

Company Number 1002607

BRITISH NUCLEAR FUELS plc

ANNUAL REPORT AND ACCOUNTS

2001





For today, for tomorrow

Annual Report and Accounts 2001

Who we are

BNFL is an international business with activities in 16 countries and employing around 23,000 people. We provide a range of products and services to the nuclear energy industry – from fuel manufacture, reactor services, electricity generation and spent fuel management through to the decommissioning and clean-up of redundant nuclear facilities.

In carrying out all these activities, we are ever mindful that we must maintain our responsibilities to the environment, our workforce and the communities in which we operate.



www.bnfl.com

Our businesses

Fuel manufacture and reactor services: Westinghouse

The Fuel Manufacture and Reactor Services Business Group provides products, services and technology to nuclear utilities around the world. It comprises the Westinghouse nuclear businesses (including the UK fuel business at Springfields and the recently acquired nuclear businesses of ABB).

Main activities and services

The manufacture and supply of nuclear fuel; nuclear plant services and maintenance; instrumentation and control; plant design and construction.

Number of employees

8,770*

Magnox generation

The Magnox Generation Business Group manages BNFL's seven operating nuclear power stations and one hydro-electric power station, producing electricity for the wholesale electricity market in England and Wales. An eighth station at Hinkley Point closed during the year.

Electricity generation, reactor operation and servicing.

3,576*

Spent fuel and engineering

The Spent Fuel and Engineering Business Group manages all plants on the Sellafield site, excluding the Calder Hall nuclear power station. Since January 2001 it has also encompassed BNFL's engineering resource. The business group provides a full range of spent fuel management services to customers in the UK and overseas.

The safe management of the legacy of historic fuel, waste and old nuclear facilities at Sellafield; the reprocessing of different types of reactor fuel to recover uranium and plutonium; the recycling of recovered plutonium into 'fresh' fuel (Mox); the safe management of wastes arising from reprocessing and the transportation of used nuclear fuel and the products of reprocessing.

7,031*

Nuclear decommissioning and clean-up

The Nuclear Decommissioning and Clean-up Business Group specialises in the decontamination, dismantling and removal of redundant nuclear facilities, and the management and processing of historic wastes from nuclear operations. It provides this expertise to customers in the USA and Europe.

The decommissioning and clean-up of redundant nuclear facilities; the treatment and processing of historic wastes.

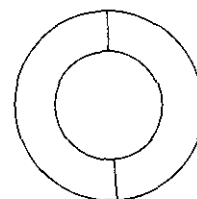
1,719*

Performance in 2000-2001

The year saw an increase in both turnover and operating profit. Turnover was £1,048 million and profit before taxation and exceptional items was £52 million. The acquisition of the ABB nuclear businesses enabled us to move into the Boiling Water Reactor market, securing

significant orders in Germany and the USA. There were also further improvements in safety performance, with an 8% fall in the Total Recordable Incidence Rate from 1.38 to 1.27 per 200,000 hours worked.

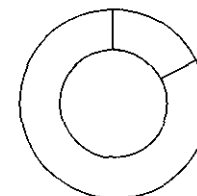
Percentage of Group turnover



Group turnover £2,146m
Business group turnover £1,048m
49% of Group turnover

Oldbury power station produced its highest output ever, and Sizewell A produced its highest output in 21 years. Turnover has decreased to £372 million from £568 million in 2000 and the loss before taxation and exceptional items was £199 million. This was mainly because our

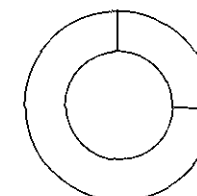
largest station, Wylfa, was off-line for most of the year for necessary engineering work. Safety performance improved significantly with a 53% fall in the Total Recordable Incidence Rate from 1.25 to 0.59 per 200,000 hours worked.



Group turnover £2,146m
Business group turnover £372m
17% of Group turnover

Turnover of £549 million was down for the year due to the under performance of some key plants and as a result, a profit before taxation and exceptional items of £3 million was achieved. Excellent progress was made in implementing

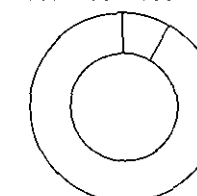
recommendations from the Health and Safety Executive reports. Safety performance improved yet again with a 9% reduction in the Total Recordable Incidence Rate from 0.87 to 0.79 per 200,000 hours worked.



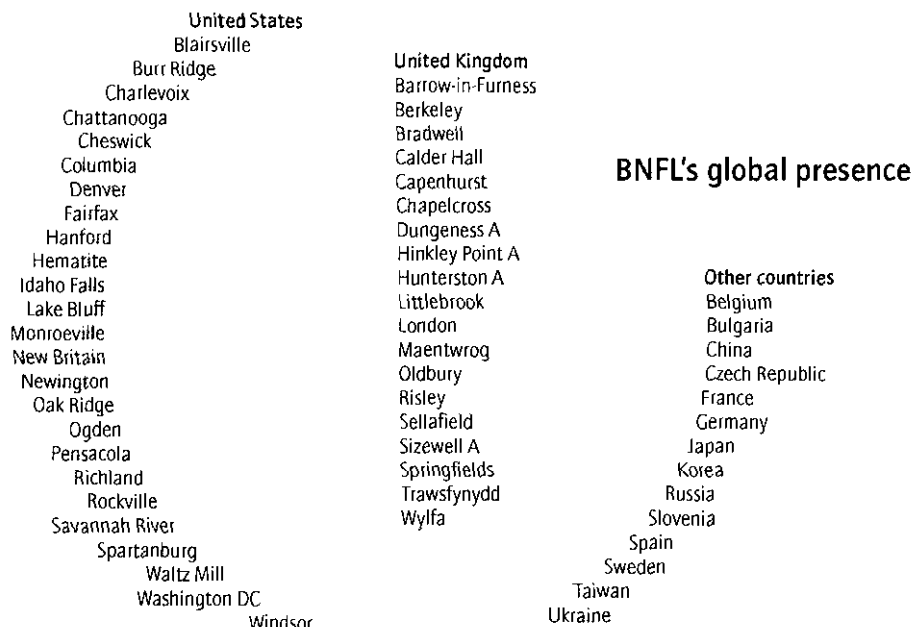
Group turnover £2,146m
Business group turnover £549m
26% of Group turnover

Turnover was £177 million, an increase on the previous year, but we still incurred a loss of £66 million before taxation and exceptional items. Operationally, the business group performance improved – all major projects achieved operating targets.

Safety performance improved by 27%, with a fall in the Total Recordable Incidence Rate from 2.56 to 1.88 per 200,000 hours worked.



Group turnover £2,146m
Business group turnover £177m
8% of Group turnover



Market position

.....

Around 50% of reactors worldwide are Westinghouse designed or based on Westinghouse technology. Being the sole supplier of AGR fuel in the UK, and the leading supplier of PWR fuel in the USA, we are a world leader in the fuel supply market.

.....

During 2000-2001, BNFL provided around 5% of the electricity generated in England and Wales. New electricity trading arrangements (NETA) now require that electricity is subject to sales contracts, rather than traded through the former electricity pool.

.....

BNFL is one of two key players in the global spent fuel management and recycling services market. The business has robust contracts in place for the reprocessing of oxide fuel, has been strengthened from the implementation of the Health and Safety Executive reports and has recently won further commitments from European customers for the supply of Mox fuel.

.....

The global decommissioning and clean-up market, although still relatively immature at the moment, is estimated to be worth in the region of \$500 billion. Currently, the USA has the largest clean-up market, followed by the UK. BNFL is the leading player in the UK and, through proven expertise in our domestic market, we now hold a strong position in the USA.

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Opportunities for growth

.....

Increased interest in nuclear power in the USA – due to energy shortage and environmental issues, and global pressure to reduce CO₂ emissions – has focused attention on the debate for new nuclear build. BNFL is well placed to lead the way in terms of reactor design technology and competitive generation costs.

.....

We have announced the lifetime strategy for our Magnox nuclear power stations, with the assumption that the latest end date for generation will be 2010. In the meantime, through investment in new information systems, we are well placed to trade successfully under NETA.

.....

With the operation of the Sellafield Mox Plant, where we have already won significant business, the Spent Fuel and Engineering Business Group aims to establish itself as a major supplier of Mox fuel. Our transportation business, already a clear leader in its field, will benefit from the growth in the Mox market and continue to provide nuclear transport services to customers worldwide.

.....

The size of the market for decommissioning commercial nuclear reactors is forecast to increase in the first half of the twenty-first century. With a well balanced portfolio of decommissioning expertise, BNFL is in a good position to significantly increase its market share.

.....

How did we do in 2000-2001?

What we said

➤ We would continue to implement the recommendations in the three Health and Safety Executive reports.

➤ We would create a more effective management and organisational structure.

➤ We would continue to rebuild customer confidence.

➤ We would address key operational issues within our business groups.

What we did

➤ We achieved full regulatory endorsement of two out of the three Health and Safety Executive reports. The HSE judged that we had successfully implemented all the recommendations of these two reports.

➤ We reshaped our management structure, ensuring clearer accountabilities for improving quality performance.

➤ We are beginning to win back customer and stakeholder confidence. New contracts with OKG of Switzerland and E.ON in Germany demonstrate the progress we are making.

➤ We retrained many of our employees in compliant and quality operations and there has been a 17% reduction in the overall Total Recordable Incidence Rate, to the point where the frequency of accidents and injuries is well below average UK and US chemical industry levels.

What we will do

➤ We will continue to fulfil our commitments to the Regulator on the Team Inspection Report, and to work towards meeting all the recommendations.

➤ We aim to agree our business strategy and bring about lasting change.

➤ We will continue to work towards rebuilding the trust and confidence of all our customers and stakeholders.

➤ We will continue the drive towards achieving world-class safety and environmental standards, whilst improving operational performance and efficiency across the business.

2 The key benefits of nuclear energy

4 Chairman's statement

6 Chairman's introduction of the Board of Directors

12 Chief Executive's review of operations

14 Fuel manufacture and reactor services

16 Magnox generation

18 Spent fuel and engineering

20 Nuclear decommissioning and clean-up

22 Research and technology

24 Environment, health and safety

26 BNFL in the community

28 Our people

30 Financial review

36 Background on nuclear liabilities

38 Report of the Directors

40 Corporate Governance

43 Statement of Directors' responsibilities

43 Report of the Auditors

44 Consolidated profit and loss account

44 Statement of total recognised gains and losses

45 Consolidated balance sheet

46 Company balance sheet

47 Consolidated cash flow statement

48 Notes to the accounts

83 Principal subsidiary and associated undertakings and joint ventures

84 Financial statistics

Inside back cover: Glossary

The key benefits of nuclear energy

➤ Demand for electricity

In 2000, 438 nuclear reactors provided around 16% of the world's electricity. In the UK, almost 22% of electricity was supplied by nuclear power. By 2020, world demand for electricity is predicted to be 87% greater than in 1997. The World Energy Council estimates that demand could even triple by 2050.

➤ Effects on our environment

All methods of electricity generation have some impact on the environment. The challenge is to minimise this impact while satisfying the world's need for electricity. The generation of one million kilowatt hours of electricity from coal releases around 955 tonnes of carbon dioxide into the atmosphere. From oil, it releases 818 tonnes and from natural gas, 446 tonnes. But a nuclear power plant generates the same number of kilowatt hours with virtually no carbon dioxide emissions.

➤ Advantages of nuclear power

The environmental impact of generating electricity by nuclear power can be contained and managed safely, with care for the environment. Generating electricity by fossil fuels emits large quantities of greenhouse gases as well as other pollutant gases such as those that cause acid rain.

In 1999, nuclear generation saved the use of around 264 million tonnes of coal, 1,517 billion cubic feet of natural gas and 66 million barrels of oil per year worldwide.

BNFL offers full energy cycle services to global nuclear utilities. Our expertise is underpinned by our science, engineering and technology skills base.

➤ Reducing CO₂ emissions

With the closure of the majority of the UK's nuclear power stations by 2025, the share of electricity supplied in this way will fall to around 3%. In comparison, peak 1990s figures were around 30%. If the output from nuclear were to be replaced by fossil fuel power stations, much of the hard-won carbon dioxide emission reductions achieved so far would be lost.

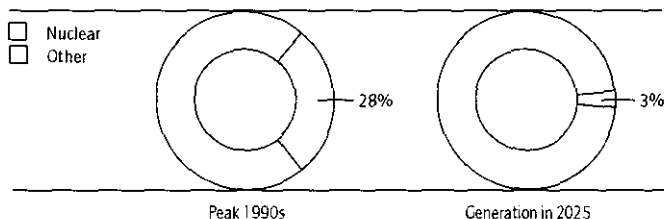
In its 1999 Energy Report, the DTI stated: 'Because electricity produced from nuclear sources generates none of the greenhouse gases associated with burning fossil fuels, nuclear power makes a substantial contribution to limiting such emissions.'

➤ Why BNFL?

