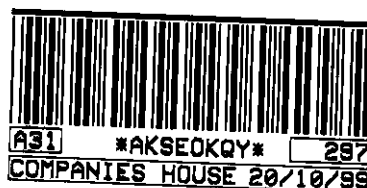


BRITISH NUCLEAR FUELS plc

ANNUAL REPORT AND ACCOUNTS

31 MARCH 1999

REGISTERED NO: 1002607



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ANNUAL REPORT AND ACCOUNTS 1998-99

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BNFL provides the complete range of integrated nuclear products and services to customers around the world.

The company's expertise spans the full nuclear fuel cycle and includes uranium procurement, manufacture of new fuel, reactor design technology, reactor services, electricity generation, recycling of used fuel, transport of radioactive materials, engineering, waste management and decommissioning.

Today, the company is a multi-million pound export earner, having strengthened its reactor services and fuel manufacture business with the purchase of the Westinghouse nuclear business in the United States.

BNFL now operates in 15 countries around the world and employs nearly 20,000 people.

The international nuclear services market 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 a proven record in the nuclear industry and is backed by world-class technology, competencies and skills. The company will continue to pursue our aim, of becoming the leading global nuclear business, while maintaining our responsibilities to the environment, our workforce and the communities in which we operate.

Chairman's Review

Over the past year, through the acquisition of Westinghouse, BNFL has repositioned itself as a key player in the global nuclear market.

The last year has seen another milestone in the history of BNFL. The acquisition of the Westinghouse nuclear business, in partnership with the US-based Morrison Knudsen (MK), is one of the most significant developments for BNFL since its formation in 1971.

The Westinghouse acquisition followed the integration of the Magnox Electric power stations into the BNFL Group the year before. These two moves have now radically changed the make-up of the Group and repositioned our business both in the UK and internationally. The challenge in the coming year will be to realise the full benefits these new businesses will bring, as we move to prepare the company for a Public Private Partnership in the years ahead.

Last year I said that BNFL's strategy was to:

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

The Westinghouse acquisition will play an important part in helping us achieve this strategy. It has transformed BNFL's niche UK fuel manufacturing business into a global player with 126 customers in 34 countries, and has brought the group new skills in reactor services while reinforcing our already strong position in the North American clean-up market.

Global climate change

We are making significant progress in all areas of our strategy; a fact outlined in this annual report. But the year was not only significant for developments within BNFL, but also for developments externally which will have a direct impact upon our business. In this review, I would like to touch upon some of those external developments starting with the continuing debate over global climate change.

During the year, electricity output from BNFL's Magnox stations remained broadly the same as last year at 23.05 TWh or 8 % of the UK's needs. This represents a saving of over 22 million tonnes of CO₂ compared to producing the same electricity by coal, or 10 million tonnes had this same electricity been generated by gas. Assuming that the electricity generated by BNFL was to be replaced by a mixture of coal and gas, one quarter of current UK car and taxi travel would have to be stopped to prevent increases in CO₂ emissions. We in BNFL remain committed to our goal of maximising the safe and economic lifetimes of the Magnox stations, so that they can continue to help the UK meet its Kyoto climate change targets.

We have already responded to climate change consultation papers issued for comment by various Parliamentary and academic bodies. In our submissions we have highlighted the important contribution nuclear power is making towards reducing greenhouse gas emissions.

Over the next couple of decades almost all of the UK's nuclear reactors, including our own Magnox stations, will be near or at the end of their operating lives. The need for replacement nuclear capacity, if the UK is to meet its climate change targets, was emphasised by the Trade and Industry Select Committee's 1998 Report on Energy Policy in the UK which said "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".

BNFL will continue to put the case for nuclear power, for example in the context of the Chancellor's proposal in the March 1999 budget for a 'Climate Change Levy'. It is notable that the Trade and Industry Select Committee on 15 July 1999 said the following in relation to this proposed Levy: 'we are not convinced by the Government's case for ruling out an exemption from the levy for electricity generated by nuclear plant'.

Discharge reduction

We look forward to working closely with the UK Government, and the regulatory authorities, to meet the demanding environmental challenges set at the Oslo-Paris Commission (OSPAR) in July 1998. The OSPAR Agreement is aimed at the protection of the environment in the North East Atlantic Ocean, the North Sea and the Irish Sea.

The ultimate aim of the agreement is to achieve concentrations of radioactivity at near background levels for naturally occurring substances and close to zero for artificial substances by the year 2020. We welcome the recognition by the OSPAR nations, that technical feasibility and radiological impact should be taken into account.

Over the last 20 years, BNFL has reduced Sellafield discharge levels to less than 1% of their peak levels. In the past ten years, we have invested more than £2 billion in waste management and effluent treatment facilities and we are at the leading edge of nuclear clean-up technology.

At the time of writing, we still await permission from the Department of Environment, Transport and the Regions to make a further overall reduction in our environmental discharges from Sellafield. When granted, the new Sellafield discharge authorisations will allow us to start operation of our latest state-of-the-art waste treatment plant, the Solvent Treatment Plant, which will process the backlog of spent solvent currently stored at Sellafield.

Technetium 99

Our application for new Sellafield discharge authorisations was made to the Environment Agency (EA) over two years ago and, although the EA recommended approval as long ago as October 1998, at the time of writing we await the final result. Much of the international controversy around this application centres upon the discharge of a substance called technetium 99 from Sellafield, and the ability of this substance to concentrate in lobsters (which in fact contain some 600 times more of another naturally occurring source of radiation, Polonium 210). Doses to consumers of fish and shell fish near Sellafield would receive less than 5% of the internationally recommended dose limit due to the presence of Technetium in their seafood, including lobsters. The current debate over technetium discharges from Sellafield clearly illustrates the need for a clear set of regulatory guidelines in this area. These guidelines need to be based upon sound science and risk analysis and applied with consistency, if the UK is to meet its OSPAR commitments in a timely and cost-effective manner.

Sellafield MOX Plant

Permission for the uranium commissioning of the Sellafield MOX Plant was given in June 1999, following two periods of public consultation over two years, entailing delay costs to BNFL of some £21 million. A third period of public consultation into the economics of this substantial investment will hopefully lead to the approval for full commissioning of the plant in the not too distant future.

The economic and technical case for SMP has been recognised by the EA in its recommendation that commissioning and operation is justified. Late last year I held a series of meetings with our Japanese customers, and it was made quite clear to me that they want BNFL to manufacture MOX fuel from their plutonium, in line with the published policy of the Japanese government.

Plutonium can make a major contribution to the security of energy supply both now and in the future. One tonne of plutonium, when recycled as MOX fuel, has the same energy potential as one million tonnes of oil or two million tonnes of coal, but without the negative CO₂ effects on our atmosphere. As we stated in our recent submission to the House of Lords Select Committee on Science and Technology, the plutonium currently stored under world-class international security and safeguards arrangements at Sellafield represents energy for a future resource-hungry world.

Nuclear waste management

A new report, published in March 1999, from Lords Select Committee has recommended that phased disposal in a deep underground repository is a clear way forward for nuclear waste management.

We in BNFL broadly support the Lords' view on waste management, but believe that caution should be exercised to ensure that the whole process is transparent and involves full public consultation. Nuclear waste is currently safely managed, monitored and stored on the surface at Sellafield.

Public Private Partnership

Finally, no review of this year could pass without mentioning the UK Government's recent announcement that it is looking to introduce a Public Private Partnership (PPP) into BNFL before the end of this Parliament. This is an extremely significant development for the company.

We have always made it clear that our ownership is a matter for the Government, as long as we have the commercial freedom we need to manage our business and operate in a competitive international market.

Although we have always been in public ownership, we have consistently pursued commercial opportunities world-wide with customers, many of which have always been in the private sector.

As we move forward with PPP, our main focus in BNFL will continue to be on achieving our strategy and growing the value of the business. A PPP should allow us the appropriate commercial freedoms and disciplines to support this. At the time of writing, it is too early to know exactly what will happen, but now that the process has started it is the responsibility of the BNFL Board of Directors to ensure that the interests of our company, our employees and our communities are secured. In this regard, I am extremely pleased by the support our workforce and their trade union representatives have given to PPP and by the agreement of the Government that employees should have an opportunity directly to participate in the future success of the business. We must continue to work together in partnership as we move forward.

My successor

Last year I announced my intention to retire as Chairman of BNFL. However, the appointment of a new Chairman has taken longer than expected so I have stayed on until a new appointment is secured. I am delighted that a businessman of the calibre of Hugh Collum has agreed to be my successor from October 1999, and I wish him well in his new role. The past year has seen other changes with Sir Norman Wooding retiring from the BNFL Board after 12 years of service to the company.

Lady Shuttleworth, who has been very active in many roles in the North West, stepped down in June 1998. On behalf of all members of the Board, I would like to thank both of these colleagues for their contribution and for the guidance and support they have given me during my time as Chairman.

In my seven years at BNFL, we have moved a long way from solely being a North West of England based nuclear reprocessing company to becoming a truly global nuclear Group. The continuing implementation of our strategy has been, and will remain, a significant factor in achieving our vision of becoming the leading global nuclear company. An essential part of this strategy is ensuring that our major businesses in the North West continue to flourish.

It is my firm conviction that we have the people in BNFL to achieve this vision and it has been my great privilege to be their Chairman. I have very great admiration for the quality of people we have at all levels in the company and I would like to take this opportunity of thanking them, many of whom have become friends as well as colleagues, for all the help and support they have given me. I would also like to extend my thanks to the many people in the local communities, whom I have got to know and admire over the past seven years. I wish the Company, its outstanding people and the surrounding communities every success in the years ahead.

Chief Executive's Review

Achieving world-class standards in safety and plant operations remains the number one priority for BNFL.

Despite some operational challenges, the BNFL Group achieved a 20% increase in pre-tax profit in 1998/99 compared to the previous year (before the impact of FRS 12). Total dividend paid to the UK Government during the year has increased from £53 million to £65 million.

Profit before interest and tax improved by £15 million. This was despite the fact that, as I forecast in my report last year, the integration of Magnox Electric into BNFL in January 1998 has reduced our 1998/99 operating results, reflecting the first full year of trading without the benefit of income from what was one of our largest customers. Operating results were also affected by regulatory delays to the commissioning of the Sellafield MOX Plant, operational difficulties with the Thorp Reprocessing Plant and writedowns on some of our fixed assets.

Despite these impacts to operating results, the Group's strong underlying cashflows have continued with an increase in the net cash inflow from £342 million last year to £509 million in 1998/99. Cost reduction measures are also on target, having so far achieved 14% savings (£165 million) we are on target for the 25% savings (£280 million) we have set ourselves for 2000/01.

My confidence that this year's operating loss was a one-off comes from the BNFL Group's underlying strength, which is demonstrated through the progress we have made over the past few years in reducing our cost-base and diversifying our income streams within the nuclear sector. The recent acquisition of Westinghouse in March 1999 continues this process of broadening the Group's range of nuclear businesses and geographical spread. In the years ahead, we will continue to focus on cost reduction linked to growing our business internationally through organic growth and selective acquisition.

The Westinghouse acquisition has transformed BNFL into an international nuclear business employing nearly 20,000 people worldwide with a turnover of more than £2 billion, approximately half of which comes from overseas.

Around a third of BNFL's turnover now comes from the Westinghouse Electric business which manufactures fuel, and services nuclear reactors around the world; a quarter comes from the recycling of UK and overseas customers fuel through Thorp; a further quarter of turnover comes from the Magnox power stations. The remainder of BNFL's business is in the area of waste management and decommissioning, which is expected to grow significantly in the years ahead, underpinned by a US order book which could be worth up to £6 billion (\$9 billion) if all contract options are exercised.

As we move forward in pursuit of our vision to become the leading global nuclear company, we have created three business groups in order to maximise the benefits of the Westinghouse and Magnox acquisitions. Our front end capabilities are being

brought together to encompass both BNFL's and Westinghouse's fuel manufacture, reactor services and design operations worldwide. Our Magnox electricity generation and our global used fuel management capabilities have also been combined to maximise effectiveness in these areas with our engineering, waste management and decommissioning business providing the third leg of our growth strategy.

Working towards world-class safety

Achieving world-class standards in safety and plant operations remains the number one priority for BNFL. Continued improvement in conventional safety performance has seen an overall reduction in the Occupational Safety and Health Administration system (OSHA) total recordable incident rate, reflecting the efforts made by our people in improving behavioural safety.

Although we were disappointed to miss our three day lost-time accident (LTA) target, we still achieved a 10% improvement on the previous year's performance. We need to reduce our accident rate further and must also continue to learn from the many areas of excellence which already exist within the company, in our quest for world-class performance.

The Waste Vitrification Plant Third Line construction project completed two million hours of working without an accident, Rocky Mountain Remediation Services in Colorado achieved 1.9 million hours, the Waste Treatment Complex at Sellafield achieved 1.8 million hours and the High-Level Waste Plants, also at Sellafield, clocked up 1.5 million hours.

The radiological protection of our workforce and contractors remains a key activity. We go further than the current legal dose limit of 50 mSv for our workforce by adopting a voluntary annual dose restriction of 20 mSv, and for the first time in our history, no employee or contractor exceeded our target of 15 mSv during the year. This was a major milestone for BNFL, as we strive to achieve a world-class performance in both conventional and radiological safety.

We have gained external recognition with 20 gold and eight silver and bronze awards from the Royal Society for the Prevention of Accidents (RoSPA) for our safety performance. Clearly, we are making progress and challenging targets in forthcoming years will help us continue to deliver year-on-year improvements.

The year's operational performance

Operationally, we have had mixed fortunes this year. A blocked transfer line in the Thorp Head End resulted in the plant not achieving its production target for the year. The problem has been cleared and the cause has been determined with remedial action under way to make sure it does not recur.

This is disappointing, especially after the previous year's excellent performance, when Thorp exceeded its target by over 30 tonnes. Nevertheless, the plant has demonstrated its ability to maintain the throughput rates necessary to meet its targets in the years ahead.

Magnox electricity output remained broadly flat at 23.05 terrawatt hours, and Oldbury power station extended its record breaking operational run to 822 days whilst at Sellafield, the High-Level Waste Vitrification Plants exceeded their targets for the second year running by producing 328 containers during the year.

In Fuel Business Group, the Oxide Fuels Complex (OFC) has operated particularly well. Increased confidence has resulted in the shut down of older plants at the Springfields site. All oxide powder and fuel production for the Advanced Gas-cooled reactors has been transferred to OFC.

At Sellafield, two of our new waste treatment plants are nearing full operational status. The Waste Treatment Complex (WTC) is undergoing active commissioning and the Solvent Treatment Plant (STP) will soon be available for active commissioning. Both plants will contribute towards reducing the radioactive waste inventory on the site.

The start up of the STP will be dictated by approval of our application to the Government for amendments to the Sellafield Aerial and Liquid Discharge Authorisations (SALDAR). At the time of writing, this approval had still not been granted by the Department of the Environment, Transport and the Regions.

Achieving our vision

The year ended on a positive note with completion of the deal to purchase, in partnership with Morrison Knudsen (MK), the Westinghouse nuclear business from CBS in the United States.

Signed on March 22 in New York, the deal will help us to achieve our vision of becoming the leading global nuclear company. Westinghouse is a world-renowned brand with a strong international reputation. Its expertise, coupled with BNFL's unrivalled technology base and order book will, when teamed with MK's long established working relationships with the US Government, create a world-beating combination.

BNFL will hold 100 % of the Westinghouse commercial nuclear reactor business (Westinghouse Electric Company). Around 70 % of this business is currently based in the US but in 1999/2000, over half of commercial orders are expected to come from outside the US, a trend begun by the recent \$90 million contract to upgrade instrumentation and control systems at the Ringhals nuclear power station in Sweden.

BNFL will also hold 40 % of the newly created Westinghouse Government Environmental Services Company, which will carry out non-defence related Government and environmental work. MK will hold the remaining 60 % of this business.

