						
Secretary of State's Undertaking due after more than one year	10	3700	-	-	-	
Stocks	11	226	192	82	84	
Debtors	12	475	405	878	701	
Investments and short-term deposits	13	4318	1455	1331	1252	
Cash at bank and in hand		156	40	-	-	
		<u>8875</u>	<u>2092</u>	<u>2291</u>	<u>2037</u>	
Less creditors: amounts falling due within one year	14	<u>(1062)</u>	<u>(971)</u>	<u>(832)</u>	<u>(980)</u>	
Net current assets		<u>7813</u>	<u>1121</u>	<u>1459</u>	<u>1057</u>	
Total assets less current liabilities		<u>14167</u>	<u>6401</u>	<u>7026</u>	<u>6427</u>	
Financed by						
Creditors: amounts falling due after more than one year	15	3330	3902	4350	3902	
Provisions for liabilities and charges	16	10186	1913	1988	1900	
Accruals and deferred income	17	17	18	17	18	
Capital and reserves:						
Called up share capital	18	33	33	33	33	
Other reserves		10	(4)	13	(1)	
Profit and loss account	19	589	538	625	575	
Shareholders' funds - equity interests		632	567	671	607	
Minority interests - equity interests		2	1	-	-	
		<u>14167</u>	<u>6401</u>	<u>7026</u>	<u>6427</u>	

John R S Guinness

Chairman

Ross Chiese
25 June 1998

Group Finance Director

Consolidated cash flow statement

For the year ended 31 March

		1998	1997
	Note	£M	£M
Net cash inflow from operating activities	24a	683	636
Returns on investment and servicing of finance	24b	174	137
Taxation	24b	(22)	(70)
Capital expenditure and financial investment	24b	(480)	(509)
Acquisitions and disposals	24b	(1)	(18)
Equity dividends paid	24b	(51)	(80)
Net cash inflow before use of liquid resources and financing		303	96
Management of liquid resources	24b	(46)	104
Financing	24b	(98)	(112)
Increase in cash in year	24d	159	88

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	
	1998	1997	1998	1997	1998	1997
	£M	£M	£M	£M	£M	£M
Nuclear fuel services and waste management and decommissioning	6951	6209	1038	1113	26	85
Electricity	7208	167	232	111	-	31
Other business	8	25	71	38	(1)	-
	<u>14167</u>	<u>6401</u>	<u>1341</u>	<u>1262</u>	<u>25</u>	<u>116</u>

Other business includes engineering services, information technology services and chemicals sales.

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
1997-98							
Fuel business group							
- total sales	17	2	8	4	31	227	258
- inter-business sales	-	-	-	-	-	(26)	(26)
- sales to third parties	<u>17</u>	<u>2</u>	<u>8</u>	<u>4</u>	<u>31</u>	<u>201</u>	<u>232</u>
Magnox business group							
- total sales	-	-	9	-	9	507	516
- inter-business sales	-	-	-	-	-	(137)	(137)
- sales to third parties	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>9</u>	<u>370</u>	<u>379</u>
Thorp business group							
- total sales	106	36	210	-	352	149	501
- inter-business sales	-	-	-	-	-	(12)	(12)
- sales to third parties	<u>106</u>	<u>36</u>	<u>210</u>	<u>-</u>	<u>352</u>	<u>137</u>	<u>489</u>
Engineering							
- total sales	5	-	1	5	11	274	285
- inter-business sales	-	-	-	(5)	(5)	(266)	(271)
- sales to third parties	<u>5</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>6</u>	<u>8</u>	<u>14</u>
Waste management & decommissioning							
- total sales	3	-	-	-	3	281	284
- inter-business sales	-	-	-	-	-	(110)	(110)
- sales to third parties	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>171</u>	<u>174</u>
Other							
- total sales	1	-	1	42	44	112	156
- inter-business sales	-	-	-	-	-	(103)	(103)
- sales to third parties	<u>1</u>	<u>-</u>	<u>1</u>	<u>42</u>	<u>44</u>	<u>9</u>	<u>53</u>
Turnover	<u>132</u>	<u>38</u>	<u>229</u>	<u>46</u>	<u>445</u>	<u>896</u>	<u>1341</u>

Current year home turnover figures for Magnox business group include £123M relating to Magnox Electric plc.