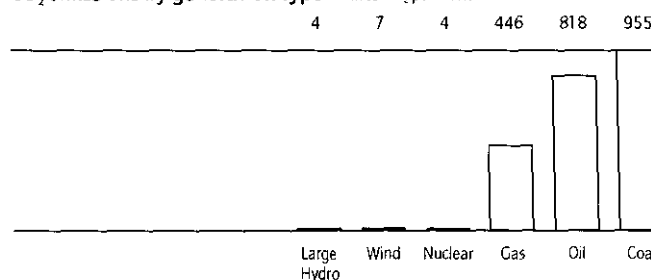
BNFL has global expertise in all aspects of the nuclear energy cycle, from fuel manufacture and reactor design through to spent nuclear fuel and waste management and the decommissioning of nuclear facilities. We have continued to develop innovative reactor design technology with a clear focus on safety, quality and operational excellence.

We remain committed to the nuclear industry and to serving our customers, whilst protecting the environment for future generations.

UK generation mix



CO₂ emissions by generation type Tonnes CO₂ per GWh



Around 16% of the world's electricity is generated by nuclear power.

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Chairman's statement

In last year's Annual Report I said that I had a goal to rebuild BNFL and the levels of trust among our key stakeholders, particularly our customers and our regulators. So it is pleasing to report that the past year has been one of substantial progress for BNFL.

The new Board and management team have accelerated change throughout the company and there is dedicated commitment among the workforce to maintain this momentum. We remain determined to transform the business into a competitive company able to thrive in a more commercial environment. Significant progress has been made in addressing the issues raised in the three reports by the Health and Safety Executive. This provides a solid platform on which to build but there is still more to do.

However, while the focus has, through necessity, been on achieving fundamental structural, process and cultural changes in the business, this has not yet flowed through into improved operational and financial performance. Norman Askew and I, together with the new management team, will be looking to make a difference in this vital area.

The way forward

The Board of BNFL has a very clear aim – to build a company with a strong future in a sector with increasing opportunities and prospects. The company has come a long way in a short time, from being a regional nuclear player to a truly international business. Together with our shareholder, the UK Government, strategic choices now need to be made to set the long-term agenda for the business.

An announcement on the future of the Magnox nuclear power stations has already been made to provide certainty about the future and bring clarity to our business plans. We now await the Government's agreement for our Sellafield Mox Plant (SMP) to be commissioned and finally opened for business to meet our customers' needs.

"It is imperative that in the UK we have a balanced energy policy that takes account of the role that nuclear energy can and must play."

Hugh R Collum Chairman

Although the operating performance of some parts of the business has shown significant improvement, it is clear that in the context of an increasingly competitive international market and a possible Public Private Partnership (PPP), there are areas where performance was clearly unacceptable and must improve. This improvement, together with a continued strong focus on our health, safety and environmental performance, is crucial to convince Government that we are ready to realise a PPP for BNFL.

Encouragingly, the Labour Party supported this view in its recent election manifesto: 'BNFL is an important employer and major exporter. The Government insists it maintains the highest health, safety and environmental standards. We are examining the scope for turning the company into a Public Private Partnership.'

The world is changing

At the end of last year I called for an informed and open public debate on the future of nuclear energy. There are clear signs that this is underway as Governments, politicians and public opinion recognise the important role that the nuclear industry can play in meeting the world's demands for long-term energy supply as well as addressing the environmental issues.

In the United States particularly, there is a new urgency to address environmental and energy shortage issues through a broader reliance on clean, safe nuclear power in the future. This was strongly demonstrated in May with President Bush's energy policy announcement, which puts nuclear firmly back on the agenda.

In the UK, the planned closure of all but one nuclear station by the year 2025, will leave an unbalanced energy mix and nuclear with only around a three per cent share of the UK electricity supply market. Environmentally, if the output from nuclear were to be replaced by conventional power stations much of the hard-won carbon dioxide emission reductions achieved so far would be lost.

Given these challenges, the announcement by Government of an energy review is both timely and an excellent opportunity for the nuclear energy industry to demonstrate the contribution it can make in tackling climate change and ensuring security of supply. It is imperative that in the UK we have a balanced energy policy that takes account of the role that nuclear energy can and must play.

In Europe, the Commission has recognised that nuclear power is essential if Europe is to meet its commitments under the Kyoto Protocol. It also emphasises the need for European countries to retain their leading position in civil nuclear technology. In this way, nuclear power can continue to reduce Europe's dependency on external energy sources. Last year around 35% of Europe's electricity was generated by nuclear power.

BNFL has an important role to play

In BNFL, the UK has a world leading company with an important role to play. With our four businesses we are structured to meet the needs of our two main customer groups, utilities and Governments. Our proven expertise is being applied to safely and responsibly manage the legacy of historic waste on behalf of the UK and US Governments. It is also important to remember that our businesses, supported by our strong science and engineering skills base and ongoing investment in research and technology, give us capabilities that span the fuel cycle.

The changing attitude towards nuclear clearly represents a potential opportunity for the company. If the full potential of the changes in favour of nuclear energy is realised, BNFL will be well positioned to provide the technology, services and equipment needed.

The Board

As I indicated in my statement last year, we have now re-constituted the Board with a new team of Directors and Non-Executive Directors. I am very pleased to have been able to put together such an experienced group who both individually and collectively can make a significant contribution to BNFL.

Gordon Campbell, Brian George, Bill Lowther, Gail de Planque and Richard Stone were all appointed to the Board as Non-Executive Directors. However, we did lose the valuable services of Sir Nigel Wicks as one of our Non-Executive Directors. The Government appointed Sir Nigel to the position of Chair of the Committee on Standards in Public Life and he had to resign from BNFL. Although he had only been on the Board for a few months Sir Nigel had already made a significant contribution and I was very sorry to see him go.

➤ The Board of BNFL has a very clear short-term aim to build a company with a strong future in a sector with increasing opportunities and prospects.

➤ Improvements in operational performance and a continued strong focus on environment, health and safety performance is crucial to position the company for a PPP.

➤ There is clear recognition amongst Governments, politicians and public opinion of the important contribution that the nuclear industry can make in meeting growing energy demands.



Chairman's statement

The past year

As I said earlier, operational performance was poor and this is reflected in our underlying financial performance.

In summary, turnover increased to £2,146 million from £2,064 million last year. There was a loss before taxation and exceptional items of £210 million, compared with a profit of £74 million last year. After investment income, interest and exceptional items the loss before taxation for the year was £66 million compared with a prior year loss of £337 million.

There was a net cash outflow for the year of £275 million compared to £31 million last year. The balance sheet continues to be dominated by provisions for discounted nuclear liabilities of £16.1 billion. Shareholders' funds were reduced from £310 million to £251 million.

The future

With the longer term picture for the global nuclear industry brightening, the future for the business is encouraging. As I have already said, much will rest on the Government decisions on our strategy and the authorisation of the Sellafield Mox Plant.

We are turning the corner in terms of rebuilding stakeholder confidence, but we must recognise much remains to be done to reassure our stakeholders.

Corporations undergoing the degree of change that BNFL is currently going through need to have a high quality management team and loyal support from their colleagues. We are continuing to build a stronger commercially driven management team. The Board and I are grateful for their support during this difficult period. Furthermore, I would also like to take this opportunity to thank everybody throughout the business both in the UK and overseas for their commitment and focus during this challenging period.

We have taken major steps to reshape the company and will continue to build on this solid foundation.



Hugh R Collum Chairman

"With the longer term picture for the global nuclear industry brightening, the future for the business is encouraging."

Our Board of Directors

"I am very pleased to have been able to put together such an experienced group who both individually and collectively can make a significant contribution to BNFL."



David Bonser

Gordon Campbell



Chris Loughlin

Richard Stone

Norman Askew

Hugh Collum (60)

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

Norman Askew (58)

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

John Edwards (52)

Group Finance Director Joined the Board on 1 July 2000. He is the former Finance Director of Jaguar, Northern Electric and Meyer International plc. He is the Chairman of Magnox Electric plc and BNFL's Investment Review Panel.

David Bonser (52)

Transformation Director Joined the Board on 30 September 1999. He joined BNFL in 1971 and has been a Director of Thorp; Company Development and Engineering, Waste Management and Decommissioning prior to his current position. His current responsibilities are to plan the transformation of BNFL to position the company for a future Public Private Partnership. He is Chairman of the waste repository company UK Nirex Ltd, and is a member of the Government's Radioactive Waste Management Advisory Committee (RWMAC).

Chris Loughlin (48)

Spent Fuel and Engineering Business Group Director Joined the Board on 30 September 1999. He joined BNFL in 1981 and has been Director of Transport; and Thorp and Magnox Generation prior to his current position. He is responsible for Thorp and Magnox reprocessing, Mox fuel manufacture, Sellafield waste management and decommissioning and transport. He is Chairman of BNFL's French company BNFL SA, Chairman of the World Nuclear Transport Institute and Deputy Chairman of PNTL.

Gordon Campbell (54)

Non-Executive Director Joined the Board on 1 August 2000. He is Executive Chairman of Babcock International Group plc and former Chief Executive of Courtaulds plc. He is a Non-Executive Director of International Process Technologies and Wade Ceramics Ltd. He is also a Vice-President of the Royal Academy of Engineering and a former President of the Institute of Chemical Engineering.

Brian George CBE (65)

Non-Executive Director Joined the Board on 12 March 2001. He is a former Executive Director of Nuclear Electric plc and NNC Ltd and has worked for General Electric company as Chief Executive of GEC Marine Limited, Vickers Shipbuilding and Engineering Limited and Yarrow Shipbuilders Ltd. He is a Non-Executive Director of Taylor Woodrow Construction and is Vice-President of the Royal Academy of Engineering.

Bill Lowther CBE (61)

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

Dr Gail de Planque (56)

Non-Executive Director Joined the Board on 23 November 2000. She has served as a Commissioner with the United States Nuclear Regulatory Commission and as a Director of the case of Energy's Environmental Measurements Laboratory in New York City. She is a fellow and past President of the American Nuclear Society, a member of the National Academy of Engineering and the National Council on Radiation Protection and Measurements. She is President of Strategy Matters Inc., and serves on the Boards of Northeast Utilities and BNFL Inc.

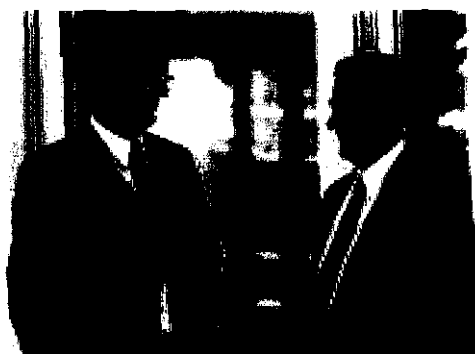
Richard Stone (58)

Non-Executive Director Joined the Board on 1 January 2001. He retired from the Global Board of PricewaterhouseCoopers at the end of 2000. Prior to the merger with Price Waterhouse in 1998, he was Deputy Chairman of Coopers & Lybrand, and Chairman of the firm's European corporate finance activities. He is Chairman of Shearings Group Ltd and Non-Executive Director of Halma plc, TR Property Investment Trust and Trust Union Finance (1991) plc.



Gail de Planque

Bill Lowther



John Edwards

Brian George



Expertise

Keith Spooner is the Manager at the Trawsfynydd decommissioning site. To him, vision is the most important attribute one can have. His vision for Trawsfynydd is the delivery of a project in a safe, timely and cost-effective manner. He has built a good team and set the direction. His style of leadership is one of open communication with equal regard for all the workforce. By example, he endeavours to promote the right attitudes and behaviours, qualities which he values as highly as competence and expertise.

Many of our scientists and engineers are world leaders in their field. These skill-based competencies allow us to advance nuclear power technology for the benefit of our customers. Martin Bruzek is a senior engineer at Westinghouse. He manages the Man Machine Interface at the Temelin nuclear power plant, which involves building the control boards and the essential control consoles.

Innovation





Safety

All contractors working on construction projects at Sellafield have been involved in the HSE 'Working Well Together' initiative. Safety is paramount in our business, including the safety of personnel on construction sites. Contractors are invited to attend training courses on safe working practices. As a result the accident rate for construction work on the Sellafield site is one-third the national industry average. Caroline Shaw is a mechanical engineer working for Shepley Engineering Ltd at the Sellafield site.



Brian Watson is Head of the Sellafield site. His key priorities are to establish a fully integrated site and deliver high standards of compliance, behaviours and performance. His new organisational structure delivers clear, unambiguous accountabilities and provides a focus for strong leadership by example. His commitment and motivation sets an example for employees at the site.

Commitment

Chief Executive's review of operations

Last year, I said the management team would focus on delivering change within the company and on making that change stick. I am pleased to report we have made substantial progress, though we cannot afford to be complacent about overcoming the challenges that lie ahead.

"We are determined to turn the business around as swiftly as possible. A good start has been made."



I'd like to tell you of our progress in meeting the five priorities I outlined in last year's Annual Report:

1. Implementing the recommendations in the three Health and Safety Executive (HSE) reports

The HSE has judged that we have successfully implemented all recommendations in two of the three reports. Doing so at the Mox Demonstration Facility in such a concentrated time span was a particularly noteworthy achievement.

We also addressed all of the recommendations in the report on the tanks storing Highly Active Liquor (HAL) – a liquid waste recovered from spent fuel reprocessing – at Sellafield. The HSE fully endorsed the actions we took and agreed a programme to reduce stock levels in the future.