The Westinghouse Government Services Company will carry out US defence programme work and will be 100 percent owned by MK, although BNFL will hold a 40 percent economic interest.

Our existing fuel business, based at Springfields, is being integrated into Westinghouse Electric Company to create a truly global competitor in this sector of the nuclear market. The integration process is well underway.

The Westinghouse and BNFL businesses are an excellent strategic fit. Westinghouse adds reactor services and the manufacture of Pressurised Water Reactor (PWR) fuel to the existing BNFL portfolio.

As has been the recent practice with all of our businesses, in the year ahead Westinghouse will undertake a strategic 'full potential' review to identify opportunities for increasing value, and to look at resource requirements.

In carrying out this exercise, we will respond positively to any recommendations and listen to our customers, making sure we build on the best of both companies.

Continued progress by BNFL Inc.

Our US company, BNFL Inc. has made excellent progress and announced last July that agreement had been reached with the US Department of Energy to continue the River Protection Project Waste Treatment Plant contract at the Hanford nuclear site in Washington state.

The project will see the treatment of some 54 million gallons of highly-active liquid waste stored in 177 underground tanks. The new contract is a major challenge for ourselves and our partners, and is the next stage in a work programme which could be worth up to \$6.9 billion over the next 20 years. In two parts, the agreement involves design, pricing and regulatory work lasting two years and is worth around \$250 million. Construction of facilities followed by waste treatment operations form the second and larger part of the contract.

I would like to welcome Paul Miskimin to his new role as President and Chief Executive Officer of BNFL Inc. Paul will bring tremendous public and private sector nuclear and environmental clean-up experience to the company.

German contracts

The newly elected Coalition Government in Germany has announced a phase-out of nuclear power and a consequential ban on overseas reprocessing. At the time of writing this report, timescales for the implementation of these measures have still to be confirmed.

BNFL has received strong support from the UK Government on this issue for which we are grateful, and we are protected by contracts which are robust and enforceable. Both BNFL and our customers have a strong desire to complete this work and we will continue to consult with Governments and customers to secure a satisfactory outcome.

Placing emphasis on our people

Finally, as we pursue our strategy, the importance of developing and growing our people becomes a crucial ingredient for success. During the year, we have put in place a comprehensive training, development and behavioural change programme

across the company. Our aim is to build robust relationships when partnering with our customers, regulators, suppliers, workforce and the communities around our sites. I am committed to developing compatible goals with all of our stakeholders in an atmosphere of cooperation.

Public Private Partnership

The UK Government's recent announcement to pursue a PPP for BNFL is the next logical step in our evolution and an extremely positive development for the BNFL group of companies operating around the world. I believe a PPP for BNFL represents the most likely way to enhance the Company's commercial prospects and long term future, while ensuring that liabilities are efficiently managed and standards of safety, security and environmental care are continuously improved.

Building upon the targets and commitments we have made in our 1999 corporate plan, I have agreed a basket of performance indicators with the Government against which progress will be measured before a final decision is made to proceed on PPP. These indicators focus on the crucial area of safety, health and the environment as well as business performance.

1998/99 was a successful year for BNFL. It has showed our resilience as a company in being able to surmount operational challenges, while at the same time we have increased profit before tax, dividend and investment for the future. We have also maintained high standards of safety, health and environmental performance. In the years ahead, as we move towards PPP, the leadership challenge is to continue to drive towards world-class performance in everything we do.

Financial Review

The acquisition of Westinghouse will significantly improve BNFL's operating profits over the forthcoming years

Turnover

Turnover is £1487 million (compared to £1341 million in 1997-98). Whilst this year's figures include a full year rather than two months of Magnox electricity sales (an additional £420 million of turnover), they also now exclude internal trading with Magnox Electric (in 1997-98 turnover with Magnox Electric amounted to £253 million in the period up to acquisition). Reductions in turnover due to shortfalls in Thorp reprocessing throughput and European transport issues have been offset by increased turnover from the Group's US operations in the waste management and clean-up area.

Profit before interest and tax (PBIT)

PBIT is £47 million compared to £32 million in 1997-98 (1997-98 figures have been adjusted for the impact of FRS 12). The Group's share of operating profit from our Joint Ventures and Associated Companies (largely our 33% stake in Urenco) has increased by £7 million to £31 million and profits realised and re-invested in the nuclear liabilities investment portfolio have increased by £43 million to £55 million. This year's profits have also benefited from an exceptional profit on the disposal of Sudbury House (£23 million). Operating results have been impacted by the shortfalls in Thorp reprocessing throughput (£34 million), exceptional costs due to the delay in the Sellafield Mox Plant commissioning decision (£21 million), and the write down of some of the Group's fixed assets (£20 million). In addition, the prior year's operating result included ten months of now internal profit on work for Magnox Electric plc amounting to approximately £70 million.

Profit before tax

Net financing gains have increased by £53 million to £181 million as a result of higher cash deposits and investment returns. Included within investment income is income of £68 million (1997-98 £54 million) earned on payments in advance from customers. The payments in advance and the anticipated financing income on them formed an integral part of the contractual terms negotiated with the customers. Profit before tax amounts to £228 million compared to £160 million in 1997-98.

The Accounting Standards Board (ASB) has introduced this year a new accounting standard relating to provisions and contingencies (FRS 12) which all UK companies are required to apply for accounting periods ending after 1 January 1999. The application of this standard has relatively small impact on the profit and loss account, leading to a reduction in reported earnings of £10 million (1997-98 £39 million) at the pre-tax level, although it results in a much more significant re-presentation of the balance sheet. These changes are explained fully on page 13 under the heading "Impact of FRS 12". In accordance with the accounting standard, prior year figures have been restated for comparison purposes.

Profit after tax

Profit after tax is £142 million compared to £91 million in 1997-98 (after reductions of £7 million and £31 million respectively from the application of FRS 12). This represents an increase of 56% (22% if FRS 12 impacts are excluded).

Cash flow

The group's strong underlying cash flows have continued. If the effect of investing liquid resources in the nuclear liabilities investment portfolio is excluded, the net cash inflow before use of liquid resources and financing is £509 million (compared to £342 million in 1997-98).

Shareholders' returns

An interim dividend of £16 million was paid in January. The Board proposes a final dividend of £49 million, making a total of £65 million for the year (compared to £53 million in 1997-98).

Shareholders' funds have increased by £121 million to £640 million, and the pre-tax return as a percentage of average shareholders' funds is 39%.

Acquisition of Westinghouse

The acquisition of the Westinghouse nuclear business, in partnership with Morrison Knudsen, has greatly strengthened the Group's front end capabilities. The Group's share of the total consideration for the businesses acquired was £641 million, comprising cash of £48 million with the remainder being liabilities assumed. Total goodwill on the acquisition amounting to £546 million will be amortised over the next 20 years. The acquisition will significantly improve the group's operating profits over the forthcoming years.

Nuclear liabilities

Group funded future cash expenditure for decommissioning, waste management and reprocessing amounts to £19.4 billion on an undiscounted basis and £9.9 billion on a discounted basis. The group has already made provisions in its balance sheet for 90% of the group funded discounted future cash costs.

The commitment to ensuring that funds are available to meet these long term liabilities as they fall due remains and significant additional funds (£2.5 billion) which mainly came from the integration with Magnox Electric have been specifically earmarked during the year for this purpose. At 31 March 1999, these funds cover almost 90% of the Group funded future discounted cash expenditure in respect of existing liabilities.

Impact of FRS 12

The application this year of FRS 12 results in a significant re-presentation of the Group's provisions and liabilities in accordance with the requirements of the accounting standard. Set out in the following paragraphs is a detailed explanation of the changes resulting from the application of that standard:

FRS 12

- Decommissioning liabilities recognised in full when plants are commissioned
- Decommissioning liabilities included in fixed assets as part of the cost of the plant concerned and depreciated
- Nuclear liabilities recognised gross with separate recognition of assets (fixed assets or debtors) for amounts recoverable from customers
- Changes in decommissioning estimates treated as adjustments to the asset concerned impacting on future depreciation. Reductions in excess of the carrying value of the asset taken to the profit and loss account

Historic policies

- Decommissioning liabilities recognised over the operating lives of the plants
- Decommissioning provision build up charged to profit and loss account each year as a provisions charge
- Nuclear liabilities recognised net of amounts recoverable from customers
- Changes in estimates are taken to profit and loss account

The impact of FRS 12 on the group accounts is as follows:

	£M
Balance sheet:	
Increase in fixed assets	1084
Increase in debtors	3622
Increase in provisions	(4495)
Increase in other liabilities	<u>(331)</u>
	<u>(120)</u>
Profit and loss account:	
Increase in operating profit	8
Increase in finance charges	<u>(18)</u>
Decrease in profit before tax	<u>(10)</u>
Decrease in tax charge	<u>3</u>
	<u>(7)</u>

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. Furthermore, 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 the BNFL group projects have been running since 1996/1997 to ensure that the safety, commercial, environmental and legal interests of BNFL are fully protected from the impact of the 'Year 2000 Problem'. These projects are 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.

Inventories have been established and risk assessments carried out. All high priority items have been fully tested and are demonstrably Year 2000 compliant. The focus of the remaining work is now on contingency planning regarding residual risk and the development of a business continuity plan, to reduce and manage any impact on the business that results from the Year 2000 Problem affecting external support services such as water, communications and local emergency services. The group's 'best practice' approach has been developed with input from various sources. The group's regulators, the Nuclear Installations Inspectorate are closely monitoring the situation and quarterly reports are being provided to the Department of Trade and Industry. Westinghouse also has a comprehensive Year 2000 program.

The total cost of Year 2000 compliance is estimated to be around £30 million (including approximately £6 million in respect of Westinghouse), the largest proportion of this being employee time and resource.

Fuel Business Group

Fuel Business Group is based at the Springfields site near Preston, Lancashire. The group manufactures a range of nuclear fuel and intermediate uranium compounds and products.

Fuel Business Group is also responsible for the management of BNFL's shareholding in Urenco, a supplier of enriched uranium, and the overseeing of the BNFL Uranium Asset Management Company, a provider of uranium contract management services.

Placing emphasis on safety...

The year has focused on improving safety and environmental performance, along with product quality, against a background of continued cost reduction. Extensive training and education has been provided with the full support and participation of employee representatives, who have worked in partnership with the company on many issues, including stress management.

As a result of these initiatives, the underlying rate of accidents has continued to fall. In 1998/99, we achieved a rate of 1.24 per 200,000 hours worked compared to a rate of 2.56 per 200,000 hours worked in 1997/98. A Royal Society for the Prevention of Accidents (RoSPA) award was also gained during the year.

...and quality

The group has continued to place great emphasis on controllable cost reduction. This has been achieved through a variety of methods including world-class manufacturing standards such as total productive manufacturing, reliability centred maintenance, flexible working and more effective utilisation of resources and supply chain initiatives.

During the year, Fuel Business Group was audited by Lloyds and on 1 April 1999, was successfully re-accredited to ISO 9001 and ISO 14001 which demonstrate quality and performance in manufacturing and environmental issues. The group also received re-accreditation to Investors In People (IIP) in February 1999.

Operational performance

While the manufacture of products has continued to meet customer requirements, an ongoing programme of improvements involving customers has also resulted in changes to a number of processes.

The Oxide Fuels Complex has operated particularly well, and has demonstrated its capability of producing fuel for the Advanced Gas-cooled Reactors (AGRs) operated by British Energy. The success of the complex has led to the shutdown of older manufacturing plants on the Springfields site.

Environmental performance improved during the year, with investment in new plant and equipment contributing to reduced levels of non-radioactive materials in liquid discharges.

Creating a truly global fuel supply business

In March 1999, the purchase of Westinghouse was concluded. As part of the acquisition, Fuel Group is to be integrated into the new 100% BNFL-owned Westinghouse Electric Company, to create a broader based and truly global nuclear reactor fuel business.

Magnox Generation Business Group

The Magnox Generation Business Group manages the eight operating Magnox power stations plus one hydroelectric station in the UK and Magnox reprocessing at the Sellafield site in Cumbria.

The group's first full operating year since integration with BNFL was a year of significant change and achievement.

The year ended with improvements in cost management and profitability, following major restructuring to combine generation and reprocessing operations, and the transfer of decommissioning activities to the Engineering, Waste Management and Decommissioning Business Group.

Safety – our main priority

During the year, further progress was made in conventional and radiological safety performance and targets for total recordable incidence rate, lost work day case rate and occupational exposure rates. No incidents above level one on the International Nuclear Event Scale were recorded and no employee or contractor received more than 10 mSv at a power station. In fact, fewer than 1% of classified persons received more than 5 mSv. Magnox reprocessing passed the landmark one million hours without a lost-time accident, with the Plutonium Finishing Plant exceeding three years.

The group received the environmental standard ISO 14001 certification for six operating power stations and two decommissioning sites. Two further sites were recommended for certification.

Group business performance

Electricity output remained broadly the same as in 1997/98 at 23.05 TWh. (8% of the total UK's needs).

The Magnox stations performed well throughout the year, with Oldbury completing a record breaking run of 822 days continuous operation. The station also improved its output by converting to enriched Magnox fuel.

Bradwell achieved its best outage for 29 years, completing in just 52 days and 14 hours, while the successful completion of repairs to boiler welds at Sizewell A enabled Reactor Two to return to service in March.

The Fuel Handling Plant improved its flask turnaround time by 30% in support of Calder Hall offline refuelling.

Poor weather was good news for the Maentwrog hydroelectric power station as heavy rainfall led to a record output of 73 GWh, an achievement that helped the station celebrate its 70th birthday in style.

Reprocessing volumes totalled 465 tonnes. This was achieved despite two unplanned shutdowns in the Magnox Encapsulation Plant and the Fuel Handling Plant.

The cost base for the Magnox business was redefined following integration into BNFL, providing a clearer assessment of the long-term potential value of the continued operation of the Magnox fleet. A further 5 % saving in controllable costs was achieved as part of the ongoing effort across the company.

During the year, the restructured Reactor Decommissioning Unit and Liabilities Management Unit were transferred to the Engineering, Waste Management and Decommissioning Business Group. *Transfer will be complete when the three stations undergoing decommissioning are relicensed and reauthorised by the Nuclear Installations Inspectorate, expected later this year.*

Committed to flexible working methods

As part of the drive to introduce more efficient and flexible working methods, and to accommodate the consolidation of group office functions, a restructured Business Group Support Office has been established on the Berkeley Site. These improvements have been matched by investment in the group's people, and most sites have now achieved Investors In People accreditation.

Thorp Business Group

Thorp Business Group provides a comprehensive range of used fuel management and recycling services to customers both at home and overseas.

The past year was a major challenge for the group, with the Thorp reprocessing plant unable to achieve its production target because of two major outages. The first of these was programmed but was extended to address an erosion problem with one of the waste transfer systems. The second outage was unplanned and occurred as a result of a blockage in one of the plant transfer lines. The blockage has been removed but an extended outage has been necessary to ensure the situation does not recur.

This was disappointing as the plant performed particularly well during the periods when it was operating. During these periods, it clearly demonstrated its ability to meet the throughput rates necessary to achieve the baseload target of 7000 tonnes in the first ten years of operation, with a record 127 tonnes being sheared during October 1998.

A responsible approach to safety...

For the fifth successive year, a reduction in the total number of accidents was achieved in Thorp and associated plants. In 1998, only one lost-time accident occurred, compared to four in the previous year. The total recordable injury rate was 0.69, whilst the effective management of working practices has seen radiation exposure dose rates to plant operators remain well below the statutory and routine working limits for modern nuclear plants.

...and quality

The Thorp quality assurance system achieved Lloyds Register Quality Assurance accreditation to ISO 9002 status. Re-accreditation of the plant to the National Investors in People scheme was also gained during the year.