1. **Segmental information continued**

	Export				Home	Total
	Europe EC	Other	Japan & Far East	North & South America	Total Exports	
	£M	£M	£M	£M	£M	£M
1996-97 (as restated)						
Fuel business group						
- total sales	11	1	11	6	29	253
- inter-business sales	-	-	-	-	-	(19)
- sales to third parties	11	1	11	6	29	234
Magnox business group						
- total sales	-	-	10	-	10	442
- inter-business sales	-	-	-	-	-	(147)
- sales to third parties	-	-	10	-	10	295
Thorp business group						
- total sales	95	33	206	-	334	490
- inter-business sales	-	-	-	-	-	(15)
- sales to third parties	95	33	206	-	334	475
Engineering						
- total sales	3	-	2	6	11	325
- inter-business sales	-	-	-	(6)	(6)	(314)
- sales to third parties	3	-	2	-	5	11
Waste management & decommissioning						
- total sales	9	-	-	-	9	313
- inter-business sales	-	-	-	-	-	(108)
- sales to third parties	9	-	-	-	9	205
Other						
- total sales	2	1	2	30	35	123
- inter-business sales	-	-	-	-	-	(81)
- sales to third parties	2	1	2	30	35	42
Turnover	120	35	231	36	422	1262

Business areas have been redefined in line with the current business organisation. Prior year figures have been restated accordingly.

2. **Net operating costs and expenses**

	Acquisitions 1998 £M	Ongoing 1998 £M	Total 1998 £M	Ongoing 1997 £M
Net operating costs and expenses are made up as follows:				
Raw materials and consumables	21	218	239	236
Employee costs	22	411	433	410
Depreciation	4	303	307	274
Provisions for liabilities and charges	40	62	102	106
Research and development not specifically recoverable directly from customers	2	39	41	50
Other external and operating charges (a)	75	205	280	231
Operating costs and expenses	164	1238	1402	1307
Less:				
Changes in stocks of finished goods and work in progress	-	(93)	(93)	13
Own work capitalised	2	148	150	126
Own work on manufacture of components	-	15	15	14
Regional development grants released	-	2	2	3
Other operating income	5	7	12	5
	157	1159	1316	1146

- a. Other external and operating charges include Auditors' remuneration of £602,000 (1997 £427,000) of which £265,000 (1997 £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 UK subsidiaries amounted to £2,735,000 (1997 £6,782,000). Approximately £1M was incurred for work in connection with the acquisition of Magnox Electric plc.

3. Employee information

- a. The average number of persons employed by the Group during the year was 13,183 (1997 12,977).

	1998	1997
	£M	£M
b. Employee costs:		
Wages and salaries	357	335
Social security costs	28	29
Other pension costs (note 22)	23	20
Other employee costs (early retirement etc)	25	26
	<u>433</u>	<u>410</u>

The figures given above include information on parent company Executive Directors. Further details of Directors' emoluments are set out in the Report of the Remuneration Committee on pages 35 and 36.

4. Investment income

	1998	1997
	£M	£M
Income from nuclear liabilities investment portfolio	70	44
Income from current asset investments	174	103
Interest on loans to associated undertakings	6	8
	<u>250</u>	<u>155</u>

Income from the nuclear liabilities investment portfolio is available to offset the impact of adjustments to nuclear provisions arising from changes in price levels and interest credited of £83m (1997 £45m).

5. Interest payable and similar charges

	1998	1997
	£M	£M
Interest on loans	2	12
Bank commissions etc	2	5
Adjustments to opening provisions arising from changes in price levels and interest credited (see note 16)	89	51
Realised exchange losses	1	-
	<u>94</u>	<u>68</u>

6. Tax on profit on ordinary activities

	1998	1997
	£M	£M
Corporation tax:		
Current year	46	101
Adjustment in respect of prior years	(40)	-
Associated undertakings' taxation	6	3
Tax credits on dividends received	-	1
	<u>12</u>	<u>105</u>
Deferred tax:		
Current year	73	(17)
Adjustment in respect of prior years	29	3
Adjustment resulting from change in tax rate	(37)	-
	<u>77</u>	<u>91</u>

7. Dividends

	1998	1997
	£M	£M
Interim dividend paid	20	15
Final dividend proposed	33	31
	<u>53</u>	<u>46</u>

8. Fixed Assets - Tangible Assets

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

	Land and buildings		Plant and machinery	Fixtures fittings tools and equipment	Assets in course of construction	Total
	Long leasehold	Freehold				
	£M	£M	£M	£M	£M	£M
Cost at 1 April 1997	8	2951	2910	75	968	6912
Reclassifications	(6)	6	-	-	-	-
Acquisition of subsidiary undertakings	-	66	132	7	-	205
Additions	-	2	9	14	391	416
Disposals	-	(1)	(3)	(3)	-	(7)
Transfers	-	19	171	8	(198)	-
Cost at 31 March 1998	2	3043	3219	101	1161	7526
Depreciation at 1 April 1997	1	780	1647	48	-	2476
Charge for the year	-	135	160	12	-	307
Disposals	-	-	(2)	(3)	-	(5)
Depreciation at 31 March 1998	1	915	1805	57	-	2778
Net book value at 31 March 1998	1	2128	1414	44	1161	4748
Leased assets included in the above:						
Net book value at 31 March 1998	1	-	2	-	-	3