Regarding the lengthier Team Inspection Report, which addressed issues across the whole Sellafield site, work has progressed well. The HSE has formally endorsed more than half of the 41 key programmes of work linked to the recommendations. A progress report published by the HSE in February 2001* stated 'we have found evidence to support the claims that both the management and workforce are determined to ensure that the improved systems are effectively implemented.'

Last year I gave my personal guarantee that we would meet the HSE recommendations in full. That guarantee still stands. It is a key priority.

*Progress on BNFL's response to three reports issued by the HSE on 18 February 2000, Health and Safety Executive's HM Nuclear Installations Inspectorate, February 2001.

"We recognise that we are operating in an increasingly competitive market and we must respond to the economic and operational forces that impact on our customers' businesses."

Norman Askew Chief Executive

2. Creating a more effective management and organisational structure

The top-level management team is mostly now in place, with clear accountabilities. We have four business groups focused on particular sectors of the international nuclear energy market. They each have full responsibility for their safety, commercial, operational, environmental and financial performance.

At Sellafield, we have replaced a complex management structure with one where a single manager has overall responsibility for the site. We have also made management changes in our European Fuel Business and the Nuclear Decommissioning and Clean-up Business in the US. These and other structural changes, along with stronger accountability for improving quality performance, reflect the importance we place on developing a quality driven culture. We have also implemented a number of key performance measures across the Group to establish a culture of ongoing assessment and improvement.

3. Rebuilding customer confidence

Signs that customer confidence is returning are most evident in the new Mox business won with German utility E.ON and OKG of Sweden. Pleased as we are with this, we recognise that we are operating in an increasingly competitive market and we must respond to the economic and operational forces that impact on our customers' businesses.

4. Nuclear liabilities and greater transparency in the company's finances

After last year's extensive review, we have established a much clearer position on our nuclear liabilities. We have also made our finances more transparent and I trust this Annual Report is a further step forward from last year. Now the aim is to make the company more understandable to the outside world.

5. Addressing key operational issues in our business groups Westinghouse performed well and the operational performance of our clean-up contracts in the US improved significantly. But difficulties experienced elsewhere in our business illustrated the need to raise standards of both operational performance and delivery. To do this we retrained employees at Sellafield, holding workshops throughout the year to enhance skills in compliant and quality operations.

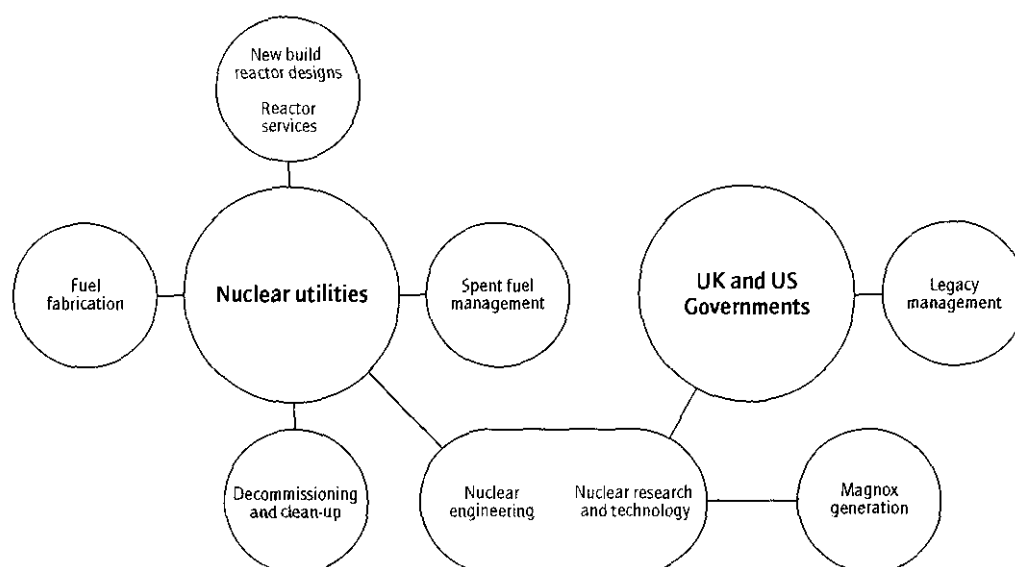
We face a number of key day-to-day operational issues in some of our business groups, which show in the financial performances. However I'm pleased to report that we have decreased the number of recordable injuries in the Group by 17%, to the point where the frequency of accidents and injuries recorded is now well below average UK and US chemical industry levels.

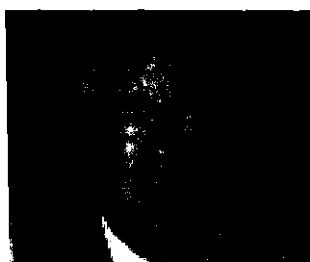
Our operational priorities remain as follows:

- Continue the drive towards achieving world-class safety and environmental standards
- Focus on the remediation of the old nuclear facilities and legacy waste at Sellafield
- Improve output and throughput in all our plants
- Manage costs and improve efficiency through our quality programmes
- Grow profitability

More specifically, operational performance and our priorities are detailed on the following pages.

Our customers and the products and services we provide





Charlie Pryor
President and Chief Executive
Officer, Westinghouse

Highlights for 2000-2001

- Good operational performance.
- Further improvement in safety performance with an 8% decrease in the Total Recordable Incidence Rate from 1.38 to 1.27 per 200,000 hours worked.
- New business won and future prospects identified.

Fuel Manufacture and Reactor Services Business Group: Westinghouse

Turnover £m	1,048
Profit/(loss) before taxation and exceptional items £m	52
Employees	8,770

"Since its acquisition by BNFL, Westinghouse performance has gone from strength to strength. We are now well positioned to pursue the nuclear market at a time when the market outlook is at its brightest."

An expanding customer base

During the year, we continued to concentrate on enhancing the quality of our products, our technology and our service to customers. Whilst our core business continued to focus on plants supplied by Westinghouse or our licensees, we successfully expanded our customer base internationally with new contracts at non-Westinghouse plants.

For example, in Russia and the Ukraine we completed the installation of enhanced safety systems at Soviet-designed plants. We also continued to fulfil contracts to install advanced instrumentation and control equipment at the Ringhals plant in Sweden and similar equipment and fuel at two reactors at the Temelin power station in the Czech Republic.

In February, we formalised a contract to upgrade the control, protection, computer and diagnostic systems at two reactor units at the Kozloduy power station in Bulgaria. We also won a number

Focus

The Temelin nuclear power station in the Czech Republic is one of the most advanced nuclear power plants in the world. The entire instrumentation and control system was designed and installed by Westinghouse. The plant control and information systems can handle 200,000 data points per second, so every point on the system can be updated once per second.

Our primary goal is to help customers provide safe, low-cost, reliable and environmentally friendly electricity by enhancing plant safety and by reducing operation and maintenance costs.

of innovative and long-term contracts with our more traditional customer base during the year, including US electricity supplier Arizona Public Service, US utility South Texas Project and contracts with nuclear plants in Illinois, Virginia and Arizona in the US.

New market opportunities

Acquiring ABB's commercial nuclear businesses enabled us to move into the Boiling Water Reactor (BWR) market. We received two significant orders for BWR control rods – one in Germany and one in the US with Carolina Power & Light. We clinched a further deal for our Vasteras plant in Sweden to supply Pressurised Water Reactor (PWR) fuel and services to Germany's largest producer of electricity, RWE Power AG.

We continued to work on plants under construction in South Korea, including reactors at Yonggwang and Ulchin. We also submitted formal bids for two new plants to be built at Shin Kori.

Successful growth

Financial performance was good. Following our acquisition of the nuclear businesses of ABB, completed in April 2000, turnover rose from £730 million last year to £1,048 million in 2000-2001. Profit before taxation and exceptional items rose similarly from £6 million to £52 million. We will look to build on the opportunities and synergies this acquisition and other potential alliances may bring.

The successful integration and rebranding of the ABB nuclear businesses and UK fuel business as Westinghouse helped us further strengthen and consolidate our position in the annual £2.5 billion market for nuclear fuel and reactor services.

A favourable outlook for nuclear energy

The broader outlook for the worldwide nuclear power industry improved during the year. Concerns over climate change, coupled with rapidly accelerating fossil-fuelled energy costs, focused global debate on the construction of new nuclear plant and the modernisation of existing plant.

Against the backdrop of this potential resurgence in nuclear energy, we are positioning ourselves to be able to market reactor designs that our customers want. We will continue to identify other ways to expand market share, improve quality, control costs and promote safety. Improving the efficiency of customers' operating plants and continuing to provide top quality products and services remain our key priorities.



Customer, Jaroslav Vlasaty of CEZ with Zbynek Galdia of I&C Energo (Westinghouse contractor) in the control room of the Temelin nuclear power station



Operators in the control room

Oldbury power station had its record year for output. The largest factor in this success has been the dedication and effort of the employees in achieving major improvements in output and maintaining continuous operation.

Improvements included:

- New rotors fitted to the turbines.
- Slightly enriched uranium fuel used in the reactors.
- The use of a specially-designed probe to measure fuel channel temperatures.

The established culture and ambience of our employees is to always seek for continuous performance improvements.



Clive Smitton
General Manager, Magnox
Generation Business Group

Highlights for 2000-2001

- Significant changes in electricity trading arrangements.
- Pleasing improvement in safety performance, the Total Recordable Incidence Rate fell by 53% from 1.25 to 0.59 per 200,000 hours worked.
- Record outputs for Sizewell A and Oldbury power stations.

Magnox Generation Business Group

Turnover £m	372
Profit/(loss) before taxation and exceptional items £m	(199)
Employees	3,576

"Our key priorities are to maximise revenue and profit from the operational stations over the remaining lifetime of their safe operations. Naturally, this relies on the successful return to service of the Wylfa power station."

Lifetimes announced

An important decision was announced in May 2000 to close our power station at Hinkley Point and we are currently working to remove the fuel. Our Bradwell station will be the next to close, in 2002. Here are the full Magnox station lifetime planning assumptions:

Station	Licensed lifetime	Age at cessation of generation	Projected latest date for end of generation
Calder Hall*	50	50	2006-2008
Chapelcross*	50	50	2008-2010
Bradwell	40	40	2002
Hinkley Point A	40	35	2000
Dungeness A	40	40	2006
Sizewell A	40	40	2006
Oldbury	40	40	2008
Wylfa	33	38	2009

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



Jeff Cox and Bob Dalgleish are electrical engineers at the Oldbury nuclear power station.



Clearly, this strategy clarifies our business plans and presents an ongoing challenge for the business group's decommissioning activity over the coming years.

I am pleased to report record outputs at Sizewell A and Oldbury power stations. However, the output of the reactors at Dungeness and Bradwell power stations fell considerably due to outages to make plant modifications. The most discouraging setback of all was the significant reduction in output of the Wylfa power station. The resulting overall operational performance of the group was therefore disappointing, with total output for the year just over 13 TWh, compared with over 19 TWh last year.

Restructuring for value and efficiency

During the year, Magnox Generation took advantage of the existing operating expertise and the specialised management skills of Westinghouse to jointly provide engineering and field services to 18 reactors in the UK.

Placing management responsibility for all phases of reactor lifetime in one business group provides the opportunity to extract maximum value from the life cycle. Accordingly, on 1 April 2001, the group assumed responsibility from the Nuclear Decommissioning and Clean-up Business Group for the Magnox reactor decommissioning liabilities at all BNFL sites.

Disappointing results due to reduced capacity

The financial performance of the group was again disappointing, mainly because Wylfa, our largest station, was off-line most of the year for necessary engineering work, lowering annual capacity by about 40%. Our £372 million turnover was significantly down from £568 million, and a loss before taxation and exceptional items of £199 million was incurred (2000: loss £109 million).

Preparing for new electricity trading arrangements

Our key priorities are to focus upon the continued improvements in occupational safety and environmental performance, whilst maximising revenue and profit from the operational stations over the remaining lifetime of their safe operations. Naturally this relies on the successful return to service of the Wylfa power station.

New electricity trading arrangements (NETA), introduced on 27 March 2001, broadly speaking means generated electricity is subject to sales contracts rather than traded through the former Electricity Pool, which is a fundamental change. It means our ability to trade in a rapidly changing market, and to predict future performance is vital. Therefore we invested in new information systems and strengthened our trading department and are now well placed to trade successfully under the new arrangements.



Chris Loughlin
Director, Spent Fuel and
Engineering Business Group

Highlights for 2000-2001

- Excellent progress made in implementing recommendations from the Health and Safety Executive reports.
- Improvement in safety performance with a 9% reduction in the Total Recordable Incidence Rate from 0.87 to 0.79 per 200,000 hours worked.
- Fuel transport restarted in mainland Europe.

Spent Fuel and Engineering Business Group

Turnover £m	549
Profit/(loss) before taxation and exceptional items £m	3
Employees	7,031

"We have made significant progress in refocusing our efforts to deal with the waste legacy at Sellafield. Our change programme ensures we are well placed to offer all our customers a reliable, cost-effective service, including the establishment of a leading Mox manufacturing business."

Resources to manage the historic legacy

A key priority for BNFL is to manage the legacy of historic fuel and waste. To achieve this, we continue to dedicate much of our effort at Sellafield to the continuous safe management of nuclear plant and facilities, the retrieval and processing of waste and the eventual decommissioning of the site. To reflect the importance of this work to BNFL, we set up the Historic Waste Management Project to focus on delivering the overall strategy and providing the facilities for the retrieval and safe passive storage of this waste.