Sellafield MOX Plant

During the year, work continued on the inactive testing and commissioning of the Sellafield MOX Plant (SMP), built to manufacture MOX fuel from a mixture of uranium and recycled plutonium. Permission to begin active commissioning of SMP, using uranium only, has been given by the Department of Environment, Transport and the Regions. This follows a public consultation process stretching back more than two years. For that consultation process, an independent PA Consulting Group report confirmed that the economic benefit of the plant will be "strongly positive". The Environment Agency, who have reported that the operation of the plant is justified, have also acknowledged that the radiological impact of SMP will be negligible - equivalent to spending less than one second flying in an aeroplane for a member of the public.

To allow the project to move forward, BNFL still needs permission to introduce plutonium into SMP in due course, as the final stage of moving into operation.

The smaller scale MOX Demonstration Facility continued to operate well during the year, and completed the manufacture of the first MOX fuel for a Japanese customer.

Sea transport

The Pacific Nuclear Transport Limited (PNTL) fleet of ships has completed its major used fuel transport contract with the Japanese Utilities. PNTL have now begun transporting MOX fuel from Europe to Japan, as well as continuing the return transport of waste products.

Responding effectively to political change

Safeguarding the group's German business was a major commercial issue during the year. The company obtained the full support of the UK Government in challenging the new German Coalition Government's attempted ban on reprocessing. BNFL and our German utility customers continue to plan for further fuel deliveries to Sellafield, indicating that Thorp's firm reprocessing contracts will be fulfilled.

Thorp's transport business has been adversely affected by the halting of spent fuel transports through parts of Europe. BNFL is working with European Governments and customers to ensure that movements within Europe are resumed as soon as possible, and current indications are that transports could recommence in the second half of 1999.

Engineering, Waste Management and Decommissioning Business Group

The Engineering, Waste Management and Decommissioning Business Group manages the treatment of operational waste and carries out decommissioning activities at BNFL sites in the UK.

Through these activities, the company has developed technologies and practices which are being deployed worldwide. BNFL has become a global leader in a range of novel solutions to meet the challenges of dealing with nuclear liabilities, particularly at Sellafield.

The group's engineering business, under the management of BNFL Engineering Ltd, has continued to provide high-quality project management and engineering support to a range of BNFL operations, both in the UK and overseas.

Safety first and foremost

The past year has seen major achievements and new initiatives in improved safety performance. The team working at Sellafield on the construction of the third production line of the Waste Vitrification Plant achieved two million working hours without a lost-time accident.

The group's improved safety performance resulted in 18 prestigious safety awards from the Royal Society for the Prevention of Accidents (RoSPA). BNFL Engineering is working in partnership with its contractors, through safety workshops, to continuously improve safety performance.

Success and growth is built on safe practices, and the group has further developed the behavioural approach which seeks to improve performance through the reinforcement of the 'safety first' culture. This approach is widespread throughout the group at Sellafield and momentum is growing at the other UK sites. At the same time, the number of accidents reported under the Occupational Safety and Health Administration system has reduced over the year.

UK decommissioning market

The Business Group's presence in the UK decommissioning sector continues to be strengthened. In addition to undertaking decommissioning work on BNFL's own reactors, the Group has already successfully decommissioned one research reactor and currently has contracts to decommission a further two. BNFL is leading the decommissioning of the pilot Advance Gas Reactor and is also leading the consortium in the decommissioning of the redundant Pile 1 reactor at Sellafield. The combination of expertise gained from this work places BNFL in a strong position to compete for other work both in the UK and overseas, particularly in the US and European markets.

Committed to innovative technology

A number of new plants using innovative nuclear technology are nearing the operational stage. Active commissioning of the Waste Treatment Complex at Sellafield, which reduces the volume of plutonium contaminated material by high force compaction, is progressing very well.

Again at Sellafield, the Solvent Treatment Plant, which is designed to treat used production solvent and reduce stored waste, is nearing completion and will soon be available for active commissioning. However, further progress is conditional upon receiving appropriate authorisations from the Environment Agency.

These plants will contribute significantly to the reduction of nuclear liabilities on BNFL's sites in the UK. Discharging liabilities cost-effectively represents a huge business opportunity for the company and a new Liabilities Management Unit, drawing on experience and expertise gained by both BNFL and Magnox Electric, has been formed to coordinate strategies and activities across all of the company's business groups.

Creating customer partnerships

During the year, a common charter was agreed with one of our principal customers, the United Kingdom Atomic Energy Authority (UKAEA). Aimed at reducing the cost of liabilities, the charter seeks to promote cooperation and proactive working on issues to the benefit of both organisations.

New commercial arrangements have also been agreed with customers for operating plants and projects. Built-in incentives, offering the opportunity of greater profit as costs are reduced, give BNFL and our customers the chance to create 'win win' situations.

The business group's presence in the UK decommissioning sector continues to be strengthened. The development of contract/alliance partnerships mean the group can make available a wide range of nuclear services throughout the lifetime of a project, and has led to the group tendering for some large contracts.

Dynamic engineering technology

A substantial part of the engineering portfolio is the delivery of the major projects at Sellafield, using leading-edge nuclear technology.

Treatment plants currently under construction include the £410 million Sellafield Drypac Plant, which will use a new production process developed by BNFL to separate, condition and package sludge wastes into a form suitable for long-term disposal.

The group has also adapted existing engineering techniques to suit the often unique circumstances presented by the nuclear industry. An example of this has been the construction of a containment building over redundant sea and sludge tanks at Sellafield, so as to provide safe working conditions during waste retrieval operations. Due to space restrictions, the group used novel techniques to slide the structure into place in sections. The building weighed some 2600 tonnes and covered an area the size of a football pitch, and to the immense credit of all the team, the operation was completed two months ahead of schedule.

The group is also leading a company-wide initiative to build partnering arrangements with a number of suppliers. Partners will bring complimentary qualities and enable BNFL to focus on the development of core nuclear project skills.

Responding to business needs

In October 1997, the decision was taken to rename Pajarito Scientific Corporation as BNFL Instruments Inc. and to combine this business with BNFL Instruments. During 1998/99, the integration process was successfully completed and now all activities are carried out under a combined management team. The mission is to support the safe operation of BNFL at Sellafield whilst simultaneously expanding international sales.

BNFL Instruments continued to enjoy significant external success throughout 1998/99, winning contracts in South Africa, Europe, Asia and across the USA. Areas of specialisation include all aspects of the nuclear fuel cycle together with waste management, decommissioning, process control, regulatory and safeguarding requirements. Operating bases have been established at Sellafield and Los Alamos in North America, together with sales offices in 14 countries around the world.

Mobile assay services is seen as a growth area for BNFL Instruments, and significant efforts were put into building up Mobile Characterisation Services LLC during the year. Mobile Characterisation Services is a US company, jointly owned by BNFL Instruments, Canberra Industries and VJ Technologies Inc. The company's headquarters are in Albuquerque, New Mexico.

Providing global clean-up services

The group is also active in the East as well as the West. BNFL Engineering is part of the clean-up team monitoring the structural state of the sarcophagus over Chernobyl No.4 reactor. The main aim of the team, which includes partners from the US and the Ukraine, is to convert the sarcophagus and the stricken reactor to an environmentally safe site.

BNFL Inc.

BNFL Inc., our US group company, provides technology-based services and facilities to the nuclear industry in the North American market.

The main features of this year's performance have been the achievement of profit targets and the expansion of the business base. BNFL Inc. continues to focus on the North American clean-up market, and the company continues to be recognised by its customers as a leader in environmental restoration, providing world-class nuclear clean-up services safely and cost-effectively.

In 1998, the company increased its net profit to \$5.7 million and revenue to \$90.5 million, while costs have been reduced. Safety performance has also been improved; a considerable achievement during a year of increased activities.

A main business priority for BNFL Inc. has been the advancement of its two major privatisation contracts for the US Department of Energy (US DoE).

The company successfully concluded a six month negotiation period with the announcement of the award of the Phase 1 Part B1 River Protection Project Waste Treatment Plant contract at the Hanford site in Washington State. BNFL Inc. has now begun work worth around \$250 million. The overall River Protection Project Waste Treatment Plant programme, scheduled over twenty years, could be worth up to \$6.9 billion.

Performing our US business successfully

All major milestones on the Advanced Mixed Waste Treatment Facilities were achieved during the year. The facility will be based at the US DoE's Idaho National Energy and Environmental Laboratory. A key milestone was the delivery of an environmental permit application.

Winning reactor decontamination and decommissioning business was also a major target during the year. The award of a \$35 million contract by Consumers Energy, to dismantle its Big Rock Point Reactor in Charlevoix, Michigan, was a clear demonstration of BNFL Inc.'s commitment to the commercial nuclear clean-up business.

Management contracts at US DoE sites have been carried out successfully throughout the year. Rocky Mountain Remediation Services, a group company jointly owned by BNFL Inc. and Morrison Knudsen at the Rocky Flats site in Colorado, gained additional scope and contract extension, worth an extra \$50 million annually. The BNFL Savannah River Corporation met all targets and exceeded projected profits.

Sharing and transferring knowledge and experience

Technology developed and applied at BNFL's UK sites has contributed significantly to the success of BNFL Inc. in winning US business. A prime example of this is the East Tennessee Technology Park Decontamination & Decommissioning project, which involves the dismantling of a gaseous diffusion enrichment plant. The first major project milestone was achieved this year with many tens of thousands of square feet of floor space awaiting remediation in the USA. Previous experience gained by BNFL on a similar project at the company's Capenhurst Site in the UK will be invaluable.

Expanding our US nuclear waste management services portfolio

Last year saw BNFL Inc. acquire the Manufacturing Science Corporation based in Oak Ridge. The purchase will add unique capabilities to the group company's broad portfolio of nuclear waste management services, and will be a major contributor to the successful completion of the East Tennessee Technology Park contract.

In 1999, BNFL Inc. is committed to improving safety and increasing profit. It expects to meet all milestones on the River Protection Project Waste Treatment Plant, Advanced Mixed Waste Treatment Facilities and East Tennessee Technology Park.

The company will also be restructuring to meet customer and regulatory requirements on all contracts.

The recent acquisition of Westinghouse's nuclear business by BNFL will also present BNFL Inc. with many new opportunities in the US in the years ahead. It will continue the BNFL tradition of excellence in safety performance, project execution and value for money. The group company will be striving to meet or exceed customer needs, while building on the performance of the past year.

BNFL in Society

BNFL is committed to making a significant contribution to the aims of sustainable development encompassing economic, environmental and social responsibilities.

BNFL recognises the need to perform responsibly and be accountable to a wider number of stakeholders in addition to our shareholder. In 1977 we published our first safety, health and environment (SHE) report. Since then we have continually reviewed our progress and sought to improve our SHE performance. We remain strongly committed to helping social progress in the areas where we operate through our contribution to the UK economy, and through improving the fabric of the communities and the quality of life of those who live and work in them. We believe it is the quality of a company's community involvement which defines its sense of responsibility and values.

However, we also recognise that to be a good corporate citizen and neighbour there is a need to do much more. We must consult with and take on board the opinions of our stakeholders, identifying their expectations of our performance, and the impact which our activities have on their lives and the environment.

We are committed to proactively seeking to integrate society's needs and expectations with our own business objectives.

BNFL people

BNFL is an equal opportunities employer, which currently employs nearly 20,000 people worldwide.

As the nuclear industry consolidates and the market becomes even more competitive, we need to be very clear about the skills and behaviours we require to become a world-class company. We are a technological world-leader and technology is developed by people. Therefore, we need to ensure we recruit, retain and develop high calibre people to further develop and apply our technology through innovative solutions which meet the needs of our customers.

A major strategic theme for the company has been the continuing development of comprehensive pro-active people systems, to ensure everyone has the maximum opportunity to develop their potential and contribute to the achievement of the company's objectives.

Encouraging personal development

BNFL is committed, through investment in training and development, to encourage and provide people with individual ongoing learning and development, to help them transform their behaviour and performance. Personal development is a partnership between the company and the individual where learning is a shared responsibility.

Competency framework

Work has continued throughout the year on the development of a comprehensive competency framework, involving many people from all parts of the company. The framework describes the knowledge, skills and behaviours required of a world-class workforce, and forms the basis of an integrated people management process which includes recruitment, career and succession planning and reward.

Leadership development

Leadership Development Centres have been introduced to identify and accelerate the development of high potential people, to lead the company in the future. Once identified, individual development programmes and career plans will be established to ensure the leaders of tomorrow have the right skills and experience.

In 1998, a Business Leader Development Programme for senior managers was introduced in partnership with the Institute of International Management Development (IMD), based in Lausanne, and was attended by 58 managers. During 1999, a further two programmes will be organised for over 80 managers.

In addition to supporting the changes being introduced to become world-class in safety and plant operations, an extensive programme of behavioural skills and operational management is being developed with a leading UK business school for managers and team leaders, responsible for delivering change throughout the company.

Improving working practices

During the year, a major activity was undertaken by joint teams of company and union representatives to review all of the terms, conditions and methods of working. A comprehensive package has evolved which enhances people's ability to progress by attaining and demonstrating new competencies, improving mobility and flexible working to increase productivity and reduce costs.

Westinghouse integration

With the Westinghouse Electric acquisition completed in March, a 100-day integration plan has been developed to lay the foundation of how Westinghouse will work within the enlarged BNFL Group. Work will continue to identify synergies and economies of scale, particularly in shared services, but most importantly to share best practice in order to gain competitive advantage.

International assignments

With the development and achievement of more international business, a real opportunity has been created for people to participate in international assignments in the USA, Europe and Asia. These opportunities assist in the development of our people, to share and transfer knowledge and experience, and to become a truly global company.

Commitment to graduate recruitment

A graduate recruitment centre has been established to coordinate the recruitment of all graduates for BNFL in the UK. This will be extended internationally next year. BNFL will recruit between 50-100 graduates a year, and will be able to offer one of the best development programmes for technical graduates in some of the world's most up-to-date facilities. Individuals will continue to pursue professional development leading to chartered status for their profession.

Continuous investment in research and technology

BNFL is committed to ongoing investment in research and technology in order to maintain its lead in innovative technologies, and to develop new and more efficient solutions to environmental management and employee protection.

Recognising the importance of continued technology investment to our core business, BNFL committed around £81 million during 1998/99. This investment has covered activities from technical support for our operating plants, to the preparation of safety cases and the development of new technology for existing and future business.

Throughout the year, technical competence has been enhanced and includes the adoption of the BNFL Innovation Process by the business groups, to align investment with business need. Around 80 % of the technology portfolio has been sponsored by the business groups.

A key feature of the year has been technical support to plant, which included on-line support to waste management and decommissioning operations, Thorp, the MOX Demonstration Facility and the Sellafield MOX Plant. The company's collective experience in clean-up and decommissioning has been a major component in providing technical support to BNFL Inc. in the USA.

Research investment outside BNFL remains an important element of the corporate technology portfolio. Around £4.5 million is spent annually to support contracts with around 30 universities in the UK and overseas. A highlight was the establishment of a Radiochemistry Centre of Excellence in alliance with the University of Manchester.

The ongoing strategy has been to lay the foundations for longer-term relationships, in particular, continued collaboration with organisations in Canada and Korea, investigating the use of recycled uranium fuels and technical partnerships with leading Japanese and Russian research organisations.

Additionally, the company has maintained technical interactions with national and international groups such as the European Commission Fifth Framework Programme and the activities of the Organisation for Economic Cooperation Development and the Nuclear Energy Agency.

Creating wealth for today and tomorrow

BNFL contributes significantly to the UK balance of payments by generating wealth in the UK and from overseas. It receives no monetary support for its operations from

the Government, and in 1998/99 provided £65 million in dividends to the shareholder - the British Government.

Between 1971 and 1999, dividend payments to the Government have totalled nearly £673 million, representing an average return of 9.88% on the Government's investment in the company.