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

	Land and buildings		Plant and machinery	Fixtures fittings tools and equipment	Assets in course of construction	Total
	Long leasehold	Freehold				
	£M	£M	£M	£M	£M	£M
Cost at 1 April 1997	6	2951	2769	55	967	6748
Reclassifications	(6)	6	-	-	-	-
Additions	-	-	-	11	376	387
Disposals	-	-	-	(2)	-	(2)
Transfers	-	19	167	7	(193)	-
Cost at 31 March 1998	-	2976	2936	71	1150	7133
Depreciation at 1 April 1997	-	780	1521	36	-	2337
Charge for the year	-	135	152	8	-	295
Disposals	-	-	-	(2)	-	(2)
Depreciation at 31 March 1998	-	915	1673	42	-	2630
Net book value at 31 March 1998	-	2061	1263	29	1150	4503
Leased assets included in the above:						
Net book value at 31 March 1998	-	-	-	-	-	-

9. Fixed assets - investments

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Subsidiary undertakings	-	-	232	245
Other investments	9	9	-	-
Associated undertakings	176	195	72	74
Nuclear liabilities investment portfolio	1421	640	760	640
	1606	844	1064	959

See pages 64 and 65 for details of principal subsidiary and associated undertakings.

9. Fixed assets - investments *continued*

a) Subsidiary undertakings

	Shares	Parent Loans	Total
	£M	£M	£M
At 1 April 1997	219	26	245
New share issues/loans	10	3	13
Amounts provided	(15)	(6)	(21)
Loans repaid	-	(5)	(5)
At 31 March 1998	214	18	232

Acquisition of Magnox Electric plc

On 30 January 1998 the Group acquired 50,000 ordinary shares of £1 each in Magnox Electric plc, being 100% of its nominal share capital, for cash consideration of £1. The purchase price was agreed at the fair value of the net assets being acquired and therefore no goodwill has arisen. Analysis of the acquisition of Magnox Electric plc:

Net assets at date of acquisition:

	Book value £M	Accounting policy alignment £M	Revaluation £M	Other adjustments £M	Fair value to Group £M
Tangible fixed assets	173	(4) ^a	15 ^a	-	184
Fixed asset investments	526	78 ^b	49 ^b	-	653
Stocks	66	-	(6) ^c	-	60
Secretary of State's Undertaking due after more than one year	3700	-	-	-	3700
Debtors	149	-	-	-	149
Current asset investments	2781	-	-	-	2781
Cash	-	-	-	-	-
Creditors due within one year	(17)	-	(213) ^c	-	(230)
Creditors due after one year	(3)	-	-	-	(3)
Nuclear provisions	(8092)	50 ^a	86 ^d	-	(7956)
Prepayments	-	-	1159 ^d	-	1159
Other provisions	(193)	-	-	(304)	(497)
Net assets/(liabilities)	(910)	124	1090	(304)	-
Goodwill arising on acquisition					-
Consideration					-

Accounting policy alignments:

- The accounting policy for decommissioning provisions has been brought into line with existing BNFL Group policy.
- The accounting policy for fixed asset investment nuclear liabilities portfolios has been brought into line with existing BNFL Group policy.

Revaluations:

- Reassessment of nuclear power station lives from an average of 34 years to 37 years.
- Valuation of listed fixed asset investments at market value in accordance with FRS7.
- Elimination of intra group profit from stock balances.

9. Fixed assets - investments *continued*

d. Harmonisation of nuclear provisions assumptions/methodologies and elimination of intra group profit:

Prepayments netted off provisions	(1159)
Harmonisation adjustments	(245)
Elimination of intra group profit	1490
	<u>86</u>

e. Adjustment of corporation tax liabilities to reflect the effects of the above.

Other adjustments represents the deferred tax liability for the Group as a result of the acquisition.

Magnox Electric plc and its subsidiaries made a loss after tax of £718M in the year ended 31 March 1998 (1997 - profit of £633M) of which £679M arose in the period from 1 April 1997 to 30 January 1998. Of this loss £582M related to a net write down of Government Undertakings. The summarised profit and loss account for the period from 1 April 1997 to 30 January 1998 is as follows:

	£M
Turnover	492
Operating loss	(325)
Loss before taxation	(790)
Taxation credit	111
Loss after taxation	<u>(679)</u>

Other recognised gains in the ten months ended 30 January 1998 were £10M representing unrealised profits on investments at market value net of tax.