Servicing our utility customers

The throughput of spent fuel we reprocessed for global utility customers in Thorp at Sellafield was good in the first half of the year, but was severely constrained after that by problems in related waste management plants at Sellafield. This also had a knock-on effect on the throughput of Magnox reprocessing, which was also suspended for a period of statutory maintenance. All plants are now back in operation and have given us a good start to this financial year.



During the year, we won new business with our German and Swedish customers. Through the operation of the Sellafield Mox plant we aim to become a major supplier of Mox fuel.

We employed significant resources in responding to the requirements of the three HSE reports published in February 2000. As I mentioned earlier, two of these reports – MDF and the Highly Active Liquor – have now been signed off by the HSE and our responses to the Team Inspection Report are on schedule and have been commended by the HSE.

The restart of spent fuel transportation in Europe provided good news. Highlights include the work to enable the restart of spent fuel transports to Germany in April 2001 and the resumption of spent fuel transports from Dodewaard in Holland. In Switzerland, meanwhile, we successfully completed safety and quality audits requested by the authorities and this led to the restart of transports from there to Sellafield.

Licensed rail freight operator and BNFL subsidiary Direct Rail Services Ltd (DRS) continued to carry out the safe and efficient transport of spent nuclear fuel in the UK on behalf of British Energy and our Magnox Generation Business Group. Both customers commended DRS on its ability to maintain a high quality service during the much-publicised upheaval on the national rail network.

Through another subsidiary, Pacific Nuclear Transport Ltd (PNTL), we operate a fleet of purpose-built ships capable of carrying all categories of nuclear material. PNTL had a good year, culminating in the safe and scheduled arrival in Japan of a second Mox fuel shipment and the sixth shipment of high-level waste.

Sellafield is key

In addition to the creation of the Historic Waste Management Project, we also merged Spent Fuel Management with the BNFL Group engineering resource. One of the keys to future success for BNFL is the performance, sustenance and development of Sellafield's assets. Sellafield places a high level of demand on engineering and the best possible application and contribution of these resources is critical to achieving success.

Financial performance

Spent Fuel and Engineering Business Group's financial performance was lower than expected due to the under-performance of several key plants on the Sellafield site. Turnover at £549 million was down from last year (£599 million) and we incurred a profit before taxation and exceptional items of £3 million compared to a profit before taxation and exceptional items of £266 million in 2000.

Developing services to complement the portfolio

Our priorities must be the historic waste legacy and the outstanding recommendations from the HSE reports. With the operation of the Sellafield Mox Plant, we will establish ourselves as a major supplier of Mox fuel. This facility is currently being commissioned and awaiting authorisation to operate, and we have recently won significant new business. The group will also continue to develop other new services to complement the overall BNFL portfolio and meet the developing needs of our customers.



➤ Action

Jack Allen joined the Sellafield Mox team to add fuel manufacturing and customer experience developed in over 31 years with Westinghouse. He is pictured here with Neil Taylor and Rob Goldwater in the Analytical Laboratory in the Sellafield Mox Plant.

The Sellafield Mox Plant will be the most up-to-date, flexible and automated Mox fabrication facility anywhere in the world. The plant has the capability to meet all potential customer requirements, processing plutonium from various sources to manufacture a wide range of fuel. It is designed to be highly reliable with low maintenance requirements to minimise the amount of radioactivity received by both BNFL operators and the public. The dose to the public as a consequence of discharges from the Sellafield Mox Plant will have negligible radiological significance.



Ceris Evans in the Miscellaneous Activated Component Vault at Trawsfynydd decommissioning site.



Chris Boon
Director, Nuclear
Decommissioning and Clean-up

Highlights for 2000-2001

- All major projects meeting operating targets.
- Safety performance further improved by 27% with the Total Recordable Incidence Rate down from 2.56 to 1.88 per 200,000 hours worked.
- US business operations are now on a more sound basis.
- Continued the development of a unique portfolio of expertise in decommissioning and clean-up.

Nuclear Decommissioning and Clean-up Business Group

Turnover £m	177
Profit/(loss) before taxation and exceptional items £m	(66)
Employees	1,719

"Our businesses are now well positioned to establish BNFL as a leading player in the UK, US and European markets for decommissioning and clean-up of nuclear plants and waste."

Meeting performance targets in Europe

Our European activity is mainly in the UK where we are working for the UKAEA and the Ministry of Defence (MoD) as well as on decommissioning our three Magnox nuclear power stations – Trawsfynydd, Hunterston and Berkeley. We are preparing these stations to enter the 'Safestore' phase, a stable state that allows radioactivity to decay to a lower level before further decommissioning and eventual demolition. These projects are funded from BNFL provisions and all three met their performance targets during the year. Detailed planning work continued for the decommissioning of our power station at Hinkley Point which closed in May 2000 and at Bradwell, which will cease operations in 2002. At Capenhurst, we have developed the first detailed plan for the decommissioning of the site, which resulted in a charge to operating profit of £40 million this year.

During the next 15 years the demand for decommissioning will grow steadily. We have developed capabilities and expertise focused on safety.

➤ Focus

At Trawsfynydd, one of our Magnox power stations being decommissioned, intermediate-level waste (ILW) is now being recovered from the Reactor One Miscellaneous Activated Component Vault. The recovery of ILW is not just a first for Trawsfynydd but a first across our reactor decommissioning sites. The first box of concrete-encapsulated waste was produced in January to start the active commissioning phase. More boxes have since been made and the site is expecting shortly to move to full operation of the plant. The attention given to safety and housekeeping together with an investment in essential infrastructure has facilitated the good work that has been done.

investment phase during the year and construction work has progressed well.

Our site management contracts at Savannah River and Rocky Flats also performed well.

New business

Westinghouse Government Services Group, in which we have a 40% stake, won an extension to the main contract worth US \$100 million at the Carlsbad Waste Isolation Pilot Plant, a repository for intermediate-level waste in New Mexico. They were also awarded an extension to the management and operations main contract worth US \$1 billion at the Savannah River site in South Carolina.

We are rebuilding and strengthening our business in the US by recruiting a number of senior executives with extensive commercial experience and knowledge of the US Government market. Their appointments are key to future growth.

Financial performance

Although turnover for the business group increased marginally to £177 million, from £167 million in 1999-2000, we incurred a loss before taxation and exceptional items of £66 million, compared with £89 million loss last year.

Focusing on opportunity

The decommissioning markets in the UK, Europe and US remain attractive for BNFL. We offer a unique range and depth of expertise to the international decommissioning and clean-up market and the business group's contract portfolio now provides a solid foundation on which to grow the business.

In Europe, we will continue to focus our major effort on the increasing workload in Magnox reactor decommissioning and the clean-up of sites for third party customers, such as the joint venture at Aldermaston. However, we will also continue to target markets elsewhere in Europe to develop our presence.

In the US, further opportunities for waste management and site clean-up will emerge at DoE sites. Reactor decommissioning projects will continue to arise, although the growing recognition of the valuable contribution of nuclear energy may lead to modernising and extending the life of power plants in the short-term.

We are delivering a management and operations contract for the MoD at the Aldermaston Weapons Establishment as part of a consortium which includes Lockheed-Martin and Serco, and have so far met or exceeded every milestone agreed with the customer.

In continental Europe, we won and delivered on a number of smaller contracts including contracts with SOGIN, the Italian Government agency, to assist in the decommissioning of their gas-cooled reactor at Latina.

Excellent progress at BNFL Inc., USA

BNFL Inc., one of our US subsidiaries, made excellent progress on the fixed price contract with the US Department of Energy (US DoE) to dismantle equipment and decontaminate three gaseous diffusion plant buildings at East Tennessee Technology Park. The contract has been restructured to provide a more equitable sharing of the project's risks and we are exceeding performance targets with the removal of up to 900 metric tonnes of material from the plant each week. In January 2001, we installed a super-compactor capable of crushing up to 50 tonnes of metal per hour – this cost-effective way of retrieving, shipping and disposing of metal enhances the economic efficiency of the project.

A contract with the US DoE to construct and operate the Advanced Mixed Waste Treatment Plant at Idaho National Environmental and Engineering Laboratory entered the major

Highlights for 2000-2001

- Commissioning and technical support to the Sellafield Mox Plant including utilisation of a uranium active development rig at Springfields for oxide powder studies.
- Technical input into the programme to retrieve and manage waste from historic operations on the Sellafield site.
- Ongoing technical input into the Thorp and Magnox reprocessing operations and associated waste treatment plants.
- Technical support to the team involved in commissioning plant to increase production capacity in the vitrification plant.
- Research collaboration agreement signed with JNC.
- Continued focus on development of new reactors and advanced reactor fuel.

Research and technology

Our scientific, technical and nuclear engineering skills are the cornerstone of the business. This is the knowledge base we leverage into our legacy management projects and the products and services we provide to nuclear utilities.

Overview

Research and technology are our core strengths. They cover the entire nuclear energy product cycle, from laboratory-based research and engineering design through to safety case development, commissioning, operations, improvements and eventual plant decommissioning.

During the year, we invested £92 million (2000: £96 million) on research and technology. The difference is mainly due to lower expenditure in support of capital programmes. Part of our expenditure underpins science and longer term research projects – such as advanced reactor development – which look beyond the scope of BNFL's existing businesses.

Highlights

Technical support

Technology is key to winning new decommissioning and clean-up business, and for attracting new partners. At the Idaho Falls Advanced Waste Treatment Plant, we responded successfully to design changes requested by the US Department of Energy (US DoE) by redefining the process.

Leading technology underpins all of our commercial activities.

➤ Focus

We have established a number of BNFL University Research Alliances at universities across the UK. The aim of these alliances is to sustain a nuclear competency in universities to ensure a flow of potential recruits to BNFL, and to work on projects related to BNFL. There are currently three University Research Alliances in Radiochemistry, Particle Science and Technology and Immobilisation. With all the centres it is envisaged close links will be built, with BNFL employees working at the universities and university employees working in BNFL to improve communication and understanding of all our needs. This has started with a series of secondments of Manchester University employees and students into facilities at Springfields to study fundamental aspects of radiochemistry.

Also in the USA, we worked closely with our Westinghouse research and technology specialists to improve the reliability and flexibility of advanced reactor fuel to meet the needs of our customers. Westinghouse has been successful in winning grants to study advanced reactor concepts as part of the US DoE's Nuclear Energy Research Initiative.

In the UK, we continued to provide technical support to the Magnox power stations with the aim of maximising their output. Particular focus centred on the power station at Wylfa, to ensure it successfully returns to service. We were pleased to win a major contract for technical support work with British Energy, including the examination of spent nuclear fuel.

BNFL Technology Centre

The BNFL Technology Centre at Sellafield is a state-of-the-art facility that will enable the company to carry out all research activities that underpin our commercial operations across the entire nuclear energy cycle and serving the industry in general. We envisage the facility will act as an international centre for nuclear fuel cycle research, where exchanges with staff from overseas organisations and the centres of excellence will be encouraged.

Links with academia

A programme of establishing Centres of Excellence at universities continues to develop well. In addition to our ongoing alliances with the Centre for Radiochemistry Research at the University

of Manchester and the Centre for Particle Science and Technology at the University of Leeds, we now have strong links with the Centre for Immobilisation Technology at the University of Sheffield. The value of such an involvement was demonstrated during the year by the completion of the first PhD in plutonium chemistry in the UK for a number of years. We have also launched a prestigious Fellows Scheme, to attract post-doctoral researchers. This scheme combines academic research work with the experience of solving real issues on operational plant.

Internationally, together with the National Nuclear Corporation we are participating in 12 research projects, sponsored by the European Union's Fifth Framework research programme. This involves more than 30 universities and industrial organisations from the EU, Switzerland, Poland, Czech Republic, Japan and the USA. We have also exchanged technical staff with Japanese research organisations, and signed a research collaboration agreement with the Japan Nuclear Fuel Cycle Development Institute (JNC).

Technological innovation is fundamental to the Group's long-term growth, and to achieving competitive advantage. It is also vital for ensuring that we reduce past and future liabilities.



University of Manchester student Andrew Gaunt with his lecturer Dr Ian May in the R&T facilities at Springfields



Focus

'Safety in Motion' is a training course for employees looking at methods of working that are designed to reduce soft tissue injuries. It is currently being used at the Westinghouse Western Zirconium site in Ogden, Utah. The course has very close ties to the Behavioural Safety Process and is taught in easy to follow modules that help increase the level of knowledge of the attendees. The four modules covered are leverage, line of strength and balance, gripping mystery and controlling curves.

The true value of 'Safety in Motion' is its practical approach to a difficult subject. Much of what is learned can be applied at work, at home or while playing. Everyone who attends the training will find something they can apply to some aspect of their life.

Highlights for 2000-2001

- We redefined our safety function and established Board and Executive Committees to focus on EH&S performance and improvement.
- Our conventional safety record continued to improve, with the rate of workplace injuries being reduced significantly.
- Our excellent conventional safety performance was recognised through a company record number of RoSPA awards.

Environment, health and safety

Excellence in environment, health and safety (EH&S) performance is integral to the commercial success of our business, and is not in conflict with it.