Investing in the community

Community involvement forms an integral part of our business. BNFL is committed to an ongoing programme of community investment and involvement, covering economic regeneration, education, academia, charitable giving and sponsorships, arts and sports.

Flourishing and lively communities benefit both the people who live and work in them, and their local businesses. To work effectively, relationships must be based upon mutual benefit, trust and respect. BNFL is committed to working in conjunction with other successful businesses around our sites to build long-term alliances with our local communities, and to actively work for regional prosperity.

Engaging economic regeneration and enterprise

BNFL continues to provide full support to the West Cumbria Development Fund, along with the associated development/investment companies which the West Cumbria Partnership supports, such as the Westlakes Research Institute.

An exciting development of the partnership work in West Cumbria is the establishment of a Community Action Network (CAN) Centre in Whitehaven. The Community Action Network will be an independent national information network to support the development of community regeneration programmes. It is aimed at bringing together local 'social entrepreneurs' - men and women who have pioneered innovative, grass-roots solutions to some of the greatest social challenges in Britain's most deprived areas.

For many years, BNFL has supported the Cumbria area office of the Prince's Youth Business Trust (PYBT). The PYBT assists unemployed people and those of limited means in the 18-30 age group to set up their own business, by providing finance, on-going business advice and market opportunities.

BNFL Enterprise is involved in inward investment, and continues to invest in new technology based businesses, providing business support services, technology transfer and business development. Financial support is also made available to employees with aspirations to start their own business.

Offering educational support

BNFL has developed a strong programme of nationwide educational support for teaching science and technology at primary and secondary school levels, and has gained a reputation for being one of the foremost companies in the UK for providing

sponsored teaching materials, produced by teachers for teachers. The teaching materials, such as books, videos and CD ROMs are provided at highly-subsidised cost.

Meeting the requirements of the National Curriculum

Together with the Association for Science and Education and the British Association for the Advancement of Science, BNFL is sponsoring a national 'Science Challenge', which aims to involve more than 100,000 young people in science investigation projects relating to the National curriculum. The Sellafield Visitors Centre has established a new educational visit entitled 'We Make Electricity', which is designed by BNFL with assistance from specialist consultants (Teachers from Industry). These visits help pupils to complete the National Curriculum, with lectures and hands-on investigations. BNFL has also supported the Government's initiative, Education Action Zones, around Hinkley Point and Preston.

BNFL has supported schools seeking to gain technology status. New high-tech information and communication technology facilities at schools in Preston and near Chester, have been established with the help of BNFL sponsorship.

Charitable giving

BNFL's funding criteria is derived from our business philosophy of recognising that some of the issues we face in our everyday business are not glamorous, but are addressed and dealt with responsibly on a day-to-day basis.

The charitable support we have given over the year has followed our policy of tackling some of the many difficult issues which our communities must face today, such as drug abuse, homelessness and unemployment.

Increasing drugs awareness

Children in West Cumbria were warned of the danger of drugs, using the Ali McCaw puppet theatre. Serious messages were demonstrated to the children in a light-hearted way.

In Lancashire, a mobile drugs awareness education unit regularly visits primary schools to inform children of the dangers of drugs.

Assisting Crime reduction

The Warrington Youth Action Group was given financial support to reduce crime in the area. This will be achieved through education and by encouraging teenagers to move off the streets into alcohol-free bars.

Confronting Homelessness

The Frontline Community Project has received financial support from BNFL to allow volunteer workers to provide a soup kitchen, help for the homeless, parent and toddler groups and a student support service on Merseyside.

In Idaho Falls, USA, BNFL Inc. sponsored 'Safe Place', an established organisation which provides a haven for abused teenagers or for older children in need of help.

Encouraging employee volunteering

BNFL is keen to encourage and support its workforce in community projects. As well as providing much needed help to charitable organisations, we also provide an opportunity for the personal development of the individual. Some examples of employee involvement include:

- *Live Challenge99*

Live Challenge 99 was launched by Granada and Border television, as a year-long fund-raising campaign. Two teams of employees from all BNFL sites were involved in organising events to raise money for the appeal.

- *Business in the Community Challenge(BITC)*

Employees put skills learned on a 'maximising your potential' course into practice, by organising a fun day in the Greater Manchester area, after accepting a BITC challenge.

- *Fund raising*

BNFL employees helped raise money to build a pre-school unit in Gloucestershire, which was partially funded by the Single Regeneration Fund.

In the USA, BNFL Inc. coordinated fund raising events for the Bonneville County Museum, which was severely damaged by floods.

Safety, Health and the Environment

BNFL places great emphasis on the safety of our workforce, the public and the environment in which we operate.

BNFL is committed to achieving world-class levels in safety, health and environmental performance. During the year, the BNFL Group received 28 RoSPA safety awards for plant safety, of which 20 were gold awards.

Striving to continually reduce injuries in the workplace

BNFL demonstrates its commitment to achieving world-class performance in safety by continually striving to reduce injuries in the workplace, and is working towards the long-term target of zero injuries.

The great improvements made in previous years have led to very demanding targets being set for occupational safety performance during 1998/99. Unfortunately, we fell short of achieving these targets, although the number of injuries resulting in absence from work for more than three days fell from 39 in 1997/98 to 35 in 1998/99. This is a rate of 0.18 per 100,000 hours worked, compared with a figure for the company of 0.2 for 1997/98, and the target for 1998/99 of 0.1. Magnox Electric also made an improvement to a rate of 0.29 per 100,000 hours worked in 1998/99 compared with a figure of 0.32 in 1997/98.

To help reduce injuries even further, BNFL is now using the American Occupational Safety and Health Administration (OSHA) injury and ill-health recording system, which records all serious injuries and not just those that result in absence from work. For 1998/99, the company achieved an OSHA lost workday case rate of 0.5 and a total recordable incidence rate of 1.2 per 200,000 hours worked, compared to the targets of 0.3 and 1.1 respectively. However, the levels achieved represent a significant improvement on the 1997/98 levels of 0.62 and 2.03 respectively.

Improving behavioural safety

Behavioural safety serves to improve people's attitude towards safety, by encouraging safe behaviours and discouraging unsafe behaviours. Our behavioural safety programme is a key step towards world-class safety performance and is now being extended to all company sites. A key feature of this year's progress is the use of a single behavioural safety training package across all sites, to standardise the approach used.

Learning from experience

Significant progress was made during the year in improving the company's 'learning from experience process'. The implementation of a company-wide electronic database called 'ProSafe' has facilitated access to information on accidents and incidents. Coupled with the database, a new review process has been implemented to enable individual plant areas to learn the lessons from events occurring in other parts of the company.

Caring for people's well being

The occupational health task force is meeting the challenge of world-class performance in occupational health. Among measures put in place during 1998/99 were the implementation of alcohol and stress policies across the company.

Achieving high standards of radiological protection

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 for our workforce, by adopting a voluntary annual dose restriction of 20 mSv and a target of no employee exceeding 15 mSv.

Ongoing reductions in both average and collective dose to BNFL employees from occupational exposure continued during 1998. For the first time in our history, no employee or contractor exceeded our target of 15 mSv during the year. This has been achieved by a combination of major investments in new plant, together with improvements in working arrangements, initiated through partnership with management and employees. 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.

Caring for our environment

BNFL places great emphasis on care and protection of the environment. All of our main operating sites are certified to environmental standard ISO 14001, and the former Magnox Electric sites are progressing well towards certification.

During 1998/99, gaseous and liquid radioactive discharges from our operating sites continued to be well within the authorised limits. Even for the most exposed members of the public living near to our sites, the radiation dose they could receive due to discharges from the sites during 1998 was at very low levels, equivalent to the background radiation dose they would receive by spending about a week in Cornwall, where natural radiation levels are more than three times the UK national average.

Reduction in breaches in the authorised limits for non-radioactive discharges was a major area of improvement during 1998 compared to 1997. Reductions in discharges have been achieved, and the management of discharges was helped by the use of the 'environmental burden' approach, which serves to quantify environmental performance. However, BNFL was prosecuted and fined during the year for breaches of a discharge limit, which took place at Springfields during 1997.

Access to more detailed information

The company's 1998/99 safety, health and environment annual report contains a wide range of information on chemical and radiological discharges, and has 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, which gives a more detailed insight into the company's discharges to the environment of both radioactive and non-radioactive materials.

Meeting BNFL's environmental challenges

OSPAR refers to the Oslo-Paris commission, which adopted a convention in 1992 for the protection of the marine environment of the North East Atlantic, the North Sea and the Irish Sea. OSPAR is concerned with reducing and preventing pollution in the marine environment.

At the OSPAR meeting at Sintra in Portugal, in July 1998, the UK Government agreed a commitment to reduce concentrations of radioactive substances in the marine environment. The strategy requires BNFL by the year 2020 to ensure that its discharges and emissions are reduced to levels where the resulting additional concentrations in the marine environment, above historic levels, are close to zero, taking into account legitimate uses of the sea, technical feasibility and radiological impacts to man and the environment, paying particular attention to the safety of nuclear workers.

BNFL welcomes the UK Government's aspiration of demanding but achievable reductions in discharges to the marine environment by 2020, and looks forward to working with the Government and regulators in order to ensure that we achieve this objective.

Helping solve society's environmental challenges

Climate change poses a serious threat to the global environment. Its effect can be greatly reduced if we take action now to lower greenhouse gas emissions.

Nuclear power plays a very significant role in the UK today in reducing greenhouse gas emissions. Almost 30% of the UK's electricity demand is met by nuclear power, which generates electricity with minimal greenhouse gas emissions. Were this electricity generated by burning gas, the extra emissions of carbon dioxide would total 38 million tonnes, which equates to nearly 7% of total UK CO₂ emissions from all sources. This represents around half of all UK emissions from private cars and taxis. In other words, if nuclear power was replaced by gas-fired electricity, all UK private car and taxi journeys would need to stop on at least three days of every week to counteract the additional greenhouse gas emissions produced.

If the UK is to meet the challenging Kyoto emissions reduction targets for the 2008-2012 period, nuclear must continue to play a significant role.

Report of the Directors

For the year ended 31 March 1999

1. The Directors of British Nuclear Fuels plc have pleasure in submitting to the shareholders their twenty-eighth Annual Report together with the audited accounts for the year ended 31 March 1999.

Review of the year

2. Group results

Information on the Group's results is contained in the Financial Review on pages 11 to 14.

3. Dividend

The Directors recommend that a final dividend of £49M should be paid making a total of £65M for the year (1998 £53M).

4. Activities

On 22 March 1999, the Group acquired 100% of the nuclear fuel and related businesses of Westinghouse and a 40% interest in Westinghouse's nuclear clean-up business, in partnership with Morrison Knudsen. Further details are included in note 11 to the accounts.

The nuclear fuel and related businesses of Westinghouse focus on four key business areas – nuclear fuel, nuclear services, nuclear instrumentation and control and new plant design. Integration with the Group's existing nuclear fuel business will create a truly global competitor providing a broad international platform to meet the needs of the nuclear utilities. The Group's position in the global nuclear clean-up and decommissioning business has been significantly strengthened as a result of the partnership with Morrison Knudsen in the Westinghouse non-defence related clean-up business.

The main activities of the Group comprise the manufacture and supply of fuel for nuclear power stations; nuclear services, nuclear instrumentation and control and new plant design; reprocessing of nuclear fuel after use and associated waste treatment and storage; the provision of cost-effective, world-class solutions to managing nuclear liabilities; the transportation of radioactive materials; the generation and supply of electricity from predominantly nuclear power stations; research and 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 15 to 34.

5. **Research and development**

The Group has a significant continuous research and development programme. During the year, expenditure amounted to some £81M (1998 £69M), which includes expenditure of £42M (1998 £41M) not specifically recoverable directly from customers and as such charged against profits. The principal areas are referred to in the Operational Review on page 28.

6. **Personnel**

The average number of persons employed by the Group during the year was 16,037 (1998 13,183). The increase is due predominantly to the fact that Magnox Electric Plc employees were only included for the final two months in the prior year. At 31 March 1999 the total number of persons employed by the Group was 19,584 which includes 4,200 employees of Westinghouse (31 March 1998 16,226). Further information is given in the Notes on the Accounts on page 59.

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

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

7. **The Board of Directors**

The names of the Directors of the Company during the year were:

Executive Directors:

Sir John Guinness (Chairman)
Mr L N Chamberlain (Deputy Chairman)
Mr J J Taylor (Chief Executive)
Mr R A N Chiese
Mr G R Smith
Mr G L Watts

Independent Non-Executive Directors:

Sir John Boyd
Prof A G J MacFarlane
Miss K M H Mortimer
Mr J D Rimington
Mr D J S Roques
Lady Shuttleworth (resigned 22 June 1998)
Sir Norman Wooding (resigned 30 June 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 or joint venture.

9. Directors remuneration

The Board of the Company has adopted a voluntary compliance stance in respect of the Principles of Good Governance and Code of Best Practice regarding directors' remuneration, contained in the Combined Code published by the Committee on Corporate Governance. A Remuneration Committee comprising independent Non-Executive Directors recommends the remuneration to be paid to Executive Directors, and the conditions of service to be applied. The decisions on all these matters are made by the shareholder. The members of the Committee during the year were:

Sir John Boyd (Chairman – appointed 24 July 1998)
Sir Norman Wooding (Chairman – resigned 30 June 1998)
Mr J D Rimington (appointed 24 July 1998)
Prof A G J MacFarlane (resigned 24 July 1998)
Mr D J S Roques (resigned 24 July 1998)

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.

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. All other Executive Directors have a twelve month rolling contract.

Directors' Emoluments during the year were as follows:

	Basic salary £	Fees £	Benefits £	Annual bonus £	Total emoluments excluding pensions		Pensions 1999 £	Pensions 1998 £
					1999 £	1998 £		
Executive								
Sir John Guinness	98210	-	12019	19937	130166	134432	-	9408
J J Taylor	239861	-	23144	48692	311697	322721	20550	20550
L N Chamberlain	166943	-	10581	33889	211413	218786	-	18065
G L Watts	149247	-	9865	32834	191946	205545	18339	10983
R A N Chiese	207000	-	23116	41400	271516	278321	19000	18640
G R Smith	149247	-	10425	28357	188029	198146	-	16150
	<u>1010508</u>	<u>-</u>	<u>89150</u>	<u>205109</u>	<u>1304767</u>	<u>1357951</u>	<u>57889</u>	<u>93796</u>
Non-Executive								
Sir Norman Wooding	-	6500	-	-	6500	12000	-	-
D J S Roques	-	11000	-	-	11000	11000	-	-
K M H Mortimer	-	10000	-	-	10000	10000	-	-
A G J MacFarlane	-	17500	-	-	17500	19700	-	-
Sir John Boyd	-	10775	-	-	10775	4212	-	-
J D Rimington	-	10000	-	-	10000	1722	-	-
Lady Shuttleworth	-	-	-	-	-	10000	-	-
	<u>-</u>	<u>65775</u>	<u>-</u>	<u>-</u>	<u>65775</u>	<u>68634</u>	<u>-</u>	<u>-</u>
Total	<u>1010508</u>	<u>65775</u>	<u>89150</u>	<u>205109</u>	<u>1370542</u>	<u>1426585</u>	<u>57889</u>	<u>93796</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
	1999 £	1998 £		1999 £	1998 £		
Sir John Guinness	10677	8864	1529	32031	26592	4588	31807
L N Chamberlain	80064	75341	2312	240192	226022	6937	83413
G R Smith	73847	69547	2075	221540	208641	6223	70828
	<u>164588</u>	<u>153752</u>	<u>5916</u>	<u>493763</u>	<u>461255</u>	<u>17748</u>	<u>186048</u>

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

10. Contributions for political or charitable purposes

No contributions were made for political purposes. Charitable contributions during the year amounted to £5.3M (1998 £5.5M). These contributions include £4.4M (1998 £4.3M) to support West Cumbrian economic regeneration initiatives.

11. 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 (1998 80%). 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 1999 was 39 days (1998 39 days).