Magnox Electric plc paid out £66M net operating cash flows, received £52M in respect of net returns on investments and servicing of finance, paid £4M in respect of taxation and utilised £7M for capital expenditure during the period from 30 January 1998 to 31 March 1998.

The net cash inflow on acquisition was £13M, representing cash in Magnox Electric plc on 30 January 1998.

Other acquisitions/disposals

On 22 December 1997 the Group acquired the entire issued share capital of Manufacturing Sciences Corporation for cash consideration of £2M. The acquisition method of accounting has been adopted with goodwill arising being written off against reserves. The book value and fair value of the net liabilities at the date of acquisition were £14M.

On 31 March 1998 the Group acquired the entire issued share capital of Sierra Nuclear Corporation for cash consideration of £2M. The acquisition method of accounting has been adopted with goodwill arising being written off against reserves. The book value and fair value of the net liabilities at the date of acquisition were £2M.

In July 1997 the Group sold its investments in Fluorochem Limited and Oakwood Products Inc. The companies were sold at net asset value and a loss on disposal of £2M was recognised representing purchased goodwill previously written off against reserves on acquisition.

9. Fixed assets - investments *continued*

b) Other investments

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Balance at 1 April 1997	9	8	-	-
Additions	-	1	-	-
Balance at 31 March 1998	9	9	-	-

c) Associated undertakings

	Share of net assets £M	Group Loan and advances £M	Total £M	Shares £M	Parent Loan and advances £M	Total £M
Balance at 1 April 1997	85	110	195	20	54	74
Additions	-	15	15	-	13	13
Investment repaid/reclassified	-	(21)	(21)	-	(2)	(2)
Share of retained profit and reserves	2	-	2	-	-	-
New amounts provided	-	(15)	(15)	-	(13)	(13)
Balance at 31 March 1998	87	89	176	20	52	72

The Group's share of retained profit and reserves of associated undertakings at 31 March 1998 is £6M (1997 £4M). Cumulative amounts provided in the Group against investments in associated undertakings are £215M (1997 £200M) of which £213M (1997 £200M) has been provided in the Parent.

	Group	Parent
	£M	£M
d) Nuclear liabilities investment portfolio		
Gilts investment portfolio		
Balance at 1 April 1997	479	479
Additions	48	48
Acquisition of subsidiary undertaking	485	-
Amortisation of discount/indexation	28	25
Balance at 31 March 1998	1040	552
Managed portfolio		
Balance at 1 April 1997	161	161
Additions	17	16
Acquisition of subsidiary undertaking	168	-
Revaluation	35	31
Balance at 31 March 1998	381	208
Total nuclear liabilities investment portfolio	1421	760

The amount of listed investments included above is £1388M, of which £727M are held by the Parent (1997 £607M and £607M). The market value of these investments was £1466M for the Group and £794M for the Parent (1997 £604M and £604M). Unlisted investments comprise bank deposits.

Of the listed investments, £348M are carried at market value in the Group and £175M are carried at market value in the Parent (1997 £128M and £128M). The historic cost of these investments was £321M for the Group and £167M for the Parent (1997 £127M and £127M).

10. Secretary of State's Undertaking Due After More Than One Year

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Balance at 1 April 1997	-	-	-	-
Acquisition of subsidiary undertaking	3700	-	-	-
Escalation during the year	-	-	-	-
Balance at 31 March 1998	<u>3700</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Secretary of State's Undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and Magnox Electric plc. The Secretary of State has undertaken to pay Magnox Electric plc £3700M together with interest at a rate of 4.5% above inflation on the outstanding amount. Payments commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116.

The terms of undertaking provide for potential adjustments to the outstanding amount in two circumstances:

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

General reviews in relation to a. above will take place at 1 April 2003 and every five years thereafter and special reviews may take place at any time if the financial impact of events between general review dates is significant.

Reductions in provisions falling within b. above are to be shared between the Group and the Secretary of State (via adjustment of the outstanding amount of the undertaking) on a sliding scale with the maximum reduction in the undertaking being £800M escalated by 2.5% above inflation from 1 April 1998.

11. Stocks

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Nuclear fuel	21	-	5	-
Raw materials and consumables	134	117	47	45
Work in progress	57	56	19	24
Finished goods	14	19	11	15
	<u>226</u>	<u>192</u>	<u>82</u>	<u>84</u>

Work in progress in both the Group and Parent is stated after deducting progress payments of £1M (1997 £97M).

12. Debtors

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Trade Debtors	216	252	105	222
Amounts recoverable on long-term contracts	-	68	-	68
Amounts owed by Group undertakings	-	-	547	350
Amounts owed by associated undertakings	9	13	2	3
Prepayments and accrued income	250	72	224	58
	<u>475</u>	<u>405</u>	<u>878</u>	<u>701</u>

Debtors include £35M (1997 £24M) due in more than one year.