A full review of our vision and principles, and our EH&S measurement and performance, can be found in the Environment, Health and Safety Report 2000-2001.

EH&S management

Reviewing and developing our approach to EH&S management has been a key focus during the year. We strengthened this function with the recruitment of ten internal, independent inspectors whose role is to scrutinise operational EH&S performance. We have established Board and Executive Committees to focus on EH&S performance and improvement.

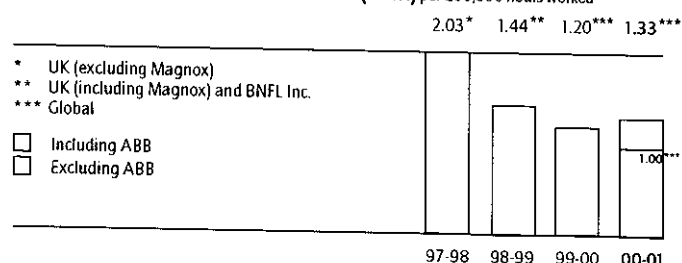
Environmental performance

We are pleased to report that all our UK operating sites are now certified to the ISO14001 standard, awarded by certifying body Lloyd's Register Quality Assurance Limited.

In the UK, radioactive discharges to the environment from our operating sites remained within authorised limits. However, we did not comply with some of the technical conditions of our environmental licences. We are disappointed that our performance in this area has not improved since last year.

We are delighted to report that we made significant progress in reducing the number of injuries in the workplace.

OSHA Total Recordable Incidence Rate (TRIR) per 200,000 hours worked



In the UK, we set a target to reduce the number of times we did not comply with authorisations to no more than 13. We had 27, though none of these had a significant impact on the environment. Seven of the events involved the inadvertent release of chemical substances at levels above the discharge limits. We will be making improvements in this area, and sharing best practice across our operational sites will be a key management priority in the coming year.

Last year we reported on the progress made – through the OSPAR Convention – towards achieving reductions in the radioactive substances released into the marine environment. This programme of work is ongoing, and we remain committed to ensuring that our operations meet the OSPAR requirements by 2020.

Safety performance

We are delighted that our commitment to safety was acknowledged during the year when in the UK, we received a company record 36 RoSPA awards and in the US, we achieved 'star status' under the OSHA 'Voluntary Protection Program' at two sites.

A further success was a continued reduction in the number of workplace injuries. We use the American OSHA (Occupational Safety and Health Administration) Total Recordable Incidence Rate (TRIR) to measure one aspect of our performance. This year we achieved a TRIR of 1.00 per 200,000 hours worked compared with 1.20 last year. Even though it was disappointing that we did

not hit our target of 0.91, we have decreased the number of recordable injuries by 17%.

We also saw a further reduction in the UK RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) Reportable Injury Rate from 0.16 to 0.14 per 100,000 hours worked.

Turning to radiological safety, we have continued to reduce the amounts of radiation our employees receive. In addition, we have further reduced the number of employees who exceeded 10 mSv in the UK, with none of our UK employees exceeding 15 mSv for the third consecutive year.

Health care

We recognise the importance of keeping pace with the increasing demands of the modern working environment. In line with many industries, we introduced a revised policy for random drug and alcohol testing in the UK – and supported it with an extensive employee education and awareness campaign.

We also introduced 'return to work' procedures, which involve individual interviews with managers following a period of sickness absence. These procedures provide a framework for managing sickness and for supporting the needs of our employees. The reduction in employee sickness absence during the year was partly due to the new procedures, but also a heightened level of management focus.

Highlights for 2000-2001

- We contributed nearly £3 million to economic regeneration initiatives in West Cumbria.
- Employee involvement in community activities ranged from a 'Day of Caring' project in Pittsburgh, USA, to a challenge for over 100 graduates to clean up an area of Warrington in the UK.
- Support for education, particularly the teaching of science, technology and engineering, remained high on our agenda.
- We continued to support organisations tackling difficult issues such as drug and alcohol abuse, homelessness, youth crime and unemployment.

BNFL in the community

BNFL is committed to contributing positively to the communities in which we operate. Our ongoing programme of community investment and involvement covers economic regeneration, education, academia, charitable giving and sponsorship.

Supporting education

Over the years, BNFL has developed a strong programme of educational support for the teaching of science and technology at primary and secondary levels.

We have continued to concentrate on education, providing subsidised science and maths curriculum resources to schools across the UK. These include a suite of nine CD-ROMs covering areas such as the A-level chemistry syllabus, maths for 7-11 year olds and GCSE physics.

We also encourage our young engineers to run 'engineering clubs' in the community. As well as benefiting local people, this activity helps our young engineers develop leadership, communication and organisational skills. In addition, we endeavour to support schools through mentoring schemes.

In the USA, the Westinghouse Science Honours Institute is a free programme for High School students in Western Pennsylvania. During 13 Saturday morning lectures, Westinghouse scientists and qualified members of the academic community discuss topical

We encourage our employees to become active members of their local communities. During the year, we launched the Community Services Award, which recognises employees who contribute outstanding personal services to their communities.



areas of mathematics and science with students interested in these disciplines. Approximately 300 students are accepted onto the programme annually, and to date nearly 11,000 students have attended, many of them going on to pursue successful careers in science and engineering.

Cultural educational support remains high on the agenda. For example, BNFL is a founding benefactor of Japan 2001, an event aimed at encouraging cultural exchanges between the UK and Japan. It was launched in May in London's Hyde Park, then toured other parts of the UK in the following weeks.

Community involvement

Vibrant and healthy communities are good for our people and our business. BNFL is committed to working in partnership with our communities to achieve this aim.

During the year, we were active in all our local communities. We committed over £7 million to supporting the West Cumbria Development Fund for a further five years. This commitment includes working with and supporting the Westlakes Science Park which houses 27 companies and employs 550 people. We also supported the development of a science-based postgraduate college within Westlakes, committing a further £3.5 million over the next five years to see the project through to self-sustainability.

Other community initiatives in the UK included the CADAS (Cumbria Alcohol and Drug Advisory Service) Peer Counselling Project, offering young people the opportunity to be trained as counsellors through a combination of teaching, work experience and supervised counselling practice. This training helps them build relationships with people who have addiction problems.

BNFL Enterprise continued to focus on helping start-up technology-based companies – and some of our employees – to launch their own businesses.

In the USA, we continued to help local communities through a programme of initiatives, such as the 'Day of Caring' and the 'Home Safe Home' project. The 'Day of Caring' involved more than 100 volunteers in the Pittsburgh area who went to local community centres, food banks and social security agencies to help paint and renovate the facilities. The 'Home Safe Home' project – where our volunteers visited the homes of senior citizens to conduct home safety checks – was a success once again.

We also launched the Community Services Award, supporting our commitment to making the communities around our sites better places to live and work. The award recognises employees who contribute outstanding personal services to their communities. Winners in the UK and the USA are granted cash donations to present to their nominated charities.



➤ Focus

This year's UK community award winner is Steve Hill, who runs a youth club for 350 boys and girls in Bolton.

Steve is running a project to provide new facilities for the club which include a sports field, purpose-built changing rooms and a youth centre.

In the US, Tim Andreycheck is winner of the award for his service to the youth community. Tim has been a volunteer leader with the Boy Scouts of America for the past 16 years.



Our people

We must acknowledge that in order to realise our business goals we need to have the right people with the right leadership to run an international science and engineering-based business for the future and to make sure they are properly paid, trained and motivated. We are a knowledge-based business and in BNFL, the UK has a significant resource of these technical, scientific and engineering skills.

Getting the right people

We have been raising our standards of professional capability and implementing competitive remuneration practices and working arrangements. We are continuing to identify the large number of BNFL employees who have the appropriate skills and are introducing new leaders, manufacturing managers and specialists with vital private sector commercial experience through an extensive recruitment campaign. In total, Sellafield recruited 400 new employees, including 50 graduates.

Focus

Individual training and development needs are identified through a performance management process, and are based upon behavioural and technical competences required to satisfy both the needs of the individual and the business.

The assets of our business lie in our people. We are committed to their continuing development through an extensive range of learning opportunities.

Raising performance

We are committed to the long-term continuing development of our people through an extensive range of learning opportunities to enhance their technical and professional capabilities. This year we established competency-based performance assessment and pay progression arrangements to both improve performance and reward achievement. We made major strides within Sellafield in re-accrediting employees and implementing new compliance requirements with over 10,000 employees receiving retraining. At Westinghouse, we made great progress in successfully integrating ABB and we are starting to benefit from the interchange of managers between Westinghouse, BNFL Inc. and the UK businesses. Finally, in recognition of our efforts during the year, we were pleased to receive public acclaim from the DTI, with the Springfields site recognised as a benchmark for successful workplace partnership.

Our priorities now

We need to further develop our people management strategy, but the foundations are now firmly in place to build upon the knowledge and technical expertise that already exists within the company. Our priorities are to continue raising the standard of our leadership teams, to continue to enhance performance standards of all employees and to continue to make BNFL a great company to work for.

In summary

We must not lose sight of the fact that, despite the progress we have made, our future rests on real change – on rebuilding the company – and gaining recognition for the change.

- We have achieved full regulatory endorsement of two out of three HSE reports
- We have reshaped our management structure
- We have gained new business
- We have made real progress in changing behaviours and the culture of the organisation

BNFL has an important strategic role to play in the world energy market and we are determined to turn the business around as swiftly as possible. A good start has been made.

We remain committed to raising our game and delivering on our promises – to our customers, the regulator and all our stakeholders. It is vital the changes we make throughout the company become permanent. It is clear to me that we have made great progress towards the transformation of the company and I am determined that this will continue uninterrupted. Quite simply, the new behaviours and processes must become the way we do business around here. BNFL is a national asset and I would like this fact to gain increasing recognition.



Norman Askew Chief Executive

Financial review

This has been a tough year financially, but progress has been demonstrated in several key areas. Poor operational performance at Magnox and in the Sellafield waste management plants was disappointing. However, Westinghouse improved profitability and this will continue following the acquisition of ABB's nuclear businesses. The clean-up business in the USA was further stabilised and in the UK reached good levels of performance.

Financial performance

Group turnover has increased slightly to £2,146 million from £2,064 million last year. £283 million of this increase was directly attributable to the acquisition of ABB's nuclear businesses. This was partially offset by a reduction in Magnox Generation (£196 million) and Spent Fuel and Engineering (£50 million) as a direct consequence of disappointing operational performance. There was a small underlying increase in Fuel Manufacture and Reactor Services turnover (£35 million) and a minor (£10 million) increase in relation to global Nuclear Decommissioning and Clean-up activities.

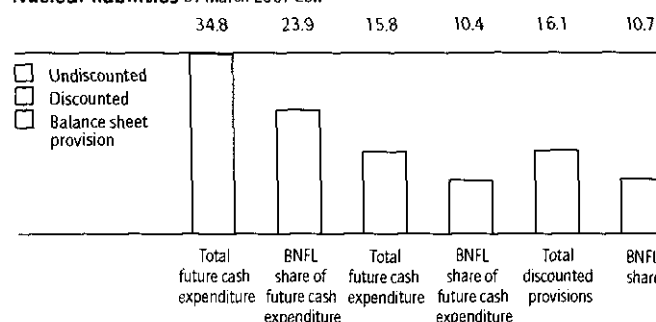
The poor operational performance of Magnox Generation and Spent Fuel and Engineering Business Groups has dominated the results this year, the Group incurring an underlying operating loss of £298 million (£65 million profit 1999-2000). The integration of ABB into Westinghouse is progressing well but the newly acquired nuclear business is not yet providing a contribution to profit.

Revisions to previous years' nuclear liabilities were very significant in 1999-2000 as major reassessments were undertaken. This year however the gross liabilities are relatively unchanged.

The disappointing decline in underlying operating profit has been offset by an £11 million improvement in contribution from joint ventures and associates and a £15 million improvement in overall financing returns. The net result being a loss of £210 million before taxation and exceptional items. Exceptional items provided



Nuclear liabilities 31 March 2001 £bn



John Edwards Group Finance Director

a net gain of £144 million, which is explained fully below, and resulted in an overall loss before tax of £66 million. A tax credit of £20 million reduced the retained loss after tax to £46 million.

As last year, segmental performance by business group was mixed. The results and assets of each business group are covered in detail in the segmental information included in note 2 to these accounts.

Following the acquisition this year of the nuclear businesses of ABB, turnover within **Fuel Manufacturing and Reactor Services Business Group** increased from £730 million last year to £1,048 million in 2000-2001. Profit before taxation and exceptional items rose from £6 million to £52 million but, as mentioned earlier, ABB did not contribute to this increase.

Despite a good level of sustained output from a number of the smaller stations, most notably Oldbury and Sizewell A, the financial performance of the **Magnox Generation Business Group** was again disappointing. This position was dominated by the fact that the largest station, Wylfa, was off-line for a major proportion of the year, not generating any income but continuing to incur a significant level of unavoidable costs. Turnover at £372 million, was significantly down (£568 million in 1999-2000) and a loss before taxation and exceptional items of £199 million was incurred.

Spent Fuel and Engineering Business Group produced a poor financial performance in comparison to the previous year. The main drivers were low throughputs in Thorp as a result of problems in its associated waste management facilities and the Magnox reprocessing plant. This was due to significant operational difficulties that kept both facilities out of action during most of the second half of 2000-2001. Turnover at £549 million was £50 million down on prior year and a profit before taxation and exceptional items of £3 million was achieved.