12. Auditors

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

By order of the Board

A handwritten signature in black ink, appearing to read 'A J Shuttleworth', with a long horizontal flourish extending to the right.

A J Shuttleworth, Secretary
29 July 1999

Corporate Governance

Statement of compliance

The Board has adopted a voluntary compliance stance in respect of the Combined Code prepared by the Committee on Corporate Governance. Other than those matters referred to below, the Company has complied throughout the year with the Principles of Good Governance and Code of Best Practice contained within the Combined Code.

The Board

The Board comprises Sir John Guinness (Chairman), Mr L N Chamberlain (Deputy Chairman), Mr J J Taylor (Chief Executive), two other Executive Directors and six Non-Executive Directors. The Non-Executive Directors are independent from management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. These Directors bring a wide range of experience to the Board and participate in decisions on key issues facing the Group.

The Board meets on a monthly basis and considers a number of matters specifically reserved to it, including appropriate strategic, financial and organisational issues. Appropriate and timely information is supplied to ensure all directors are properly briefed to enable the Board to discharge its duties. All Directors are entitled to obtain independent professional advice at the expense of the Company, and have access to the advice and services of the Company Secretary.

All new Board appointments are subject to recommendation by the Board and/or the Shareholder and are subject to approval by the Shareholder. All new appointments are subject to election by the shareholder at the first Annual General Meeting after their appointment. With one exception already noted on page 37, Executive Directors are appointed on a one year rolling contract. Non-Executive Directors are appointed for a fixed term not exceeding three years before being eligible for re-election.

A Remuneration Committee, consisting exclusively of Non-Executive Directors with no personal interest in the matters to be decided, makes recommendations to the Board on the remuneration of Executive Directors. The decisions on Executive Director and Non-Executive Director remuneration are made by the Shareholder. Further details are disclosed on pages 37 and 38.

The Audit Committee

The Audit Committee consists solely of Non-Executive Directors. The members of the Committee during the year were:

Mr D J S Roques (Chairman)
Miss K M H Mortimer
Sir Norman Wooding (resigned 30 June 1998)

The Committee reviews the effectiveness of internal control systems within the Group and the principles, policies and practices adopted in the preparation of the accounts to confirm that they comply with all statutory requirements. The Committee reviews and approves the internal audit programme, and considers the major findings arising from it and also the work of the external auditors. Adoption of best practice in corporate governance is encouraged and monitored by the Committee.

Internal financial control

A working party has been set up by the Institute of Chartered Accountants in England and Wales to provide guidance for Directors on the scope, extent, nature and review of internal controls to which Combined Code Principle D.2 and Provision D.2.1 refer. Until this guidance is finalised, the Company continues to report on internal financial control pursuant to the guidance for Directors on internal controls and financial reporting that was issued by the Rutteman Working Group in December 1994. This approach has been endorsed by the London Stock Exchange.

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.

Areas of non-compliance with the Combined Code

The items in the Combined Code with which the Company did not comply in full throughout the year are the appointment of a senior Non-Executive Director, the establishment of a Nominations Committee, the re-election of Directors, the setting of Executive Directors' remuneration packages by the Remuneration Committee, the provisions relating to institutional investors, and the membership of the Audit Committee.

To date members of the Board have considered that the appointment of a senior Non-Executive Director would not enhance the manner in which they currently discharge their duties as the Board is currently constituted.

All Board appointments are subject to recommendation by the Board and/or the shareholders, and are subject to approval by the shareholders. Consequently in the Board's opinion no Nominations Committee is currently deemed necessary.

The Board acknowledges that the provisions of the Articles of Association on re-election of Directors may not in all cases accord with the Combined Code requirement for Executive Directors to submit themselves for re-election at least every three years. With one exception already noted on page 37, the Executive Directors' service contracts provide for a notice period of one year which can be given at any time. The Board are reviewing the requirements of the Combined Code and are considering proposals for consultation with the shareholders.

The Remuneration Committee makes recommendations on the remuneration of Executive Directors. All decisions on Executive Directors' remuneration are made by the shareholders.

The Company does not currently have any institutional investors and therefore the requirements of the Combined Code in this area are not relevant.

The Company has an established Audit Committee but as a consequence of the resignation of Sir Norman Wooding it has, for part of the year, comprised of two members rather than three. The Board are currently considering the appointment of the third member.

Going concern

The Directors confirm that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors accordingly continue to adopt the going concern basis in preparing the accounts.

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

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

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

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

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

Report of the Auditors

To the members of British Nuclear Fuels plc

We have audited the accounts on pages 46 to 81, 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 46 to 52.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 44, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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

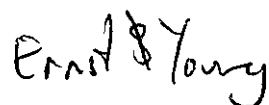
Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

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 1999 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
Registered Auditor
London
29 July 1999

Accounting Policies

Basis of accounting

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. With the exception of the following changes, all of which are due to the publication of new accounting standards, the same accounting policies have been applied as in the previous year.

a. Provisions

The Company has changed its accounting policies with regard to provisions in order to comply with the requirements of FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'. The main changes are in relation to decommissioning provisions and the treatment of expected recoveries from third parties. Further details are included in policies 5 and 7 below and in note 24.

b. Goodwill

In accordance with FRS 10 'Goodwill and Intangible Assets', goodwill arising on consolidation of subsidiaries, associates and joint ventures acquired after 1 April 1998 is capitalised and amortised over its useful economic life. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

c. Associates and joint ventures

In accordance with FRS 9 'Associates and Joint Ventures', the consolidated accounts include investments in associated undertakings and joint ventures after 1 April 1998 at share of net assets plus unamortised goodwill. The gross equity method is applied in the profit and loss account and balance sheet for joint ventures. The profit and loss account now includes separately the Group's share of operating profit and interest relating to associates and joint ventures.

d. Fixed assets and goodwill

The Company reviews fixed assets and goodwill carrying values if events or changes in circumstances indicate that the values may not be recoverable in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'.

The full accounting policies are as follows:

1. **Basis of consolidation**

a. The consolidated accounts include the accounts of British Nuclear Fuels plc and all its subsidiary undertakings.

b. Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the consolidated accounts, joint ventures are accounted for using the gross equity method.

1. **Basis of consolidation** *continued*

Entities, other than subsidiaries or joint ventures, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associates. In the consolidated accounts, associates are accounted for using the equity method.

c. For acquisitions of associated undertakings and joint ventures before 1 April 1998, the consolidated accounts include the Group's share of net assets. For acquisitions from 1 April 1998, the consolidated accounts include the Group's share of net assets together with the balance of unamortised goodwill.

d. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings and joint ventures acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

2. **Goodwill**

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

3. **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.

4. **Long-term contracts**

Profits on long-term contracts are taken in the year in which the services are provided proportionate to the prudently assessed overall forecast profitability of the contracts after allowing for contingencies. Full provision is made for losses on contracts in the year in which they are first identified.

5. Nuclear liabilities

The accounts include provisions for the Group's obligations in respect of nuclear liabilities. These provisions are based on the latest technical assessments of the processes and methods likely to be used in the future and represent best estimates derived from a combination of the latest technical knowledge available, the existing regulatory regime and commercial agreements. The Group's obligations are reviewed on a regular basis and estimates and hence provisions are updated accordingly. Where some or all of the expenditure required to settle a provision is expected to be recovered from another party, the recoverable is treated as an asset and is included in fixed assets or debtors (see note 14). In the profit and loss account, the expense relating to a provision is presented net of the amount recognised for recoveries.

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

The Group's obligations fall into the following categories:

a. Decommissioning

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

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

In respect of facilities that have not yet been commissioned but are anticipated to be commissioned in the future as part of the Group's waste management strategy, provisions for the related decommissioning costs are recognised when waste management obligations arise from operations. The costs are charged to the profit and loss account as no asset exists. When the facilities are commissioned the existing provisions are increased to reflect the full future discounted decommissioning costs. These costs are capitalised and depreciated accordingly as stated above. A deferred income balance is recognised to reflect the fact that an element of the future depreciation of these capitalised costs has already been charged in the profit and loss account. This balance is released to profit over the period used for depreciation purposes for the assets to which it relates.

5. **Nuclear liabilities** *continued*

b. Waste management

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. Provisions are made for the treatment, handling and disposal of the Group's remaining waste products. The provisions are based on discounted forecast cash flows which include both capital and operating expenditure and are recognised as waste management obligations arise.

c. Reprocessing of fuel

Provision is made for the defuelling, reprocessing and waste management of the used nuclear fuel from the Group's reactors.

6. **Research and development expenditure**

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

7. **Fixed assets**

a. Tangible assets

Tangible fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost (including decommissioning costs where appropriate) less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Accumulated depreciation includes additional charges made where necessary to reflect impairments in value. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

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

Buildings 10 to 60 years

Plant and machinery 10 to 20 years

Fixtures, fittings, tools and equipment 3 to 10 years

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

b. Capital grants

Capital grants are treated as deferred income and transfers are made to the profit and loss account, generally by equal annual installments, over the period used for depreciation purposes for the assets to which they relate.

8. Investments

a. Fixed asset investments

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

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 other investments and a managed portfolio of gilts and other investments.

The gilts intended to be held to redemption are stated in the balance sheet on the basis of cost adjusted 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 13a) 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.

9. 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.

10. **Pensions and post-retirement benefits**

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.

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

11. **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.

12. **Foreign currencies**

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

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

13. **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.

14. **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.

15. **Liquid resources**

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

Consolidated profit and loss account

For the year ended 31 March

		1999	1998
	Note	£M	Restated £M
Turnover - Continuing operations	1		
Group and share of joint ventures		1508	1359
Less: share of joint ventures' turnover		(21)	(18)
		<u>1487</u>	<u>1341</u>
Less net operating costs and expenses	2	(1549)	(1345)
Operating loss from continuing operations		(62)	(4)
Share of operating profit in joint ventures		4	3
Share of operating profit in associates		27	21
Profit on sale of fixed assets used in continuing activities	4	<u>78</u>	<u>12</u>
Profit on ordinary activities before investment income, interest and taxation		47	32
Investment income	5	692	238
Less interest payable and similar charges	6	(511)	(110)
Profit on ordinary activities before tax		<u>228</u>	<u>160</u>
Tax on profit on ordinary activities	7	(86)	(69)
Profit on ordinary activities after tax		<u>142</u>	<u>91</u>
Profit attributable to minority equity interests		-	-
Profit for the financial year		<u>142</u>	<u>91</u>
Dividends	8	(65)	(53)
Retained profit for the year		<u>77</u>	<u>38</u>

Statement of total recognised gains and losses

For the year ended 31 March

		1999	1998
		£M	Restated £M
Profit for the financial year		142	91
Currency translation differences on foreign currency net investments		3	(4)
Unrealised profit on investments at market value		<u>41</u>	<u>18</u>
Total recognised gains and losses relating to the year		186	105
Prior year adjustments	24	(113)	
Total gains and losses recognised since last annual report		<u>73</u>	

Consolidated balance sheet

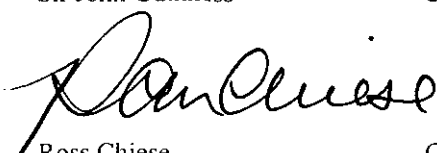
As at 31 March

		1999	1998
	Note	£M	Restated £M
Assets employed			
Fixed assets:			
Intangible assets	9	482	-
Tangible assets	10	6100	5832
Investments	11		
Investments in joint ventures:			
Share of gross assets		747	618
Share of gross liabilities		(676)	(594)
Loans and advances		48	50
		<u>119</u>	<u>74</u>
Investments in associates		113	102
Nuclear liabilities investment portfolio		3940	1421
Other investments		9	9
		<u>4181</u>	<u>1606</u>
Current assets:			
Stocks	12	332	226
Debtors			
Amounts falling due after one year:			
Secretary of State's Undertaking	13	3949	3700
Nuclear liabilities recoverable from customers	14	3468	3751
Amounts falling due within one year	15	770	507
Investments and short-term deposits	16	2639	4318
Cash at bank and in hand		2	156
		<u>11160</u>	<u>12658</u>
Less creditors: amounts falling due within one year	17	(1081)	(654)
Net current assets		10079	12004
Total assets less current liabilities		20842	19442
Financed by			
Creditors: amounts falling due after more than one year	18	3588	3330
Provisions for liabilities and charges	19	16253	15306
Accruals and deferred income	20	359	285
Capital and reserves:			
Called up share capital	21	33	33
Other reserves	22	54	10
Profit and loss account	22	553	476
Shareholders' funds - equity interests		640	519
Minority interests - equity interests		2	2
		<u>20842</u>	<u>19442</u>



Sir John Guinness

Chairman



Ross Chiese
29 July 1999

Group Finance Director

Company balance sheet

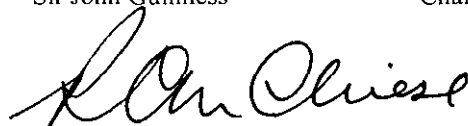
As at 31 March

	Note	1999 £M	1998 Restated £M
Assets employed			
Fixed assets:			
Tangible assets	10	6493	6385
Investments	11	4367	1064
		<u>10860</u>	<u>7449</u>
Current assets:			
Stocks	12	87	82
Debtors			
Amounts falling due after one year:			
Nuclear liabilities recoverable from customers	14	7587	7558
Amounts falling due within one year	15	1590	1034
Investments and short-term deposits	16	1288	1331
Cash at bank and in hand		-	-
		<u>10552</u>	<u>10005</u>
Less creditors: amounts falling due within one year	17	<u>(4020)</u>	<u>(731)</u>
Net current assets		<u>6532</u>	<u>9274</u>
Total assets less current liabilities		<u>17392</u>	<u>16723</u>
Financed by			
Creditors: amounts falling due after more than one year	18	4711	4350
Provisions for liabilities and charges	19	11731	11480
Accruals and deferred income	20	357	285
Capital and reserves:			
Called up share capital	21	33	33
Other reserves	22	43	13
Profit and loss account	22	517	562
Shareholders' funds - equity interests		<u>593</u>	<u>608</u>
		<u>17392</u>	<u>16723</u>



Sir John Guinness

Chairman



Ross Chiese
29 July 1999

Group Finance Director

Consolidated cash flow statement

For the year ended 31 March

		1999	1998
	Note	£M	Restated £M
Net cash inflow from operating activities	28a	536	683
Dividends from joint ventures and associates	28b	9	8
Returns on investment and servicing of finance	28b	420	140
Taxation	28b	73	(22)
Capital expenditure and financial investment			
Additional nuclear liabilities funding	28b	(2424)	(65)
Other capital expenditure	28b	(466)	(415)
Acquisitions and disposals	28b	(14)	(1)
Equity dividends paid	28b	(49)	(51)
Net cash (outflow)/inflow before use of liquid resources and financing		(1915)	277
Management of liquid resources	28b	2465	(20)
Financing	28b	39	(98)
Increase in cash in year	28d	589	159

Notes on the accounts

1. Segmental information

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

	Net assets		Turnover		Profit before tax	
	1999	1998 Restated	1999	1998 Restated	1999	1998 Restated
	£M	£M	£M	£M	£M	£M
Nuclear fuel services, waste management & decommissioning, and electricity generation	20198	18892	1453	1317	166	130
Other business	644	550	34	24	62	30
	<u>20842</u>	<u>19442</u>	<u>1487</u>	<u>1341</u>	<u>228</u>	<u>160</u>

Other business includes engineering, I.T. services, the manufacture and supply of perfluorocarbon fluids and insurance captives.