At the end of the year, there were 149 loans amounting to £934,000 outstanding with non-Director employees of the Group (1997 120 loans amounting to £754,000). Of these loans 130 amounting to £801,000 were in the Parent (1997 106 loans amounting to £582,000).

13. Current asset investments and short-term deposits

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Gilts investments - Medium-term maturity	460	405	460	405
- Short-term maturity	84	-	84	-
Managed investments	1111	606	449	409
Short-term deposits	2663	444	338	438
	<u>4318</u>	<u>1455</u>	<u>1331</u>	<u>1252</u>

The amount of listed investments included above is £1587M, of which £950M are held by the Parent (1997 £916M and £780M). The market value of these investments was £1607M for the Group and £970M for the Parent (1997 £950M and £814M). Other investments comprise bank deposits and other fixed and call deposits.

Of the listed investments, £1085M are carried at market value in the Group and £448M are carried at market value in the Parent (1997 £544M and £408M). The historic cost of these investments was £1054M for the Group and £442M for the Parent (1997 £538M and £401M).

14. Creditors: amounts falling due within one year

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Current portion of long-term loans (note 15)	14	109	3	109
Bank loans and overdraft	6	-	47	37
Payments received on account	174	453	404	443
Trade creditors	102	85	53	66
Amounts owed to Group undertakings	-	-	56	42
Amounts owed to associated undertakings	1	6	1	3
Taxation	88	61	52	63
Social security	10	7	6	7
Dividends	33	32	33	31
Accruals and deferred income	240	106	84	68
Current portion of provisions (note 16)	394	112	93	111
	<u>1062</u>	<u>971</u>	<u>832</u>	<u>980</u>

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

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Loans	4	3	-	3
Obligations under finance leases	3	3	-	-
Payments received on account	3322	3896	4350	3899
Other	1	-	-	-
	<u>3330</u>	<u>3902</u>	<u>4350</u>	<u>3902</u>

a. Loans

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Maturity profile:				
Within one year	14	109	3	109
Between one and two years	-	3	-	3
Between two and five years	-	-	-	-
In five years or more	4	-	-	-
	<u>18</u>	<u>112</u>	<u>3</u>	<u>112</u>

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

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
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:				
From one to five years	1636	1933	1636	1933
Over five years	1686	1963	2714	1966
	<u>3322</u>	<u>3896</u>	<u>4350</u>	<u>3899</u>
		1998		1997
		£M		£M
c. Analysis of changes in financing during the year				
Total at 1 April		115		226
Cash flow from financing - Loan Repayments		(109)		(112)
- New Loans		11		-
Loans acquired with subsidiaries		4		-
Exchange adjustments		-		1
Total at 31 March		<u>21</u>		<u>115</u>
Proportion falling due:				
Within one year		14		109
After more than one year		7		6
		<u>21</u>		<u>115</u>
		1998		1997
		£M		£M
d. Obligations under finance leases and hire purchase contracts				
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:

	Decommissioning (note a)	Waste management (note a)	Reprocessing of fuel (note a)	Deferred tax (note c)	Other provisions (note d)	Total
Group	£M	£M	£M	£M	£M	£M
Balance at 1 April 1997*	399	618	179	371	458	2025
Adjustment arising from changes in price levels and interest credited	36	42	5	-	6	89
Acquisition of subsidiary undertakings	3845	3656	455	304	199	8459
Charge/(release) in the year	33	(62)	63	65	68	167
Expenditure in the year	(10)	(42)	(63)	-	(60)	(175)
Reclassifications	(19)	24	(6)	(11)	27	15
Balance at 31 March 1998	<u>4284</u>	<u>4236</u>	<u>633</u>	<u>729</u>	<u>698</u>	<u>10580</u>
Analysed as follows:						
Amounts due within one year	33	131	110	-	120	394
Amounts due after one year	4251	4105	523	729	578	10186
	<u>4284</u>	<u>4236</u>	<u>633</u>	<u>729</u>	<u>698</u>	<u>10580</u>

16. Provisions for liabilities and charges *continued*

	Decommissioning (note a)	Waste management (note a)	Reprocessing of fuel (note a)	Deferred tax (note c)	Other provisions (note d)	Total
Parent	£M	£M	£M	£M	£M	£M
Balance at 1 April 1997*	399	618	179	370	445	2011
Adjustment arising from changes in price levels and interest credited	19	19	2	-	5	45
Charge/(release) in the year	72	(126)	33	56	83	118
Expenditure in the year	(2)	(14)	(47)	-	(45)	(108)
Reclassifications	(18)	24	(6)	(11)	26	15
Balance at 31 March 1998	470	521	161	415	514	2081
Analysed as follows:						
Amounts due within one year	2	18	40	-	33	93
Amounts due after one year	468	503	121	415	481	1988
	470	521	161	415	514	2081

*The classification of provisions has been amended to reflect the activities of the enlarged Group. Opening balances have been restated accordingly.