Turnover within the **Nuclear Decommissioning and Clean-up Business Group** increased marginally to £177 million, (from £167 million), but a loss before taxation and exceptional items

of £66 million was incurred compared with a loss of £89 million in the previous year. We have continued to stabilise and refocus operations in the US with further provisions for exceptional items made this year. These one off charges have, however, been offset by significant exceptional gains.

Exceptional items

Total exceptional gains amounted to £144 million before tax, these are set out in detail in note 3 to the accounts, and comprise three major elements:

1. A £216 million gain resulting from an agreement with the MoD relating to loans made by BNFL to Nirex in respect of the MoD's share of wastes arising on BNFL sites to be consigned to the Nirex repository. As the operational date of the Nirex repository has now slipped by a number of years, the MoD has agreed to reimburse BNFL for these loans and associated costs up to 31 March 2001. It was BNFL's policy to fully provide for these loans in the year they were made.
2. A £51 million provision for foreseeable losses relating to the US nuclear decommissioning and clean-up operations at BFs California and MSC in Tennessee. These are a consequence of the ongoing rationalisation and refocusing of activities in the US clean-up market.
3. A £40 million loss associated with the cost of fundamentally reorganising and rationalising the newly acquired ABB nuclear business in order to integrate it into the existing Fuel Manufacture and Reactor Services Business Group.

Segmental analysis

The segmental analysis of business group profitability included under note 2 to the financial statements has been prepared on a statutory basis that involves the allocation of company overheads, Group financial charges and other central adjustments. Whilst compliant with the appropriate accounting standard, it somewhat

	Fuel Manufacturing and Reactor Services		Magnox Generation		Spent Fuel and Engineering		Nuclear Decommissioning and Clean-up	
	2000-2001 £m	1999-2000 £m	2000-2001 £m	1999-2000 £m	2000-2001 £m	1999-2000 £m	2000-2001 £m	1999-2000 £m
Contribution from operations profit/(loss)	93	72	(161)	(6)	40	163	(13)	14
Allocated central costs, financing gains and charges, revisions to prior years' provisions and central consolidation adjustments	(41)	(66)	(38)	(103)	(37)	103	(53)	(103)
Operating profit before exceptional items	52	6	(199)	(109)	3	266	(66)	(89)
Exceptional items (change)/gain	(36)	3	8	(142)	6	(116)	166	(156)
Profit/(loss) per segmental analysis before tax	16	9	(191)	(251)	9	150	100	(245)

masks the underlying business performance, particularly in terms of operational contribution to Group profitability. The table on page 31 therefore seeks to further clarify the respective contributions each business group has made to the overall Group results for the financial years 2000 and 2001.

The improvement in the fuel business broadly reflects the positive impact of favourable settlement of contractual claims provided for in previous financial years. The movement in contribution from operations in Magnox Generation and Spent Fuel and Engineering Business Groups between the years, broadly reflects the lower levels of activity in terms of generation outputs and reprocessing throughputs respectively. The decline in Magnox turnover, which predominantly arises due to our biggest station, Wylfa, being out of action during 2000-2001, has to an extent been offset by a reduction in operating costs. The impact of the drop in Spent Fuel and Engineering turnover has been compounded by increased costs on the Sellafield site, particularly associated with the response to the February 2000 HSE Team Inspection Report and the continuing work in relation to commissioning of the Mox plant. The deterioration in the Nuclear Decommissioning and Clean-up Business Group essentially arises

as we continue to refocus and stabilise the US business and reassess our liabilities relating to the decommissioning of our Capenhurst diffusion plant in the UK, resulting in a charge to operating profit of £40 million.

The exceptional charges are of a one off nature. These are explained more fully in note 3 to the accounts. Spent Fuel and Engineering at Sellafield last year was dominated by the effect of charges in relation to the Mox data falsification issue. Within Magnox Generation and Nuclear Decommissioning and Clean-up Business Groups, the dominating factor was the impact of the re-assessment of the Group's long-term nuclear liabilities. This year the major exceptional items have been the integration of ABB's nuclear businesses into Westinghouse and the successful resolution of the MoD Nirex issue, which have been offset by charges related to the continuing rationalisation of US clean-up activities.

There is a significant fluctuation from year to year in relation to the revision of the 'non exceptional' element of the nuclear liabilities inherent in the 1999-2000 results. Last year this accounted for a charge of £117 million within Magnox Generation

➤ A guide to liabilities

The following guide to liabilities provides a breakdown of the key figures relating to BNFL's nuclear liabilities as they appear in the Group's consolidated accounts.

We estimate that cash expenditure of £34,755 million is required to meet BNFL's nuclear liabilities. As you will see in note 26 on page 71, these are split between decommissioning (£20,374 million), waste management (£12,021 million) and reprocessing (£2,360 million).

As most of the work will not be performed for some considerable time, we do not need to have all of the money available today. We put aside funds that are invested in secure investments to cover the cost of discharging the nuclear liabilities as they fall due. We estimate that we would need to have £15,846 million invested now (at an assumed real post tax rate of return of 2.5%) to cover the cost of future work.

BNFL is only financially responsible for discharging a proportion of the nuclear liabilities. The balance is the responsibility of customers such as the UKAEA and the Ministry of Defence. Of the £34,755 million, BNFL is responsible for £23,915 million while customers are responsible for £10,840 million. Of the discounted figure of £15,846 million, BNFL is responsible for £10,437 million.

Note 26 details the total future cash expenditure, on both an undiscounted and a discounted basis. It also details how much BNFL has provided for on the balance sheet.

The balance sheet

The nuclear provisions in the accounts (£16,106 million) do not directly equate to the total nuclear discounted future cash liabilities. This is because provisions include an amount (£1,917 million) to cover the depreciation on assets already acquired and paid for. Such costs are not included within the future cash expenditure as they have already been incurred. Also, the nuclear provisions only include the proportion of liabilities that result from operating activities to date, whilst the nuclear liabilities relate to all future cash expenditure. The nuclear liabilities relating to future operations will be provided for against those operations (e.g. in line with the usage of nuclear fuel).

and a credit to profit of £140 million within the Spent Fuel and Engineering Business Group. This has not been repeated this year as our liabilities have essentially remained at the same levels.

Acquisition of the Nuclear Services Business of ABB

On 28 April 2000, the Group completed the purchase of ABB's commercial nuclear power business for US \$456 million (£291 million). The acquisition of ABB's nuclear businesses in the USA, Sweden, Germany and France further strengthens BNFL's 'front-end' expertise, complements its strategy to become a leading global nuclear company. ABB's manufacturing plant in Hematite Missouri is being closed and production transferred to the Columbia site in South Carolina. Other parts of the company are also being rationalised in order to ensure we gain the maximum benefit from this acquisition.

The book value of the net assets of ABB are £26 million with purchased goodwill calculated after acquisition accounting adjustments, amounting to £421 million. This will be amortised over the next 20 years. The ABB entities since acquisition have contributed £283 million to turnover and made an operating loss of £10 million. This loss is primarily the result of costs which

will be eliminated during the rationalisation and consolidation of product lines and facilities.

Investment income, interest and taxation

Investment income and interest payable and similar charges can be summarised as follows:

	31 March 2001 £m	31 March 2000 £m
Investment income	572	531
Interest payable and similar charges	(535)	(509)
	37	22

These figures are further analysed in notes 6 and 7 to the accounts. As last year, investment income is stated after reclassifying financing income from long-term advance payments into the turnover of the Spent Fuel and Engineering Business Group. Within the balances, the returns from the Nuclear Liabilities Investment Portfolio and Secretary of State's undertaking, which amount to £513 million, is set off against a £508 million charge (within interest payable). This covers the revalorisation of nuclear liabilities which arises from changes in

As with nuclear liabilities, the nuclear provisions are split between BNFL (£10,714 million) and customers (£5,392 million).

Amounts recoverable from customers

The amounts recoverable from customers will be paid to BNFL in line with various commercial agreements. These recoverable assets are held on the balance sheet in either fixed assets (£1,822 million) or debtors (£3,570 million) depending on their nature. Further details can be found in note 15 on page 65.

How we fund our liabilities

BNFL has set aside £8,538 million to cover our proportion (£9,756 million) of the future cash expenditure associated with our nuclear provisions. This is equivalent to 88% of the total amount. These funds comprise the nuclear liabilities investment portfolio (market value – £4,007 million) and the Secretary of State's undertaking (£4,531 million).

The nuclear liabilities investment portfolio is disclosed on the balance sheet as a fixed asset and valued at cost. Further details on these investments are set out in notes 12 and 30 of the accounts.

The Secretary of State's undertaking is included within current assets. Under the agreement the Government will pay the Group, between 2008 and 2116, a sum equivalent to £4,531 million at the year-end. The undertaking will grow at a rate of 4.5% above inflation.

Profit and loss

Movements in nuclear provisions fall into four main categories: revalorisation which reflects changes in price levels and the reversal of one year's discounting (£708 million); revision of the previous years' nuclear liability estimates (£135 million); increases due to the creation of further nuclear liabilities in the year (£151 million); and work done to physically discharge nuclear provisions (£462 million).

These movements are charged against the various categories as set out in note 26 on pages 69 to 71.

Note 1, pages 48 and 49, contains details of the accounting policies for liabilities.

price levels and unwinding of one year's discounting. This is explained further in the background on nuclear liabilities on page 37.

The company has assumed that in order to generate the funds required to meet the cost of future liabilities, it will require an average rate of return of 2.5% on its investment portfolio. This rate is net of tax and inflation and reflects an estimated risk-free rate of long-term investment return, such as that received with Government bonds and other similar secure investments. Within the current market conditions, the long-term sustainability of this rate has become increasingly uncertain, especially within the constraints of the current investment strategy. Over the next year, the Board will be reviewing alternative investment policies to secure the required long-term growth rate.

The tax credit for this year is in line with a standard 30% rate of UK tax with timing differences offsetting differing overseas tax rates.

Balance sheet

This year we have effected a presentational change to the Group balance sheet. We have adopted best practice, by choosing to draw up our balance sheet in a more conventional manner at the net asset level.

The net worth of the company has fallen by £59 million during the year, to £251 million (2000: £310 million), the movement being due to the £46 million retained loss for the year coupled with a £13 million reserve movement for adverse exchange differences on net investments. Total nuclear provisions on the balance sheet amount to £16,106 million (2000: £15,786 million) of which £10,714 million (2000: £10,400 million) is the responsibility of BNFL. Given this fragile relationship of liabilities to net worth, the continuing scrutiny of nuclear liabilities and all other aspects of the balance sheet will be a fundamental feature of the management of the business going forward. Some degree of balance sheet restructuring may need to be considered in the future.

Fixed and current assets

The increase in intangible assets is in relation to goodwill arising on the acquisition of the ABB nuclear business as explained on page 33. Tangible fixed assets showed an increase to £7,196 million from £6,812 million, due mainly to a high-level of capital investment relative to depreciation, coupled with an increase in the capitalised value of future decommissioning liabilities required under FRS12.

Fixed assets included the Sellafield Mox Plant which can only undergo active plutonium commissioning once the current round of public consultation has been completed and approval has been given by the Department for the Environment, Food and Rural Affairs. This facility has been included in the accounts at a current carrying value of £473 million which, from the results of a recent economic review, continues to be a supportable valuation.

Work in progress of £154 million on US clean-up contracts is included in the £456 million stock figure on the balance sheet.

Treasury

The Group continues to have significant liquid resources and based on current forecasts and business plans is well positioned to cover all its liabilities as they fall due for the foreseeable future and for a period of at least 10 years. The financial resources of the Group at 31 March 2001 are as follows:

	£m
Nuclear Liabilities Investment Portfolio (at cost)	3,815
Investments and short-term deposits	2,084
Cash at bank and in hand	77
	5,976
Secretary of State's undertaking	4,531
	10,507

The Group performance this year, in terms of cash flow, reflects the acquisition of the ABB nuclear business (£291 million) and lost income arising from lower electricity sales as a result of Magnox's poor operational performance. This has to an extent been offset by a small reduction in capital expenditure over the previous year (£398 million compared with £477 million). Most of the Group's capital expenditure continues to be related to waste treatment and other environmental projects, mainly at Sellafield.

The Fuel Manufacture and Reactor Services Business Group remains self-financing. However BNFL Inc., part of our Nuclear Decommissioning and Clean-up Business Group, continues to be funded from the UK. During this year we received £141 million from the DoE as an interim payment of costs incurred on the Hanford project (terminated in June 2000) which has clearly helped our cash flow. Sellafield commercial activities are self-financing, although discharge work in relation to legacy liabilities and Magnox operations are funded from within UK reserves.

The Group remains relatively debt-free with total loans of £38 million, principally relating to the funding of the US operations of the Fuel Manufacture and Reactor Services Business Group.

Creditors, provisions and nuclear liabilities

A full analysis of the Group's nuclear liabilities is set out in note 26. The Group reports its liabilities in accordance with Financial Reporting Standard 12. Because of the very long-term nature of our liabilities, coupled with the fact that a very significant element of these are recoverable from our customers, this aspect of our balance sheet is quite complex. The chart on page 30, together with the additional explanation on pages 36 and 37 should further clarify this important area of our balance sheet.