- 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				Home £M	Total £M
	Europe EC £M	Other £M	Japan & Far East £M	North & South America £M		
1998-99						
Fuel business group						
- total sales	13	1	8	3	253	278
- inter-business sales	-	-	-	-	(93)	(93)
- sales to third parties	<u>13</u>	<u>1</u>	<u>8</u>	<u>3</u>	<u>160</u>	<u>185</u>
Magnox business group						
- total sales	-	-	19	-	659	678
- inter-business sales	-	-	-	-	(34)	(34)
- sales to third parties	<u>-</u>	<u>-</u>	<u>19</u>	<u>-</u>	<u>625</u>	<u>644</u>
Thorp business group						
- total sales	71	24	279	-	85	459
- inter-business sales	-	-	-	-	(16)	(16)
- sales to third parties	<u>71</u>	<u>24</u>	<u>279</u>	<u>-</u>	<u>69</u>	<u>443</u>
Engineering						
- total sales	4	-	1	8	287	300
- inter-business sales	-	-	-	(8)	(269)	(277)
- sales to third parties	<u>4</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>18</u>	<u>23</u>
Waste management & decommissioning						
- total sales	4	-	4	-	253	261
- inter-business sales	-	-	-	-	(158)	(158)
- sales to third parties	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>95</u>	<u>103</u>
Other						
- total sales including share of Joint Ventures	-	-	1	72	291	364
- share of Joint Ventures	-	-	-	-	(21)	(21)
- inter-business sales	-	-	-	(1)	(253)	(254)
- sales to third parties	<u>-</u>	<u>-</u>	<u>1</u>	<u>71</u>	<u>17</u>	<u>89</u>
Group turnover	<u>92</u>	<u>25</u>	<u>312</u>	<u>74</u>	<u>984</u>	<u>1487</u>

1. Segmental information *continued*

	Export				Total Exports	Home	Total
	Europe EC	Other	Japan & Far East	North & South America			
1997-98	£M	£M	£M	£M	£M	£M	£M
Fuel business group							
- total sales	17	2	8	4	31	227	258
- inter-business sales	-	-	-	-	-	(26)	(26)
- sales to third parties	17	2	8	4	31	201	232
Magnox business group							
- total sales	-	-	9	-	9	507	516
- inter-business sales	-	-	-	-	-	(137)	(137)
- sales to third parties	-	-	9	-	9	370	379
Thorp business group							
- total sales	106	36	210	-	352	149	501
- inter-business sales	-	-	-	-	-	(12)	(12)
- sales to third parties	106	36	210	-	352	137	489
Engineering							
- total sales	5	-	1	5	11	274	285
- inter-business sales	-	-	-	(5)	(5)	(266)	(271)
- sales to third parties	5	-	1	-	6	8	14
Waste management & decommissioning							
- total sales	3	-	-	-	3	281	284
- inter-business sales	-	-	-	-	-	(110)	(110)
- sales to third parties	3	-	-	-	3	171	174
Other							
- total sales including share of Joint Ventures	1	-	1	42	44	130	174
- share of Joint Ventures	-	-	-	-	-	(18)	(18)
- inter-business sales	-	-	-	-	-	(103)	(103)
- sales to third parties	1	-	1	42	44	9	53
Group turnover	132	38	229	46	445	896	1341

Other includes BNFL Inc., I.T. Services Limited and various other subsidiary undertakings.

2. Net operating costs and expenses

	1999	1998 Restated
	£M	£M
Net operating costs and expenses are made up as follows:		
Exceptional costs due to delay in Sellafield Mox Plant commissioning decision	21	-
Employee costs	574	433
Provisions for liabilities and charges	253	(64)
Depreciation		
-on capitalised decommissioning costs	77	157
-other	335	307
Raw materials and consumables	220	239
Research and development charges not specifically directly recoverable from customers	42	41
Other external and operating charges	283	318
Changes in stocks of finished goods and work in progress	(41)	93
Own work capitalised	(138)	(150)
Own work on manufacture of components	(16)	(15)
Regional development grants released	(2)	(2)
Other operating income	(59)	(12)
	1549	1345

Other external and operating charges include Auditors' remuneration of £817,000 (1998 £602,000) of which £264,000 (1998 £265,000) 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 £1,339,000 (1998 £2,735,000).

3. Employee information

	1999 Number	1998 Number
a. The average number of persons employed by the Group during the year was:		
Fuel	1980	2217
Magnox	4774	2184
Thorp	2019	2028
Engineering	817	922
Waste management & decommissioning	2027	1849
Other	4420	3983
	<u>16037</u>	<u>13183</u>
	1999	1998
	£M	£M
b. Employee costs:		
Wages and salaries	461	357
Social security costs	36	28
Other pension costs (note 26)	17	23
Other employee costs (early retirement etc)	60	25
	<u>574</u>	<u>433</u>

The figures given above include information on parent company Executive Directors. Further details of Directors' emoluments are set out on pages 37 and 38.

4. Profit on sale of fixed assets

	* 1999	1998 Restated
	£M	£M
Profit on sale of tangible fixed assets	23	-
Profit on sale of fixed asset investments	55	12
	<u>78</u>	<u>12</u>

The profit on sale of tangible fixed assets during 1999 relates to the sale of Sudbury House (Central Electricity Generating Board's former Head Office). This asset which was previously carried at a book value of £14M was sold for £37M. The effect of this disposal on the Group's tax charge was an increase of £6M. The profit on sale of fixed asset investments represents realised gains on the nuclear liabilities investment portfolio. Proceeds from these disposals were immediately reinvested in the portfolio. The effect of these realised gains on the Group's tax charge was an increase of £17M (1998 £4M).

5. Investment income

	1999	1998 Restated
	£M	£M
Income from nuclear liabilities investment portfolio	238	58
Income from Secretary of State's Undertaking	249	-
	<u>487</u>	<u>58</u>
Income from current asset investments	199	174
Interest on loans to joint ventures	3	3
Interest on loans to associated undertakings	3	3
	<u>692</u>	<u>238</u>

Income from the nuclear liabilities investment portfolio and the Secretary of State's Undertaking is available to offset the impact of adjustments to nuclear provisions arising from changes in price levels and reversal of one year's discounting.

Substantial payments in advance are held as part of the contractual arrangements under which nuclear fuel services are provided to a number of customers. The anticipated financing income on those payments in advance formed an integral part of the negotiation of commercial terms for those services. Income of £68M (1998 £54M) was earned on payments in advance.

6. Interest payable and similar charges

	1999	1998 Restated
	£M	£M
Net provisions adjustment arising from changes in price levels and reversal of one year's discounting	483	99
Interest on loans	16	2
Bank commissions etc	2	2
Realised exchange losses	3	1
Group interest payable and similar charges	504	104
Share of interest payable and similar charges of Joint Ventures	2	2
Share of interest payable and similar charges of Associates	5	4
	<u>511</u>	<u>110</u>

7. Tax on profit on ordinary activities

	1999	1998 Restated
	£M	£M
UK Corporation tax in respect of parent and subsidiaries:		
Current year	88	44
Adjustment in respect of prior years	(11)	(46)
	<u>77</u>	<u>(2)</u>
Joint ventures' taxation	1	-
Associated undertakings' taxation	7	6
	<u>85</u>	<u>4</u>
Deferred tax in respect of parent and subsidiaries:		
Current year	(7)	69
Adjustment in respect of prior years	8	33
Adjustment resulting from change in tax rate	-	(37)
	<u>86</u>	<u>69</u>

8. Dividends

	1999	1998
	£M	£M
Interim dividend paid	16	20
Final dividend proposed	49	33
	<u>65</u>	<u>53</u>

9. Fixed Assets - Intangible Assets

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

	Goodwill £M
Cost and net book value at 1 April 1998	-
Additions	482
Cost and net book value at 31 March 1999	<u>482</u>

Goodwill represents goodwill arising on the acquisition of the Westinghouse Electric Company business (see note 11). This is being written off on a straight line basis over its useful economic life of 20 years.

10. Fixed Assets - Tangible Assets

	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
a. Group:						
Cost at 1 April 1998	2	3043	3219	101	1161	7526
Change in accounting policy (note 24)	-	-	1384	-	-	1384
Cost at 1 April 1998 (restated)	2	3043	4603	101	1161	8910
Acquisition of subsidiary undertakings	7	39	105	-	10	161
Additions	-	2	123	28	427	580
Disposals	-	(16)	(154)	(1)	-	(171)
Transfers	-	51	126	4	(181)	-
Cost at 31 March 1999	9	3119	4803	132	1417	9480
Depreciation at 1 April 1998	1	915	1805	57	-	2778
Change in accounting policy (note 24)	-	-	300	-	-	300
Depreciation at 1 April 1998 (restated)	1	915	2105	57	-	3078
Charge for the year	-	141	256	15	-	412
Disposals	-	(1)	(108)	(1)	-	(110)
Depreciation at 31 March 1999	1	1055	2253	71	-	3380
Net book value at 31 March 1999	8	2064	2550	61	1417	6100
Net book value at 31 March 1998 (restated)	1	2128	2498	44	1161	5832

Included in plant and machinery balances above are the following amounts in respect of capitalised decommissioning costs:

	£M
Cost	1368
Depreciation	(304)
Net book value at 31 March 1999	1064
Net book value at 31 March 1998 (restated)	1084

b. Parent:

	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 1998	-	2976	2936	71	1150	7133
Change in accounting policy (note 24)	-	-	2182	-	-	2182
Cost at 1 April 1998 (restated)	-	2976	5118	71	1150	9315
Additions	-	2	83	18	392	495
Disposals	-	(1)	(80)	(1)	-	(82)
Transfers	-	51	120	3	(174)	-
Cost at 31 March 1999	-	3028	5241	91	1368	9728
Depreciation at 1 April 1998	-	915	1673	42	-	2630
Change in accounting policy (note 24)	-	-	300	-	-	300
Depreciation at 1 April 1998 (restated)	-	915	1973	42	-	2930
Charge for the year	-	137	197	9	-	343
Disposals	-	(1)	(37)	-	-	(38)
Depreciation at 31 March 1999	-	1051	2133	51	-	3235
Net book value at 31 March 1999	-	1977	3108	40	1368	6493
Net book value at 31 March 1998 (restated)	-	2061	3145	29	1150	6385

10. Fixed Assets - Tangible Assets *continued*

Included in plant and machinery balances above are the following amounts in respect of capitalised decommissioning costs:

	£M
Cost	2221
Depreciation	(339)
Net book value at 31 March 1999	<u>1882</u>
Net book value at 31 March 1998 (restated)	<u>1882</u>

Freehold land, amounting to £17M (1998 £9M) for the Group and £6M (1998 £5M) for the Company, has not been depreciated.

11. Fixed assets - investments

	Group		Parent	
	1999	1998 Restated	1999	1998 Restated
	£M	£M	£M	£M
Subsidiary undertakings	-	-	329	232
Joint ventures	119	74	68	72
Associated undertakings	113	102	-	-
Other investments	9	9	-	-
Nuclear liabilities investment portfolio	3940	1421	3970	760
	<u>4181</u>	<u>1606</u>	<u>4367</u>	<u>1064</u>

See pages 80 and 81 for details of principal subsidiary and associated undertakings and joint ventures.

a) Acquisitions and disposals of subsidiaries, joint ventures, associates and other investments

On 22 March 1999 the Group acquired, with Morrison Knudsen (MK), the US nuclear business Westinghouse. To fulfill the needs of BNFL, MK and Westinghouse's biggest customer, the US Department of Energy, a new structure has been agreed for the Westinghouse company consisting of three separate companies:

Westinghouse Electric Company LLC

This company will continue to serve the commercial nuclear power industry in both the US and world-wide, focussing on nuclear fuel, nuclear services, nuclear instrumentation and control and new plant design. BNFL is the sole member of this company through BNFL Nuclear Services Inc (BNSI).

Westinghouse Government Environmental Services Company LLC

This company is focussed on non defence-related US government and environmental business. BNSI holds a 40% membership interest with MK holding the remaining 60%. The concurrence of the two BNSI nominated directors is required for a number of strategic policy decisions. In accordance with FRS 9 'Associates and Joint Ventures' this company is accounted for as a joint venture.

Westinghouse Government Services Company LLC

This company is focussed on defence-related US government operations business. MK is the sole member of this company but has assigned a 40% economic interest to BNSI. BNSI has the right to nominate one director and the concurrence of this director is required for a number of strategic policy decisions. In accordance with FRS 9 this company is accounted for as a joint venture.

The consideration paid for the companies was:

	£M
Cash	48
Liabilities assumed	593
	<u>641</u>
Other costs associated with the acquisition	23
	<u>664</u>

11. Fixed assets - investments *continued*

Cash consideration is contingent upon agreement of a working capital position prepared under the terms of the purchase contract. At the date of approval of these accounts the working capital position has not been finalised. Any subsequent adjustments will be reflected through next year's accounts.

Net assets of Westinghouse Electric Company LLC at the date of acquisition were as follows:

	Book value	Accounting policy alignment	Revaluation	Fair value to Group
	£M	£M	£M	£M
Tangible fixed assets	115	7	40	162
Intangible fixed assets	12	-	(12)	-
Investments in associates	1	-	-	1
Stocks	66	-	-	66
Debtors	114	-	-	114
Cash	31	-	-	31
Creditors due within one year	(161)	-	-	(161)
Provisions:				
Restructuring/reorganisation provisions booked 12 months prior to acquisition	(5)	-	-	(5)
Other	(423)	(27)	(213)	(663)
Other creditors	(4)	-	-	(4)
Less: book value of liabilities assumed as part of consideration	593	-	-	593
Net assets acquired	<u>339</u>	<u>(20)</u>	<u>(185)</u>	<u>134</u>
Goodwill arising on acquisition (note 9)				482
Consideration (including associated costs)				<u>616</u>

Accounting policy alignments comprise adjustments required to account for decommissioning provisions in accordance with FRS 12. Revaluations comprise increases in fixed asset values to depreciated replacement cost, increases in contract settlement provisions to reflect fair values, and the write-off of goodwill on historic acquisitions.