- a. These provisions have been discounted. The tables below analyse total costs still to be incurred (both undiscounted at current prices and discounted to the balance sheet date), the Group or Parent share of these costs and the amounts provided to date:

Group	Total Costs		Group Share		Provided to date £M
	Undiscounted £M	Discounted £M	Undiscounted £M	Discounted £M	
Decommissioning	13915	5054	12871	4486	4284
Waste Management	12010	7268	7457	4626	4236
Reprocessing of fuel	1145	1030	1089	948	633
At 31 March 1998	27070	13352	21417	10060	9153
At 31 March 1997 (restated)	18770	12541	2505	1590	1196

The figures above have increased significantly due to the acquisition of Magnox Electric plc as follows:

	Total Costs		Group Share		Provided to date £M
	Undiscounted £M	Discounted £M	Undiscounted £M	Discounted £M	
Decommissioning	8079	2784	11329	3837	3814
Waste Management	617	414	6273	4064	3715
Reprocessing of fuel	-	-	867	733	472
	8696	3198	18469	8634	8001

The figures above for total costs represent the Magnox Electric site liabilities whereas the Group share figures represent Magnox Electric's share of both BNFL site and Magnox Electric site liabilities.

Parent	Total Costs		Group Share		Provided to date £M
	Undiscounted £M	Discounted £M	Undiscounted £M	Discounted £M	
Decommissioning	5836	2270	1542	649	470
Waste Management	11393	6854	1184	562	521
Reprocessing of fuel	1145	1030	222	215	161
At 31 March 1998	18374	10154	2948	1426	1152
At 31 March 1997 (restated)	18770	12541	2505	1590	1196

16. Provisions for liabilities and charges *continued*

The difference between total discounted costs and Group/Parent share represents costs which are to the charge of customers. The differences between Group/Parent share of discounted costs and amounts provided to date will be provided over remaining plant lives in accordance with the Group's accounting policy.

- b. The Group remains committed to ensuring that funds are available to meet long-term nuclear liabilities. At 31 March 1998, the funding position is as follows:

	£M
Nuclear liabilities investment portfolio	1421
Secretary of State's undertaking	3700
Costs to be recovered from customers/non-cash costs	4910
	<u>10031</u>
Funds to be set aside over remaining plant operating lives	3321
Total future discounted costs	<u>13352</u>

The level of funding at 31 March 1998 is 75%

	1998 £M	1997 £M
c. Deferred tax has been provided in full as follows:		
Capital allowances in advance of depreciation:		
Parent Company	776	831
Subsidiary undertakings	(2)	1
Group	<u>774</u>	<u>832</u>
Other timing differences:		
Parent Company	(311)	(422)
Subsidiary undertakings	316	-
Group	<u>5</u>	<u>(422)</u>
Recoverable advance corporation tax:		
Parent Company	(50)	(39)
Subsidiary undertakings	-	-
Group	<u>(50)</u>	<u>(39)</u>
Total:		
Parent Company	415	370
Subsidiary undertakings	314	1
Group	<u>729</u>	<u>371</u>

- d. 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 1997	308	108	42	458
Adjustment arising from changes in price levels and interest credited	2	3	1	6
Acquisition of subsidiary undertakings	89	87	23	199
Charge in the year	26	40	2	68
Expenditure in the year	(17)	(41)	(2)	(60)
Reclassification	19	-	8	27
Balance at 31 March 1998	<u>427</u>	<u>197</u>	<u>74</u>	<u>698</u>

Analysed as follows:

Amounts due within one year	36	82	2	120
Amounts due after one year	391	115	72	578
	<u>427</u>	<u>197</u>	<u>74</u>	<u>698</u>

16. Provisions for liabilities and charges *continued*

	Contract provisions £M	Restructuring provisions £M	Other sundry cost provisions £M	Total £M
Parent				
Balance at 1 April 1997	308	108	29	445
Adjustment arising from changes in price levels and interest credited	1	3	1	5
Charge in the year	38	38	7	83
Expenditure in the year	(9)	(31)	(5)	(45)
Reclassifications	19	(2)	9	26
Balance at 31 March 1998	357	116	41	514
Analysed as follows:				
Amounts due within one year	10	21	2	33
Amounts due after one year	347	95	39	481
	357	116	41	514