Nuclear liabilities

The estimate of total future cash expenditure remains broadly in line with last year after allowing for revaluing to 31 March 2001

money values and accounting for work undertaken in the year against the liabilities programme.

The Group's share of discounted future cash expenditure and the amount provided on the Group's balance sheet are different due to the fact that a proportion of the liability has not yet been recognised as it will be taken to the accounts in line with future operations. An element of non-cash costs exists in the provisions balance and relates to the remaining depreciation, on capital assets already acquired and paid for, which will be charged against provisions over the remaining useful life of those assets.

As explained in note 26, the Group has significant financial resources earmarked against these liabilities, these presently represent 88% of the future discounted cash expenditure.

In summary, this has been a tough year but progress has been demonstrated in several key areas. However, much further work is required before the company is financially fit for a Public Private Partnership.



John Edwards Group Finance Director

Background on nuclear liabilities

The long timescales involved in our liabilities make them unique to the nuclear industry. The ultimate status of sites and destination of nuclear waste is subject to Government policy and hence there is a large element of risk involved in the numbers. They are complex and their calculation is full of uncertainty.

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

Background

A significant amount of the company's plant and equipment was already in existence when BNFL was formed in 1971 to take over assets and activities previously carried out by the UK Atomic Energy Authority (UKAEA). Those activities stemmed from a military programme during the cold war, and the priority when the plants were built was to get them operational and effective as quickly as possible. When these plants were designed, limited thought was given to their ultimate decommissioning and demolition and as a result the costs of so doing are now very considerable.

The challenge of estimating future costs

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

The ultimate status of sites

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

Inherent uncertainty

The company has made its estimates for many years by making assumptions about the likely safety and environmental requirements based on the best information available today. The process takes into account known and foreseeable developments

in technology. This is then used as the basis for estimating the costs, which itself involves making judgements not only about the likely duration of the individual tasks, the equipment required and the implications for costs, but also the likely range of possible variations around the judgements selected as the base, or working assumption.

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

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

Timescales

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

Therefore, for both safety and cost reasons, decommissioning plans aim to achieve the best balance between:

- i) deferring dismantling tasks to allow radioactivity to fall, whilst
- ii) ensuring that the expected state of buildings and structures is not itself the cause of increased risk and complexity.

The timescale ultimately assumed, also has a profound effect on the estimate of the financial provisions required today for accounting purposes, in respect of the estimate of future decommissioning and waste management costs. This is because changes in the assumed timescale could increase (or possibly reduce) such costs significantly. Balancing all of these issues, the working assumption made by the company for providing for the costs associated with decommissioning reactors, is that they will not finally be dismantled until nearly 100 years have passed.

Destination of nuclear waste

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

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

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

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

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

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

Until 2000, we had based our calculations of waste disposal costs on updating estimates produced by Nirex some years ago for the costs of using an underground facility. With the passage of time, and the continuing absence of any proposed location for an underground disposal site, the Board of BNFL has reassessed the reasonableness of continuing with the assumption that such a disposal facility will be built in the short or medium-term future.

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

Uranium and plutonium

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

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

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

Discounting

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

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

Report of the Directors

For the year ended 31 March 2001

1 The directors of British Nuclear Fuels plc present to the shareholders their thirtieth Annual Report together with the audited accounts for the year ended 31 March 2001.

Review of the year

2 Group results

The Group loss for the year, after taxation and minority interests, amounted to £46 million (2000: loss of £262 million). Further information on the Group's results is contained in the Financial review on pages 30 to 35.

3 Dividend

As a consequence of the financial result for the year, no dividend is proposed (2000: nil).

4 Activities

The main activities of the Group comprise:

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

Information on the activities and developments of the business of the Group during the year is contained in the Chairman's statement, Chief Executive's review of operations, Financial review and Business reviews appearing on pages 4 to 35.

5 Research and development

The Group has a significant research and development programme. During the year costs charged against profits were £55 million (2000: £45 million). In addition, £37 million (2000: £51 million) incurred was charged to customers.

6 Personnel

The average number of persons employed by the Group during the year was 22,288 (2000: 19,408). At 31 March 2001 the total number of persons employed by the Group was 22,556 (2000: 19,548). Further information is given in note 4 within the Accounts on page 56.

The company attaches great 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 practical, provision is made for their special needs. The same criteria for training and promotion apply to persons with disabilities as to any other employee. If employees become disabled, every effort is made to ensure their continued employment.

7 The Board of Directors

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

Chairman and Executive Directors:

Mr H R Collum (Chairman)

Mr N Askew (Chief Executive)

Mr J Edwards – appointed 1 July 2000

Mr C Loughlin

Mr D Bonser

Mr R A N Chiese – resigned 26 July 2000

Non-Executive Directors:

Mr G A Campbell – appointed 1 August 2000

Mr B V George – appointed 12 March 2001

Mr W Lowther – appointed 1 August 2000

Dr E G de Planque – appointed 23 November 2000

Mr R A Stone – appointed 1 January 2001

Sir N L Wicks – appointed 23 November 2000 and resigned 28 February 2001

Mr D J S Roques – resigned 31 December 2000

Miss K M H Mortimer – resigned 31 December 2000

Prof A G J MacFarlane – resigned 31 July 2000

Mr J D Rimington – resigned 30 July 2000

Mr G R Smith – resigned 31 August 2000

Sir John Boyd – resigned 27 April 2000

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

References made to the Shareholder throughout this report are that of the Secretary of State for Trade and Industry.

8 Directors' shareholdings and interests

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

9 Contributions for political or charitable purposes

No contributions were made for political purposes. Charitable contributions during the year amounted to £4.1 million (2000: £4.8 million). These contributions include £2.9 million (2000: £3.9 million) to support West Cumbrian economic regeneration initiatives.

10 Policy on the payment of suppliers

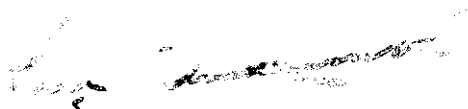
The company has continued its commitment to the Prompt Payment Initiative with rigorous monitoring of payment performance. The company has two main payment terms, net monthly and 35 days. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. After taking account of genuine queries some 84% of invoices submitted against these terms were paid on time which is a significant improvement over the previous year (2000: 75%). The average age of invoices outstanding at 31 March 2001 was 27 days (2000: 31 days).

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

11 Auditors

A resolution to reappoint the auditors, Ernst & Young, as the company's auditor will be put to the forthcoming Annual General Meeting. Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be called Ernst & Young LLP. If this happens, it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By order of the Board



A J Shuttleworth
Secretary
27 June 2001

Corporate Governance

Statement of compliance

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

The Board

As part of the restructuring of the Board announced last year, the Board comprises a Chairman, four Executive Directors including a Chief Executive and five Non-Executive Directors. During the current financial year all the Non-Executive Directors as at 31 March 2000 resigned from office and new Non-Executive Directors were appointed. 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. The Non-Executive Directors bring a wide range of experience to the Board and participate in decisions on key issues facing the Group.

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

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

The Board has established three committees, the Remuneration Committee, the Audit Committee and the Environment, Health and Safety Committee. Each Board committee membership consists solely of Non-Executive Directors. The Company Secretary is secretary of each committee.

Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the remuneration of Executive Directors, and the conditions of service to be applied. The Chairman, Chief Executive and Human Resources Director attend meetings of the Committee, as appropriate, but are not present when their remuneration is discussed. The decisions on directors and remuneration are made by the Shareholder. The Remuneration Committee is chaired by Mr G A Campbell. Other members of the Committee during the year were Sir John Boyd (resigned), Mr J D Rimington (resigned) and Sir Nigel Wicks (resigned).

Audit Committee

The members of the Audit Committee during the year were Mr D J S Roques (resigned), Miss K M H Mortimer (resigned), Mr R A Stone (Chairman), Mr W Lowther and Mr B V George. The Chairman, Chief Executive, Group Finance Director, Group Financial Controller, Head of Internal Audit and External Auditors normally attend meetings of the Committee.

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

Environment, Health and Safety Committee

The Environment Health and Safety Committee was established during the financial year to seek assurance on the adequacy and implementation of the Group environment health and safety manual, the UK environment health and safety manual and the Group environment health and safety inspection, audit and monitoring programme. The Committee seeks assurances on the implementation and recommendations in independent inspection/audit reports, internal reports and presentations on specific initiatives within the Group and inspections undertaken by the regulatory bodies. Members of the Committee during the year were Sir Nigel Wicks (resigned), Mr B V George and Dr E G de Planque. The Chairman, Chief Executive, Director of Environment, Health, Safety and Quality and Director of Technology and Operations normally attend meetings of the Committee.

Internal control

The company has established procedures necessary to implement the guidance issued by the Internal Control working party of the Institute of Chartered Accountants in England and Wales published in September 1999 (the Turnbull committee report) and report in accordance with that guidance, although these procedures and reporting were not fully in place throughout the year.

The Board acknowledges it has overall responsibility for the Group's system of internal control and for reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. It should be noted that with regard to joint venture and associated undertakings the level of control exercised necessarily reflects the governance framework of each entity. The Board further acknowledges that any system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risk faced by the Group. Not all aspects of the process have been in place or embedded within the Group for the entirety of the year under review or up to the date of the approval of the annual report and accounts.

The process used by the Board to review the effectiveness of internal control includes the following:

- The Audit Committee bi-annually reviews the effectiveness of internal control within the Group and refers its findings to the Board.
- The Group operates a risk management process, which identifies the key risks facing the business. This process is based on each business group and function identifying their key risks, the probability of those risks occurring and their impact and actions being taken to manage those risks. This information is used to produce a profile of the significant risks facing the Group. A Significant Risk Report is produced on a quarterly basis and discussed at the Group's Executive Committee.
- At the year-end, before producing the statement in the Annual Report and Accounts, the Board asks each Executive to complete a Letter of Assurance confirming compliance with the Group's policies, procedures, and risk management processes. The outcome of these letters is reported to the Audit and Executive Committees and thereafter to the Board. The Board reviews the significant risks bi-annually and receives regular reports on any major problem that has occurred during the year and how the risks have changed over the period under review.
- The Board also receives regular reports on internal control from its Board Committees, business groups and individual risk management functions, such as treasury on any control failures or situations which came close to control failure, together with corrective actions planned or executed, in addition to other performance reports.

Areas of non-compliance with the Combined Code

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

- The Board acknowledges that the provisions of the Articles of Association do not currently require the Executive Directors to submit themselves for re-election at least every three years. However, two Executive Directors' service contracts provide for a notice period of one year and two for a notice period of six months, and notices can be given at any time. The Board is reviewing the requirements of the Combined Code and will ensure that compliance with all aspects relating to the appointment and re-election of directors will be achieved in good time for a potential Public Private Partnership (PPP).
- To date members of the Board have considered that the appointment of a senior Non-Executive Director would not enhance the manner in which they currently discharge their duties, as the Board is currently constituted.
- The Remuneration Committee makes recommendations on the remuneration of Executive Directors, which then need to be agreed by the shareholder.
- The company does not currently have any institutional investors and therefore the requirements of the Combined Code in this area are not relevant.
- The membership of each of the committees fluctuated during the year due to the changes in Non-Executive Directors over that period. Where membership of a committee fell below the required number, the Board, as an interim measure approved a procedure whereby a Non-Executive Director not a member of a committee, could attend a meeting of that committee and have full status as a member for the duration of the meeting.

- Historically there has been no nominations committee. It was intended to establish such a committee by the end of the last financial year, however, due to the changes in Non-Executive Directors over the period, the committee was not established. It is intended to establish a nominations committee by the end of the current financial year.

Going concern

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

Remuneration policy

The company has the need to motivate, recruit and retain high calibre staff. The remuneration policy for the Executive and Senior Management aims to achieve this. With respect to the Executive Directors, the recommendations of the Remuneration Committee take account of:

- market positioning in relation to size of job and responsibility;
- individual performance;
- impact of the 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. Each Non-Executive Director receives a flat fee of £20,000 per annum. In addition to the flat fee each Non-Executive Director receives an additional £5,000 per annum if they serve as chairman of a Board Committee or £2,500 per annum if appointed a member of a committee.