The business made a loss after tax of £3M in the period from 1 January 1999 to 22 March 1999 (year ended 31 December 1998 loss £14M). The summarised profit and loss account for this period is as follows:

	£M
Turnover	105
Operating loss	<u>(4)</u>
Loss before tax	<u>(5)</u>
Tax	<u>2</u>
Loss after tax	<u>(3)</u>

There were no other recognised gains or losses. The net cash flow in respect of the acquisition was an inflow of £8M comprising acquisition fees and other costs associated with the acquisition of £23M offset by cash acquired of £31M.

b) Subsidiary undertakings

	Parent			Total
	Shares	Loans	Provisions	
	£M	£M	£M	£M
At 1 April 1998	229	27	(24)	232
New share issues/loans	30	2	-	32
Acquisitions	-	72	-	72
Amounts provided	-	-	(7)	(7)
At 31 March 1999	<u>259</u>	<u>101</u>	<u>(31)</u>	<u>329</u>

11. Fixed assets - investments *continued*

c) Joint ventures

	Share of net assets £M	Group Goodwill £M	Loans and advances £M	Total £M	Shares £M	Parent Loans and advances £M	Total £M
Cost:							
At 1 April 1998	-	-	-	-	-	-	-
Change in accounting policy	24	-	265	289	20	264	284
At 1 April 1998 (restated)	24	-	265	289	20	264	284
Additions	(16)	64	22	70	-	6	6
Investment repaid	(2)	-	(52)	(54)	-	(52)	(52)
Share of retained profit and reserves	1	-	-	1	-	-	-
At 31 March 1999	7	64	235	306	20	218	238
Amounts provided:							
At 1 April 1998	-	-	-	-	-	-	-
Change in accounting policy	-	-	215	215	-	212	212
At 1 April 1998 (restated)	-	-	215	215	-	212	212
Amounts written back	-	-	(50)	(50)	-	(49)	(49)
New amounts provided	-	-	22	22	-	7	7
At 31 March 1999	-	-	187	187	-	170	170
Net book value:							
At 31 March 1999	7	64	48	119	20	48	68
At 1 April 1998 (restated)	24	-	50	74	20	52	72

d) Associated undertakings

	Share of net assets £M	Group Loans and advances £M	Total £M	Shares £M	Parent Loans and advances £M	Total £M
Cost:						
At 1 April 1998	87	304	391	20	264	284
Change in accounting policy	(24)	(265)	(289)	(20)	(264)	(284)
At 1 April 1998 (restated)	63	39	102	-	-	-
Additions	1	-	1	-	-	-
Investment repaid	(2)	-	(2)	-	-	-
Share of retained profit and reserves	12	-	12	-	-	-
At 31 March 1999	74	39	113	-	-	-
Amounts provided:						
At 1 April 1998	-	215	215	-	212	212
Change in accounting policy	-	(215)	(215)	-	(212)	(212)
At 1 April 1998 (restated) and 31 March 1999	-	-	-	-	-	-
Net book value:						
At 31 March 1999	74	39	113	-	-	-
At 1 April 1998 (restated)	63	39	102	-	-	-

11. Fixed assets - investments continued

The aggregate group share of associates' turnover, fixed assets, current assets, current liabilities and non-current liabilities is as follows:

	1999	1998
	£M	£M
Turnover	147	101
Fixed assets	152	134
Current assets	97	83
Liabilities due within one year	(66)	(50)
Liabilities due after one year or more	(109)	(104)
Share of net assets	74	63

The Group's share of operating results of Urenco Limited exceeds the 25% threshold set by FRS9. The group share of Urenco's turnover, profit before tax, taxation, profit after tax, fixed assets, current assets, current liabilities and non-current liabilities is as follows:

	1999	1998
	£M	£M
Turnover	94	82
Profit before tax	19	16
Taxation	(7)	(6)
Profit after tax	12	10
Fixed assets	152	134
Current assets	88	78
Liabilities due within one year	(61)	(47)
Liabilities due after one year or more	(109)	(104)
Share of net assets	70	61

e) Other investments

	Group	Parent
	£M	£M
Balance at 1 April 1998	9	-
Additions	4	-
Amounts provided	(4)	-
Balance at 31 March 1999	9	-

f) Nuclear liabilities investment portfolio

	Group			Parent	
	Gilts	Managed	Total	Gilts	Total
	investment	portfolio		investment	
	portfolio			portfolio	
	£M	£M	£M	£M	£M
Balance at 1 April 1998	1040	381	1421	552	760
Net additions	1417	1007	2424	1943	3129
Amortisation of discount/indexation	68	-	68	60	60
Revaluation	-	27	27	-	21
Balance at 31 March 1999	2525	1415	3940	2555	3970

The amount of listed investments included in the nuclear liabilities investment portfolio is £3082M, of which £3159M are held by the Parent (1998 £1388M and £727M). The market value of these investments was £3406M for the Group and the Parent (1998 £1466M and £794M). Unlisted investments comprise bank deposits. Of the listed investments, £1299M are carried at market value in the Group and the Parent (1998 £348M and £175M). The historic cost of these investments was £1266M for the Group and the Parent (1998 £321M and £167M).

12. Stocks

	Group		Parent	
	1999	1998	1999	1998
	£M	£M	£M	£M
Nuclear fuel	18	21	7	5
Raw materials and consumables	160	134	43	47
Work in progress	132	57	28	19
Finished goods	22	14	9	11
	<u>332</u>	<u>226</u>	<u>87</u>	<u>82</u>

Work in progress in both the Group and Parent is stated after deducting progress payments of £1M (1998 £1M).

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

	Group		Parent	
	1999	1998	1999	1998
	£M	£M	£M	£M
Balance at 1 April 1998	3700	-	-	-
Acquisition of subsidiary undertaking	-	3700	-	-
Interest accrued during the year	249	-	-	-
Balance at 31 March 1999	<u>3949</u>	<u>3700</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 (March 1998 money values) together with interest at a rate of 4.5% above inflation on the outstanding amount. Payments commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116.

The terms of 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.

14. Nuclear liabilities recoverable

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

	Group		Parent	
	1999	1998	1999	1998
	£M	Restated £M	£M	Restated £M
Amounts recoverable in respect of:				
Decommissioning	1107	1100	2110	2097
Waste management	3466	3640	7000	6968
Reprocessing	-	-	483	472
	<u>4573</u>	<u>4740</u>	<u>9593</u>	<u>9537</u>
Analysed in the accounts as follows:				
Included in fixed assets	951	957	1829	1823
Included in debtors due after more than one year	3468	3751	7587	7558
Included in debtors due within one year	154	32	177	156
	<u>4573</u>	<u>4740</u>	<u>9593</u>	<u>9537</u>

15. Debtors

	Group		Parent	
	1999	1998 Restated	1999	1998 Restated
	£M	£M	£M	£M
Trade Debtors	314	216	134	105
Nuclear liabilities recoverable within one year	154	32	177	156
Amounts recoverable on long-term contracts	38	-	-	-
Amounts owed by Group undertakings	-	-	1102	547
Amounts owed by joint ventures	3	1	3	1
Amounts owed by associated undertakings	7	8	1	1
Prepayments and accrued income	254	250	173	224
	<u>770</u>	<u>507</u>	<u>1590</u>	<u>1034</u>

Debtors include £46M (1998 £35M) due in more than one year.

At the end of the year, there were 103 loans amounting to £670,000 outstanding with non-Director employees of the Group (1998 149 loans amounting to £934,000). Of these loans 92 amounting to £613,000 were in the Parent (1998 130 loans amounting to £801,000).

16. Current asset investments and short-term deposits

	Group		Parent	
	1999	1998	1999	1998
	£M	£M	£M	£M
Gilts investments - Medium-term maturity	571	460	571	460
- Short-term maturity	-	84	-	84
Managed investments	1172	1111	503	449
Short-term deposits	896	2663	214	338
	<u>2639</u>	<u>4318</u>	<u>1288</u>	<u>1331</u>

The amount of listed investments included above is £1704M, of which £1058M are held by the Parent (1998 £1587M and £950M). The market value of these investments was £1748M for the Group and £1102M for the Parent (1998 £1607M and £970M). Other investments comprise bank deposits and other fixed and call deposits.

Of the listed investments, £1134M are carried at market value in the Group and £488M are carried at market value in the Parent (1998 £1085M and £448M). The historic cost of these investments was £1108M for the Group and £478M for the Parent (1998 £1054M and £442M).

17. Creditors: amounts falling due within one year

	Group		Parent	
	1999	1998 Restated	1999	1998 Restated
	£M	£M	£M	£M
Current portion of long-term loans (note 18)	54	14	-	3
Bank overdraft	3	6	187	47
Obligations under finance leases	1	-	-	-
Payments received on account	321	174	507	404
Trade creditors	186	102	79	53
Amounts owed to Group undertakings	-	-	3088	56
Amounts owed to joint ventures	2	1	2	1
Amounts owed to associated undertakings	1	-	-	-
Taxation	186	74	18	44
Social security	9	10	5	6
Dividends	49	33	49	33
Accruals and deferred income	269	240	85	84
	<u>1081</u>	<u>654</u>	<u>4020</u>	<u>731</u>

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

	Group		Parent	
	1999	1998	1999	1998
	£M	£M	£M	£M
Loans	4	4	-	-
Obligations under finance leases	6	3	-	-
Payments received on account	3555	3322	4711	4350
Other	23	1	-	-
	<u>3588</u>	<u>3330</u>	<u>4711</u>	<u>4350</u>

a. Loans

Maturity profile:

In one year or less, or on demand
In more than five years

54	14	-	3
4	4	-	-
<u>58</u>	<u>18</u>	<u>-</u>	<u>3</u>

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

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

From one to five years
Over five years

1455	1810	2298	2040
2421	1686	2920	2714
<u>3876</u>	<u>3496</u>	<u>5218</u>	<u>4754</u>

c. Obligations under finance leases and hire purchase contracts

Amounts payable:

Within one year
Within two to five years
After five years

1	-	-	-
3	2	-	-
3	1	-	-
<u>7</u>	<u>3</u>	<u>-</u>	<u>-</u>

19. 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)	Nuclear Provisions (note a)	Deferred tax (note c)	Other provisions (note d)	Total
Group	£M	£M	£M	£M	£M	£M	£M
Balance at 1 April 1998	4284	4236	633	9153	729	698	10580
Change in accounting policy (note 24)	1370	3645	-	5015	(1)	(288)	4726
Balance at 1 April 1998 (restated)	5654	7881	633	14168	728	410	15306
Adjustment arising from changes in price levels and reversal of one year's discounting	311	316	24	651	-	10	661
Acquisition of subsidiary undertakings	40	-	-	40	-	628	668
Increase/(decrease) in the year	(115)	(51)	63	(103)	31	145	73
Expenditure in the year	(80)	(179)	(79)	(338)	-	(117)	(455)
Balance at 31 March 1999	<u>5810</u>	<u>7967</u>	<u>641</u>	<u>14418</u>	<u>759</u>	<u>1076</u>	<u>16253</u>

19. Provisions for liabilities and charges *continued*

	Decommissioning (note a)	Waste management (note a)	Reprocessing of fuel (note a)	Nuclear Provisions (note a)	Deferred tax (note c)	Other provisions (note d)	Total
Parent	£M	£M	£M	£M	£M	£M	£M
Balance at 1 April 1998	470	521	161	1152	415	514	2081
Change in accounting policy (note 24)	2241	6973	472	9686	-	(287)	9399
Balance at 1 April 1998 (restated)	2711	7494	633	10838	415	227	11480
Adjustment arising from changes in price levels and reversal of one year's discounting	151	293	25	469	-	5	474
Increase/(decrease) in the year	(31)	(41)	62	(10)	9	134	133
Expenditure in the year	(45)	(179)	(79)	(303)	-	(53)	(356)
Balance at 31 March 1999	2786	7567	641	10994	424	313	11731

- a. The Group has provided for its obligations to decommission radioactive facilities. These provisions cover complete demolition together with disposal of associated waste. In addition, provisions are made for the treatment, handling and disposal of waste products arising from reprocessing operations together with defuelling, reprocessing and waste management of used nuclear fuel from the Group's reactors. In all cases the provisions are based on detailed technical assessments of the processes and methods likely to be used to discharge the obligations and the best estimates are derived from a combination of latest technical knowledge available, the existing regulatory regime and commercial agreements. The amount and timing of each category of obligation is therefore sensitive to each of these three factors.

The following table shows, for the Group, total future cash expenditure still to be incurred (both undiscounted at current prices and discounted at 2.5% per annum) and the balance sheet provisions (split between amounts expected to be recovered from customers and amounts which are Group funded).

	Total future cash expenditure		Group funded future cash expenditure		Balance sheet provisions		
	Undiscounted	Discounted	Undiscounted	Discounted	Recoverable under commercial agreements (note 14)	Group funded	Total
	£M	£M	£M	£M	£M	£M	£M
Decommissioning	13856	5936	11389	4776	1107	4703	5810
Waste Management	11887	7110	6909	4156	3466	4501	7967
Reprocessing of fuel	1388	1235	1057	918	-	641	641
At 31 March 1999	27131	14281	19355	9850	4573	9845	14418
At 31 March 1998 (restated)	27089	14162	19097	9716	4740	9428	14168

Waste management and reprocessing balance sheet provisions include the remaining depreciation on certain historic capital expenditure. Remaining depreciation, which does not represent a further cash outgoing and is therefore not included in the future cash expenditure figures above, amounts to £1897M of which £1023M is group funded and £874M is recoverable under commercial agreements. Provisions for reprocessing of fuel are built up in line with the future use of fuel in the Group's reactors.

The costs incurred in discharging the Group's nuclear liabilities extend out to around 2150. Total costs to be incurred in the next ten years, amounting to approximately £7 billion on an undiscounted basis, are mainly associated with the construction and operation of waste management facilities, together with some reprocessing and decommissioning. During the period from year 11 to year 50, costs amounting to approximately £8 billion in total, are mainly associated with decommissioning the Group's nuclear facilities and with waste management activities including waste disposal. The remaining costs (approximately £12 billion) relate primarily to the final stages of decommissioning the Group's nuclear facilities, together with those associated with the construction and operation of a deep waste repository.

19. Provisions for liabilities and charges *continued*

- b. The Group remains committed to ensuring that funds are available to meet long-term nuclear liabilities. The funding position at 31 March 1999 is as follows:

	£M
Future discounted cash expenditure in respect of existing liabilities:	
Group funded future discounted cash expenditure	9850
Less amounts in respect of future operations	(1028)
	<u>8822</u>
Funding of liabilities:	
Nuclear liabilities investment portfolio	3940
Secretary of State's undertaking	3949
	<u>7889</u>
Level of funding	89%

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

	1999	1998 Restated
	£M	£M
Capital allowances in advance of depreciation:		
Parent Company	816	776
Subsidiary undertakings	2	(2)
Group	<u>818</u>	<u>774</u>
Other timing differences:		
Parent Company	(372)	(311)
Subsidiary undertakings	333	315
Group	<u>(39)</u>	<u>4</u>
Recoverable advance corporation tax:		
Parent Company	(20)	(50)
Subsidiary undertakings	-	-
Group	<u>(20)</u>	<u>(50)</u>
Total:		
Parent Company	424	415
Subsidiary undertakings	335	313
Group	<u>759</u>	<u>728</u>

19. Provisions for liabilities and charges *continued*

d. Other provisions can be analysed as follows:

	Contract Settlements	Other Contract provisions	Restructuring costs	Warranty Provisions	Other provisions	Total
	£M	£M	£M	£M	£M	£M
Group						
Balance at 1 April 1998	-	427	197	-	74	698
Change in accounting policy (note 24)	-	(267)	(2)	-	(19)	(288)
Balance at 1 April 1998 (restated)	-	160	195	-	55	410
Adjustment arising from changes in price levels and reversal of one year's discounting	-	6	4	-	-	10
Acquisition of subsidiary undertakings	553	6	9	15	45	628
Increase/(decrease) in the year	-	108	40	1	(4)	145
Expenditure in the year	-	(35)	(74)	-	(8)	(117)
Balance at 31 March 1999	553	245	174	16	88	1076
Analysed as follows:						
Amounts due within one year	119	40	99	16	28	302
Amounts due after one year	434	205	75	-	60	774
	553	245	174	16	88	1076
Parent						
Balance at 1 April 1998	-	357	116	-	41	514
Change in accounting policy (note 24)	-	(267)	(2)	-	(18)	(287)
Balance at 1 April 1998 (restated)	-	90	114	-	23	227
Adjustment arising from changes in price levels and reversal of one year's discounting	-	1	4	-	-	5
Increase/(decrease) in the year	-	74	64	-	(4)	134
Expenditure in the year	-	(5)	(40)	-	(8)	(53)
Balance at 31 March 1999	-	160	142	-	11	313
Analysed as follows:						
Amounts due within one year	-	4	57	-	1	62
Amounts due after one year	-	156	85	-	10	251
	-	160	142	-	11	313

The Westinghouse Electric Company business has existing obligations in respect of steam generator supply contract settlements and uranium supply contract settlements (£553M).

The steam generator settlements relate to the settlement of various lawsuits brought by US utilities claiming damages in connection with alleged tube degradation in steam generators sold as components of nuclear steam supply systems. Since 1993, settlement agreements have been entered resolving sixteen claims. The agreements require the provision of certain products and services at prices discounted at varying rates and cash payments. Two cases have been resolved in favour of the business after trial or arbitration and one steam generator lawsuit remains as at 31 March 1999. Three tolling agreements have been entered into with parties who have asserted steam generator claims. These agreements delay initiation of any litigation for various specified periods of time and permit the parties to engage in settlement discussions. Provisions have been made for the best estimate of costs to settle these matters. The liabilities are expected to be satisfied over periods of up to twenty five years, with the majority of expenditures occurring over the next ten years. The provisions are therefore discounted. The provisions are sensitive to a number of factors including timing and amount of discounts.