17. Accruals and deferred income

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
This comprises capital grants held as a deferred credit	<u>17</u>	<u>18</u>	<u>17</u>	<u>18</u>

18. Called up share capital

	1998	1997
	£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 1997	538	575
Retained profit for the year	69	50
Goodwill written off	(18)	-
Balance at 31 March 1998	589	625

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	
	1998	1997	1998	1997
	£M	£M	£M	£M
Profit for the financial year	122	124	103	126
Dividends	(53)	(46)	(53)	(46)
Goodwill written off on acquisition of subsidiaries	(20)	(3)	-	-
Goodwill written back on disposal of subsidiaries	2	-	-	-
Exchange losses	(4)	(10)	-	-
Unrealised profits on investments	18	(1)	14	(1)
	<u>65</u>	<u>64</u>	<u>64</u>	<u>79</u>
Opening shareholder's funds	567	503	607	528
Closing shareholder's funds	<u>632</u>	<u>567</u>	<u>671</u>	<u>607</u>

Cumulative goodwill written off to reserves amounts to £68M (1997 £50M).

21. **Capital expenditure authorised**

	Group		Parent	
	1998	1997	1998	1997
	£M	£M	£M	£M
Contracted for but not provided for	<u>93</u>	<u>92</u>	<u>87</u>	<u>90</u>

22. **Pensions**

- a. The majority of the employees of the Group are covered by three defined benefit (final salary) pension schemes.

These are:

The Combined Pension Scheme of the United Kingdom Atomic Energy Authority
The BNFL Group Pension Scheme
The Electricity Supply Pension Scheme

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

	1998	1997
	£M	£M
Combined Pension Scheme (prior year comparatives for PNISS and ISS)	19	19
BNFL Group Pension Scheme	2	1
Electricity Supply Pension Scheme	2	-
	<u>23</u>	<u>20</u>

The charges to the profit and loss account are identical to the funding costs.

- b. For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. For the purpose of preparing scheme accounts, the surplus of the contributions over benefits paid are deemed to be invested in notional portfolios of investments and therefore the scheme is notionally funded.

The most recent triennial actuarial valuation of the scheme took place as at 31 March 1997. The entry age method was used and the main long-term assumptions made were as follows:

Investment yield (pa) net of pay increase	2%
Investment yield (pa) net of price inflation	3.5%

The results of the valuation were as follows:

Market value of notional investments	£1530M
Level of funding	132%

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

- c. 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 1998/99. Interim reviews have confirmed that funding is adequate to meet obligations.

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.

22. Pensions (Continued)

- d. The Electricity Supply Pension Scheme is a funded scheme. Magnox Electric plc employees are covered by the Magnox Electric Group of the scheme. The most recent triennial actuarial valuation of the scheme took place on 31 March 1995. The projected unit method was used and the main long-term assumptions made were as follows:

Investment return (pa)	9%
Salary increase (pa)	6.5%
Pensions increase (pa)	5%

The results of the valuation were as follows:

Market value of scheme assets	£1,606M
Level of funding	103%

The contribution rate remains at 12% of salary.

23. Contingent liabilities

At 31 March 1998, 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 letter of credit facilities for an overseas group 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 disposal cost obligations. 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 group company.

24. Consolidated cash flow statement

	1998 £M	1997 £M
a. Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	25	116
Loss on disposal of fixed assets	1	-
Depreciation charges	307	274
Decrease in debtors	110	38
Increase/(decrease) in creditors	(43)	34
Decrease in stock and work in progress	24	1
Grants released	(2)	(3)
Increase/(decrease) in provisions	(73)	27
Increase in advance payments	320	133
Investment provisions	15	17
Other non cash movements	(1)	(1)
	<u>683</u>	<u>636</u>

24. Consolidated cash flow statement *continued*

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

	1998 £M	1997 £M
Returns on investment and servicing of finance:		
Dividends received from associated undertakings	8	9
Interest received	173	148
Interest paid	(4)	(13)
Bank commissions	(2)	(5)
Dividends paid by subsidiary undertakings to minority interests	(1)	(2)
Net cash inflow for returns on investments and servicing of finance	174	137
Taxation:		
UK corporation tax paid	(22)	(70)
Net cash outflow on taxation	(22)	(70)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(417)	(357)
Proceeds from disposal of tangible fixed assets	2	-
Additions to nuclear liabilities investment portfolio	(65)	(152)
Net cash outflow for capital expenditure and financial investment	(480)	(509)
Acquisitions and disposals:		
Acquisitions of subsidiary undertakings	(4)	-
Net cash acquired with subsidiary undertakings	14	-
New loans/advances to associated undertakings	(15)	(18)
Loans repaid by associated undertakings	3	-
Disposals of subsidiary undertakings	1	-
Net cash outflow for acquisitions and disposals	(1)	(18)
Equity dividends paid:		
Dividends paid to shareholder	(51)	(80)
Net cash outflow on equity dividends	(51)	(80)
Management of liquid resources:		
Net (investment)/realisation of short-term deposits and current investments	(46)	104
Net cash inflow/(outflow) from management of liquid resources	(46)	104
Financing:		
Repayment of loans and long-term credit	(109)	(112)
New loans	11	-
Net cash outflow from financing	(98)	(112)

c. Analysis of changes in net funds:

	At 31 March 1997	Cash Flow	Acquisitions (excl. cash and overdrafts)	At 31 March 1998
	£M	£M	£M	£M
Cash at bank and in hand	40	116	-	156
Cash in short-term deposits	2	49	-	51
Overdrafts	-	(6)	-	(6)
Loans due after 1 year	(3)	3	(4)	(4)
Loans due within 1 year	(109)	95	-	(14)
Finance leases	(3)	-	-	(3)
Current asset investments	1453	46	2768	4267
	1380	303	2764	4447

24. Consolidated cash flow statement *continued*

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

	1998	1997
	£M	£M
Increase in cash in the year	159	88
Net funds acquired with subsidiaries	2764	-
Cash flow from financing	98	112
Cash flow from management of liquid resources	46	(104)
Translation difference	-	5
Movement in net funds in the period	3067	101
Opening Net funds	1380	1279
Closing Net funds	4447	1380

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 up to 30 January 1998
the Ministry of Defence
the Atomic Energy Authority

ii) Associated undertakings

The principal associated undertakings are listed on page 65.

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

	Turnover	Purchases	Amounts due from related parties at 31 March	Amounts due to related parties at 31 March
	£M	£M	£M	£M
1997-98				
Undertakings under common control	351	21	4	-
Associated undertakings	-	33	9	1
1996-97				
Undertakings under common control	433	20	161	2
Associated undertakings	8	51	13	6

For further details regarding equity and loan transactions with associated undertakings refer to note 9 (c).

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

Magnox Electric plc

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

International Nuclear Fuels Limited (INFL)

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, whose main purpose is the transport of used 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

It is wholly owned by BNFL and its purpose is to produce and market fluorine-based products.

Deva Manufacturing Services Limited

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

Hinton Insurance Limited

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

Rutherford Indemnity Limited

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

Nuclear Insurance Limited

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

Electricity Producers Insurance Company Limited

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

BNFL Engineering Limited

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

BNFL Instruments Limited

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

BNFL Uranium Asset Management Company Limited

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

Principal subsidiary and associated undertakings *continued*

Associated undertakings

Urenco Limited

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

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

BNFL holds 39½% of the ordinary shares and Magnox Electric plc holds 35%. The remainder are held by other United Kingdom organisations. The Group does not exercise control as strategy decisions are subject to unanimous shareholder approval.

Fellside Heat and Power Limited

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

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

Financial statistics

	1998 £M	1997 £M	1996 £M	1995 £M	1994 £M
Assets employed					
Fixed assets	6354	5280	5015	4502	4527
Net current assets	7813	1121	1166	958	318
	<u>14167</u>	<u>6401</u>	<u>6181</u>	<u>5460</u>	<u>4845</u>
Financed by					
Loans and advance payments	3330	3902	3848	3428	2972
Provisions for liabilities and charges	10186	1913	1808	1317	1139
Government grants	17	18	21	30	47
Share Capital	33	33	33	33	33
Profit and loss account and reserves	599	534	470	651	651
Shareholders' funds	<u>632</u>	<u>567</u>	<u>503</u>	<u>684</u>	<u>684</u>
Minority interests	2	1	1	1	3
	<u>14167</u>	<u>6401</u>	<u>6181</u>	<u>5460</u>	<u>4845</u>
Turnover and profits					
Turnover:					
Nuclear fuel services - home	595	702	915	772	872
- export	443	411	491	425	150
Electricity	232	111	121	107	111
Other	71	38	22	-	-
	<u>1341</u>	<u>1262</u>	<u>1549</u>	<u>1304</u>	<u>1133</u>
Operating profits	25	116	233	86	104
Net financing income (expense)	156	87	69	(23)	(35)
Profit before tax	199	216	316	74	81
Profit (loss) for the financial year	122	124	(88)	45	75
Dividends	(53)	(46)	(93)	(45)	(26)
Retained profit (loss) for the year	<u>69</u>	<u>78</u>	<u>(181)</u>	<u>-</u>	<u>49</u>
Profit before tax as a percentage of average shareholders' interest	<u>33%</u>	<u>40%</u>	<u>53%</u>	<u>11%</u>	<u>12%</u>