The uranium supply contract settlements are related to the settlement of various contract suits arising in the late 1970's. Settlements have been entered, of which eight are remaining as at 31 March 1999, to provide equipment and fuel supplies. The supply of equipment is essentially complete and the fuel supplies extend through 2013.

19. Provisions for liabilities and charges *continued*

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

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

Other sundry cost provisions comprise insurance provisions of £43M and various miscellaneous provisions of £44M. Insurance provisions are best estimates of existing self insurance liabilities for claims incurred but not reported and are calculated in accordance with established insurance industry practice.

20. Accruals and deferred income

Group	Capital grants	Depreciation matching accrual (note a)	Capitalised decommissioning costs previously charged to profit (note b)	Total
	£M	£M	£M	£M
Balance at 1 April 1998	17	-	-	17
Change in accounting policy (note 24)	-	268	-	268
Balance at 1 April 1998 (restated)	17	268	-	285
Increase in year	1	69	8	78
Release in year	(2)	-	-	(2)
Balance at 31 March 1999	16	337	8	361
Analysed as follows:				
Amounts due within one year	2	-	-	2
Amounts due after one year	14	337	8	359
	16	337	8	361
Parent				
Balance at 1 April 1998	17	-	-	17
Change in accounting policy (note 24)	-	268	-	268
Balance at 1 April 1998 (restated)	17	268	-	285
Increase in year	1	69	6	76
Release in year	(2)	-	-	(2)
Balance at 31 March 1999	16	337	6	359
Analysed as follows:				
Amounts due within one year	2	-	-	2
Amounts due after one year	14	337	6	357
	16	337	6	359

- The Group has commercial arrangements in place for one of its plants which effectively recover capital costs under reprocessing contracts over a shorter period than the plant's useful economic life. In order to maintain a matching of contract income and related costs, an accrual is recognised for future depreciation which is being recovered over the shorter period. This accrual will be released over the remaining useful economic life of the plant when the related reprocessing contracts are complete.
- Under the Group's accounting policies there can be instances where plants are commissioned and some or all of the capitalised decommissioning costs have already been charged to profit within historic provisions charges. Where this is the case, a deferred income balance is recognised which is released to profit in line with depreciation on the assets concerned.

21. Called up share capital

	1999	1998
	£M	£M
Ordinary shares of £1 each authorised	43	43
Allotted, called up and fully paid	33	33

22. Reserves

	Group		Parent	
	Other reserves	Profit and loss account	Other reserves	Profit and loss account
	£M	£M	£M	£M
Balance at 1 April 1998	10	589	13	625
Changes in accounting policies (note 24)	-	(113)	-	(63)
Balance at 1 April 1998 (restated)	10	476	13	562
Exchange differences	3	-	-	-
Unrealised gains on investments	41	-	30	-
Retained profit/(loss) for the year	-	77	-	(45)
Balance at 31 March 1999	54	553	43	517

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

23. Reconciliation of movements in shareholders' funds

	Group		Parent	
	1999	1998 Restated	1999	1998 Restated
	£M	£M	£M	£M
Profit for the financial year	142	91	20	71
Dividends	(65)	(53)	(65)	(53)
Goodwill written off on acquisition of subsidiaries	-	(71)	-	-
Goodwill written back on disposal of subsidiaries	-	2	-	-
Exchange gains/(losses)	3	(4)	-	-
Unrealised profits on investments	41	18	30	14
	121	(17)	(15)	32
Opening shareholders' funds	519	536	608	576
Closing shareholders' funds	640	519	593	608

Cumulative goodwill written off to reserves in respect of acquisitions before 1 April 1998 amounts to £119M (1998 restated £119M). This goodwill has been eliminated as a matter of accounting policy and will be charged in the profit and loss account if and when the businesses to which it relates are disposed of.

24. Changes in accounting policies

The Group has changed its accounting policies with regard to provisions in order to comply with the requirements of FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'. The material changes relate to full provision and capitalisation of decommissioning obligations, the recognition of separate assets in respect of amounts expected to be recovered from third parties, and the reclassification of certain amounts previously treated as provisions but which do not meet the definition of provisions contained in FRS 12. The effect of these changes is as follows:

	Group		Parent	
	1999 £M	1998 £M	1999 £M	1998 £M
Profit and loss account				
Increase/(decrease) in operating profit	8	(29)	-	(30)
Increase in interest payable and similar charges	(18)	(10)	(7)	(10)
Decrease in profit on ordinary activities before tax	(10)	(39)	(7)	(40)
Decrease in tax charge	3	8	2	8
Decrease in profit on ordinary activities after tax	(7)	(31)	(5)	(32)
Balance sheet				
Tangible fixed assets - cost	1368	1384	2221	2182
- depreciation	(304)	(300)	(339)	(300)
Increase in net book value	1064	1084	1882	1882
Increase in intangible fixed assets	20	-	-	-
Nuclear liabilities expenditure recoverable after more than one year	3468	3751	7587	7558
Nuclear liabilities expenditure recoverable within one year	154	32	177	156
Decrease in corporation tax creditor	14	14	8	8
Increase in accruals and deferred income	(345)	(268)	(343)	(268)
Increase in provisions	(4495)	(4726)	(9379)	(9399)
Decrease in reserves	(120)	(113)	(68)	(63)

25. Capital expenditure authorised

	Group		Parent	
	1999 £M	1998 £M	1999 £M	1998 £M
Contracted for but not provided for	61	93	45	87

26. Pensions and other post retirement benefits

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

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

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:-

	1999 £M	1998 £M
Combined Pension Scheme	-	19
BNFL Group Pension Scheme	6	2
Electricity Supply Pension Scheme	11	2
	<u>17</u>	<u>23</u>

26. Pensions and other postretirement benefits *continued*

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

Investment return (pa)	6.3% (past service)
	6.8% (future service)
Salary increase (pa)	4.2%
Pensions increase (pa)	2.7%

The results of the valuation were as follows:

Market value of scheme assets	£62M
Level of funding	105%

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

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

Investment return (pa)	8.75%
Salary increase (pa)	6%
Pensions increase (pa)	4.5%

The results of the valuation were as follows:

Market value of scheme assets	£1216M
Level of funding	109.5%

The surplus will be dealt with by:

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

- e. Westinghouse Electric Company employees were provided certain pension and post-retirement benefits. The post-retirement benefits include medical, dental and life insurance benefits. As part of the acquisition of the Westinghouse Electric Company business, there is agreement to provide similar benefits, subject to the previous owner retaining pension liability related to accrued benefits in respect of employees and former employees for service prior to the completion date. Westinghouse Electric Company is therefore only liable for benefits accruing to employees after 22 March 1999. The first actuarial valuations of these plans will be carried out as at 31 March 2000.

27. Contingent liabilities

At 31 March 1999, 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 \$150M in respect of a credit facility granted to BNFL USA Group 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. Deposits of US \$153M with banks, pledged in support of letter of credit facilities for overseas group companies.
- f. Indemnity given to an insurance company of US\$61M in respect of surety bonds issued on behalf of an overseas group company.
- g. Guarantee given to a bank in respect of outstanding leases to a subsidiary, currently valued at £2.5M.
- h. Bank pooling guarantees in respect of the Parent Company and certain UK subsidiaries.
- i. Agreement with a customer that they may deduct amounts owed by a subsidiary from payments due to the Parent Company, up to a maximum of £21M, in the event of a contractual default by the subsidiary company.
- j. Letter of support provided to enable Magnox Electric Plc to continue operating safely and to meet its liabilities as they fall due for the foreseeable future.

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

- a. During 1997, the Pensions Ombudsman ruled against The National Grid Company plc in relation to its use of surplus arising from the 1992 actuarial valuation of the Electricity Supply Pension Scheme (ESPS). National Grid appealed this ruling to the High Court. National Power PLC also sought a declaration from the High Court that its use of the 1992 and 1995 valuation surpluses was lawful. In both cases, the High Court held that the use of surplus was lawful. Both cases have been taken to the Court of Appeal, which has found in favour of the appellants, but has also given companies leave to appeal to the House of Lords. A similar claim has been brought against Magnox Electric Plc and the Trustees of the Magnox Electric Pension Group of the ESPS. Resolution of the case will depend in part on the final outcome of the National Grid and National Power cases. The maximum potential liability which could arise on Magnox Electric as a result of its use of the surplus is approximately £35M plus accrued interest.
- b. On 21 March 1994, four residents of Dundalk Ireland commenced proceedings in the High Court of Dublin against Ireland and the Attorney General and BNFL. The UK Secretary of State for the Environment was also served with the proceedings as a Notice Party. The first part of the plaintiffs' claim relates to regulatory matters, specifically to allegations that EEC Directives have not been fully complied with by BNFL. The second part is a tort claim in which damages are sought for alleged assault, nuisance, trespass, wrongful acts and unlawful interference with the plaintiffs constitutional right of bodily integrity, which it is claimed have arisen as a result of discharges from Sellafield. BNFL are committed to vigorously defend the action. It is thought unlikely that this matter will come to trial before 2001. As the proceedings are at an early stage it is not practical to estimate the financial effects of the conduct of the case or its outcome.

28. Consolidated cash flow statement

	1999	1998 Restated
a. Reconciliation of operating profit to net cash inflow from operating activities:	£M	£M
Operating loss	(62)	(4)
Loss on disposal of fixed assets	2	1
Depreciation charges	412	464
Decrease in debtors	107	1672
Increase/(decrease) in creditors	146	(14)
Increase/(decrease) in stock and work in progress	(40)	24
Grants released	(4)	(2)
Decrease in provisions	(287)	(1792)
Increase in advance payments	285	320
Investment provisions	(23)	15
Other non cash movements	-	(1)
	<u>536</u>	<u>683</u>
b. Analysis of cash flows for headings netted in the cash flow statement		
Dividends from joint ventures and associates:		
Joint ventures	2	1
Associates	7	7
Net cash inflow from dividends from joint ventures and associates	<u>9</u>	<u>8</u>
Returns on investment and servicing of finance:		
Interest received	431	147
Interest paid	(9)	(4)
Bank commissions	(2)	(2)
Dividends paid by subsidiary undertakings to minority interests	-	(1)
Net cash inflow for returns on investments and servicing of finance	<u>420</u>	<u>140</u>
Taxation:		
UK corporation tax received/(paid)	73	(22)
Net cash inflow/(outflow) on taxation	<u>73</u>	<u>(22)</u>
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(507)	(417)
Proceeds from disposal of tangible fixed assets - Exceptional (note 4)	37	-
- Other	4	2
Net additions to nuclear liabilities investment portfolio	(2424)	(65)
Net cash outflow for capital expenditure and financial investment	<u>(2890)</u>	<u>(480)</u>
Acquisitions and disposals:		
Acquisitions of subsidiary undertakings	(23)	(4)
Net cash acquired with subsidiary undertakings	31	14
Acquisitions of joint ventures	(48)	-
New loans/advances to joint ventures	(22)	(15)
Loans repaid by joint ventures	52	3
Acquisitions of associates	(1)	-
Disposals of subsidiary undertakings	-	1
Other investments	(3)	-
Net cash outflow for acquisitions and disposals	<u>(14)</u>	<u>(1)</u>
Equity dividends paid:		
Dividends paid to shareholder	(49)	(51)
Net cash outflow on equity dividends	<u>(49)</u>	<u>(51)</u>

28. Consolidated cash flow statement continued

	1999	1998 Restated
	£M	£M
Management of liquid resources:		
Net (investment)/realisation of short-term deposits and current investments	2465	(20)
Net cash inflow/(outflow) from management of liquid resources	2465	(20)
Financing:		
Repayment of loans and long-term credit	(15)	(109)
New loans	54	11
Net cash outflow from financing	39	(98)

c. Analysis of changes in net funds:

	At 31 March 1998	Cash Flow	Acquisitions (excl. cash and overdrafts)	Non-cash movements	At 31 March 1999
	£M	£M	£M	£M	£M
Cash at bank and in hand	156	(154)	-	-	2
Cash in short-term deposits	51	740	-	-	791
Overdrafts	(6)	3	-	-	(3)
Loans due after 1 year	(4)	-	-	-	(4)
Loans due within 1 year	(14)	(39)	-	(1)	(54)
Finance leases	(3)	-	(4)	-	(7)
Current asset investments	4267	(2465)	-	46	1848
	4447	(1915)	(4)	45	2573

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

	1999	1998 Restated
	£M	£M
Increase in cash in the year	589	159
Net funds/(debt) acquired with subsidiaries	(4)	2764
Translation differences	(1)	-
Amortisation, indexation and revaluation of current asset investments	46	26
Cash flow from financing	(39)	98
Cash flow from management of liquid resources	(2465)	20
Movement in net funds in the period	(1874)	3067
Opening Net funds	4447	1380
Closing Net funds	2573	4447

29. 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:
the Ministry of Defence
the Atomic Energy Authority
- ii) Associated undertakings
The principal associated undertakings are listed on page 81.
- iii) Joint ventures
The principal joint ventures are listed on page 81.

29. Related party transactions *continued*

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

	Turnover	Purchases	Amounts due from related parties at 31 March Trading	Amounts due to related parties at 31 March Trading
	£M	£M	£M	£M
1998-99				
Undertakings under common control	107	13	53	-
Joint ventures	6	36	3	2
Associated undertakings	3	12	7	1
1997-98 (restated)				
Undertakings under common control	351	21	4	-
Joint ventures	-	20	1	1
Associated undertakings	-	13	8	-

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

Principal subsidiary and associated undertakings and joint ventures

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

Subsidiary undertakings

Magnox Electric plc

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

Westinghouse Electric Company LLC

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

BNFL Inc

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

BNFL Engineering Limited

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

BNFL Instruments Limited

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

International Nuclear Fuels Limited (INFL)

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

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

BNFL Uranium Asset Management Company Limited

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

I.T. Services Limited

It is wholly owned by BNFL and its purpose is to provide information technology services.

Direct Rail Services Limited

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

Deva Manufacturing Services Limited

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

F2 Chemicals Limited

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

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.

Principal subsidiary and associated undertakings and joint ventures *continued*

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.

Joint ventures

Westinghouse Government Environmental Services Company LLC

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

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

Westinghouse Government Services Company LLC

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

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

United Kingdom Nirex Limited

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

BNFL holds 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 and Southern Energy plc.

Asssociated 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.

Financial statistics

	1999	1998 Restated	1997	1996	1995
	£M	£M	£M	£M	£M
Assets employed					
Fixed assets	10763	7438	5280	5015	4502
Net current assets	10079	12004	1121	1166	958
	<u>20842</u>	<u>19442</u>	<u>6401</u>	<u>6181</u>	<u>5460</u>
Financed by					
Loans and advance payments	3588	3330	3902	3848	3428
Provisions for liabilities and charges	16253	15306	1913	1808	1317
Accruals and deferred income	359	285	18	21	30
Share Capital	33	33	33	33	33
Profit and loss account and reserves	553	476	534	470	651
Shareholders' funds	<u>640</u>	<u>519</u>	<u>567</u>	<u>503</u>	<u>684</u>
Minority interests	2	2	1	1	1
	<u>20842</u>	<u>19442</u>	<u>6401</u>	<u>6181</u>	<u>5460</u>
Turnover and profits					
Turnover:					
Home	984	896	840	1048	879
Export	503	445	422	501	425
	<u>1487</u>	<u>1341</u>	<u>1262</u>	<u>1549</u>	<u>1304</u>
Profit before interest and tax	47	32	129	247	97
Net financing income (expense)	181	128	87	69	(23)
Profit before tax	228	160	216	316	74
Profit (loss) for the financial year	142	91	124	(88)	45
Dividends	(65)	(53)	(46)	(93)	(45)
Retained profit (loss) for the year	<u>77</u>	<u>38</u>	<u>78</u>	<u>(181)</u>	<u>-</u>
Profit before tax as a percentage of average shareholders' interest	<u>39%</u>	<u>30%</u>	<u>40%</u>	<u>53%</u>	<u>11%</u>

Note:

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