Corporate Governance

Directors' emoluments during the year were as follows:

	Basic salary and fees £	Annual bonus £	Benefits £	Compensation for loss of office £	Total remuneration		Pension contributions	
					2001 £	2000 £	2001 £	2000 £
Chairman								
H R Collum	150,000	–	20,080	–	170,080	77,281	–	–
Executive								
N Askew	350,000	75,250	7,654	–	432,904	18,455	32,130	–
J Edwards*	191,250	44,750	10,793	–	246,793	–	19,125	–
C Loughlin	185,400	38,000	13,262	–	236,662	102,279	–	–
D Bonser	185,400	38,000	13,591	–	236,991	102,584	–	–
Non-Executive								
W Lowther*	13,958	–	–	–	13,958	–	–	–
G A Campbell*	15,417	–	–	–	15,417	–	–	–
B V George*	1,507	–	–	–	1,507	–	–	–
E G de Planque*	7,662	–	–	–	7,662	–	–	–
R A Stone*	6,250	–	–	–	6,250	–	–	–
Former								
R A N Chiese*	71,070	10,874	10,308	277,000	369,252	235,463	6,900	21,321
G R Smith*	8,333	–	–	–	8,333	94,932	–	–
Sir John Guinness	–	–	–	–	–	82,682	–	–
J J Taylor	–	–	–	–	–	571,556	–	24,706
L N Chamberlain	–	–	–	–	–	136,590	–	–
G L Watts	–	–	–	–	–	289,044	–	–
N L Wicks*	6,667	–	–	–	6,667	–	–	–
D J S Roques*	16,250	–	–	–	16,250	15,435	–	–
K M H Mortimer*	15,625	–	–	–	15,625	15,000	–	–
A G J MacFarlane*	6,667	–	–	–	6,667	16,000	–	–
Sir John Boyd	–	–	–	–	–	15,500	–	–
J D Rimington*	6,667	–	–	–	6,667	15,000	–	–
Total 2001	1,238,123	206,874	75,688	277,000	1,797,685		58,155	
Total 2000	1,043,357	24,546	145,679	574,219		1,787,801		46,027

* Emoluments for J Edwards, W Lowther, G A Campbell, B V George, E G de Planque, R A Stone, R A N Chiese, G R Smith, N L Wicks, D J S Roques, K M H Mortimer, A G J MacFarlane and J D Rimington represent payments for the part of the year during which they held office only, as indicated in note 7 of the directors' report.

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. 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 J J Taylor, R A N Chiese, N Askew and J Edwards were made to their personal defined contribution pension schemes. Mr D Bonser and Mr C Loughlin are active members of the Combined Pension Scheme of the UKAEA. No employer contributions have been made to this scheme during the year. Details of these directors' pension benefits as well as former directors are as follows:

	Accrued pension benefits		Increase after inflation £	Accumulated lump sum		Increase after inflation £	Transfer value of increases £
	2001 £	2000 £		2001 £	2000 £		
D Bonser	75,493	71,051	2,105	226,479	213,152	6,315	61,736
C Loughlin	43,218	39,701	2,228	129,654	119,104	6,684	42,000
Sir John Guinness	–	11,413	–	–	34,240	–	–
L N Chamberlain	–	84,977	–	–	254,930	–	–
G R Smith	–	75,567	–	–	225,396	–	–
	118,711	282,709	4,333	356,133	846,822	12,999	103,736

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 44 to 83 which have been prepared under the historical cost convention as modified to include the market value of certain current asset investments and on the basis of the accounting policies set out on page 48 to 50.

Respective responsibilities of Directors and Auditors

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the annual report, including the Corporate Governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Uncertainties

In forming our opinion we have taken note of the fundamental uncertainties inherent in the estimation of nuclear liabilities which are described in note 26 and the significant assumption relating to the Sellafield Mox Plant that commissioning will be approved as described in note 11. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 March 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London
27 June 2001

Consolidated profit and loss account

For the year ended 31 March

	Note	2001			2000		
		Total £m	Exceptional items (note 3) £m	Operations before exceptional items £m	Total £m	Exceptional items (note 3) £m	Operations before exceptional items £m
Turnover – ongoing operations		2,008	–	2,008	2,219	–	2,219
– acquisitions		283	–	283	–	–	–
Turnover from continuing operations		2,291	–	2,291	2,219	–	2,219
Less: share attributable to joint ventures		(145)	–	(145)	(155)	–	(155)
	2	2,146	–	2,146	2,064	–	2,064
Operating costs and expenses before revision of previous years' nuclear liabilities	3	(2,289)	155	(2,444)	(2,306)	(307)	(1,999)
Operating (loss)/profit from continuing operations before revision of previous years' nuclear liabilities		(143)	155	(298)	(242)	(307)	65
Revision of previous years' nuclear liabilities	3	8	–	8	(170)	(125)	(45)
Operating (loss)/profit – ongoing operations		(125)	155	(280)	(412)	(432)	20
– acquisitions		(10)	–	(10)	–	–	–
Operating (loss)/profit from continuing operations		(135)	155	(290)	(412)	(432)	20
Operating profit – joint ventures		9	–	9	7	–	7
– associates		34	–	34	25	–	25
Profit/(loss) on disposal of subsidiaries		3	3	–	(2)	(2)	–
Costs of reorganisation following acquisition	3	(40)	(40)	–	–	–	–
Profit on sale of fixed assets	5	26	26	–	23	23	–
(Loss)/profit before investment income, interest and taxation		(103)	144	(247)	(359)	(411)	52
Investment income	6	572	–	572	531	–	531
Interest payable and similar charges	7	(535)	–	(535)	(509)	–	(509)
(Loss)/profit on ordinary activities before taxation		(66)	144	(210)	(337)	(411)	74
Tax on (loss)/profit on ordinary activities	8	20	(35)	55	76	103	(27)
(Loss)/profit on ordinary activities after taxation		(46)	109	(155)	(261)	(308)	47
Profit attributable to minority equity interests		–	–	–	(1)	–	–
(Loss) for the financial year		(46)	–	–	(262)	–	–
Dividends	9	–	–	–	–	–	–
Retained (loss)/profit for the year		(46)	–	–	(262)	–	–

Statement of total recognised gains and losses

For the year ended 31 March

	2001 £m	2000 £m
(Loss) for the financial year	(46)	(262)
Currency translation differences on foreign currency net investments	(13)	(4)
Total recognised gains and losses relating to the year	(59)	(266)
Prior year adjustments	–	(64)
Total gains and losses recognised since last annual report	(59)	(330)

Consolidated balance sheet

As at 31 March

	Note	2001		2000	
		£m	£m	£m	£m
Fixed assets:					
Intangible assets	10		925		462
Tangible assets	11		7,196		6,812
Investments:					
Joint ventures:					
Share of gross assets		783		786	
Share of gross liabilities		(717)		(718)	
Loans and advances		42		45	
		108		113	
Associates		120		117	
Nuclear liabilities investment portfolio		3,815		3,887	
Other		4		16	
	12		4,047		4,133
			12,168		11,407
Current assets:					
Stocks	13	456		419	
Debtors					
Amounts falling due within one year	14	1,344		853	
Amounts falling due after more than one year:					
Nuclear liabilities recoverable from customers	15	3,328		3,661	
Secretary of State's undertaking	16	4,531		4,222	
Investments and short-term deposits	17	2,084		2,528	
Cash at bank and in hand		77		108	
		11,820		11,791	
Creditors: amounts falling due within one year	18	(1,191)		(1,104)	
Net current assets			10,629		10,687
Total assets less current liabilities			22,797		22,094
Creditors: amounts falling due after more than one year	19	(4,575)		(4,244)	
Provisions for liabilities and charges	25	(17,969)		(17,538)	
			(22,544)		(21,782)
Net assets			253		312
Capital and reserves:					
Called up share capital	29	33		33	
Profit and loss account	31	218		277	
Shareholders' funds – equity interests			251		310
Minority interests – equity interests			2		2
			253		312



Hugh R Collum Chairman
27 June 2001



Norman Askew Chief Executive
27 June 2001



John Edwards Group Finance Director
27 June 2001

Company balance sheet

As at 31 March

	Note	2001		2000	
		£m	£m	£m	£m
Fixed assets:					
Tangible assets	11		8,372		7,788
Investments	12		4,391		4,336
			<u>12,763</u>		<u>12,124</u>
Current assets:					
Stocks	13	81		82	
Debtors					
Amounts falling due within one year	14	2,381		1,670	
Amounts falling due after more than one year:					
Nuclear liabilities recoverable from customers	15	6,878		7,454	
Investments and short-term deposits	17	1,326		1,377	
			<u>10,666</u>	<u>10,583</u>	
Creditors: amounts falling due within one year	18	(3,541)		(3,835)	
Net current assets			<u>7,125</u>	<u>6,748</u>	
Total assets less current liabilities			<u>19,888</u>	<u>18,872</u>	
Creditors: amounts falling due after more than one year	19	(6,171)		(5,490)	
Provisions for liabilities and charges	25	(13,361)		(13,168)	
			<u>(19,532)</u>	<u>(18,658)</u>	
Net assets			<u>356</u>	<u>214</u>	
Capital and reserves:					
Called up share capital	29		33		33
Profit and loss account	31		323		181
Shareholders' funds – equity interests			<u>356</u>	<u>214</u>	

Hugh R Collum Chairman
27 June 2001

Norman Askew Chief Executive
27 June 2001

John Edwards Group Finance Director
27 June 2001

Consolidated cash flow statement

For the year ended 31 March

	Note	2001 £m	2000 £m
Net cash (outflow)/inflow from operating activities			
Operating loss		(135)	(412)
Nuclear liabilities charged/(released) to operating costs		53	(525)
Nuclear liabilities discharged (note 26)		(333)	(318)
Other provisions charged to operating costs		151	280
Other provisions discharged (note 28)		(299)	(290)
Depreciation/amortisation/impairment charges		538	1,256
Increase in advance payments		417	243
Other cash (outflow)/inflow from operating activities		(417)	11
		(25)	245
Cash (outflow) from non-operating exceptional items		(24)	-
Net cash (outflow)/inflow from operating activities	36	(49)	245
Dividends from joint ventures and associates	37	11	9
Returns on investment and servicing of finance			
Interest received/(paid)	37	146	180
Bank commissions	37	(4)	(3)
Taxation	37	(3)	(95)
Capital expenditure and financial investment:			
Nuclear liabilities funding	37	141	83
Other capital expenditure	37	(398)	(477)
Acquisitions and disposals	37	(237)	1
Equity dividends paid	37	-	(49)
Net cash outflow before use of liquid resources and financing		(393)	(106)
Management of liquid resources			
Net realisation/(investment) of short-term deposits and current investments	37	246	(30)
Financing			
Repayment of loans and long-term credit	37	(128)	(1)
New loans	37	-	106
(Decrease) in cash in year	39	(275)	(31)

Notes to the accounts

1 Accounting policies

a Accounting convention

The accounts have been prepared under the historical cost convention, modified to include the market value of certain current asset investments, and in accordance with all applicable accounting standards. There have been no changes in accounting policies during the year.

b Basis of consolidation

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

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

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 after 1 April 1998, the consolidated accounts include the Group's share of net assets together with the balance of unamortised goodwill.

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.

c Goodwill and other intangible assets

Goodwill arising on consolidation (see note 10), representing the excess of purchase consideration over the fair value of identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life up to a maximum of 20 years (acquisitions from 1 April 1998) or written off against reserves in the year of acquisition (acquisitions before 1 April 1998). Capitalised goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. If a subsidiary, associate or joint venture is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets (see note 10) are capitalised at cost and amortised on a straight line basis over their estimated useful lives but no longer than 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

d Turnover

Turnover, which is stated net of value added tax, represents the invoiced value of products delivered and services rendered to outside customers. For contracts entered into for the provision of services extending over a period of years (long-term contracts), turnover represents the sales value of work done in the year including, where appropriate, estimates of amounts not yet invoiced. For electricity generation, turnover represents amounts receivable for sales of electricity including net income arising from Contracts for Differences. These represent where the company makes or receives a net payment of the difference between the agreed sale price of electricity to its customers and the prevailing pool price. Contracts for Differences ceased when the new electricity trading arrangements (NETA) came into force on 27 March 2001, as explained in the Magnox Generation Business Group review of operations.

Substantial payments in advance are held as part of the contractual arrangements under which nuclear fuel services are provided to a number of customers. Interest income earned on these contractual advance payments is recognised as part of turnover on the contracts concerned. As the anticipated financing income on these contractual advance payments formed an integral part of the negotiation of the commercial terms this presentation more fairly reflects the reality of the transaction.

e Long-term contracts

Profits on long-term contracts are taken in the year in which the services are provided, in a manner appropriate to the stage of completion of the contracts, the nature of the business concerned and anticipated cost of completion. Profits are determined 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 (see note 28).

f Nuclear liabilities

The accounts include provisions for the Group's obligations in respect of nuclear liabilities, being liabilities in respect of the costs associated with nuclear decommissioning, waste management, and fuel reprocessing (see note 26a). 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 amount is treated as an asset and is included in decommissioning fixed assets or decommissioning debtors (see note 15). In the profit and loss account, the provisions charges are net of recoveries from customers.

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

1 Accounting policies continued

f Nuclear liabilities continued

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

Decommissioning

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

For facilities that have been commissioned, provisions are recognised in full and the discounted costs are capitalised as part of the costs of the asset and depreciated accordingly (see note 11). 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.

Radioactive waste materials arising as a result of the Group's operations give rise to liabilities reflecting the cost of treating and disposing of them. In some instances the provisions so created cover the cost of constructing and decommissioning of plants to manage those wastes. As a result, long before those waste management plants are built and commissioned, the costs of doing so have been provided in accordance with the waste management accounting policy below. Yet those waste management plants are themselves fixed assets during their time in active use, and accounting standards require the capital cost and decommissioning liabilities to be shown as such and amortised over their useful life. As a consequence, on commissioning, the decommissioning costs are capitalised and depreciated accordingly as stated above. This would result in double charging as these costs are provided for as part of the waste management charges. To the extent that depreciation has effectively already been recognised in the profit and loss account, a deferred income balance is created on capitalisation of the plant. This balance is released to profit over the period used for depreciation purposes for the assets to which it relates to offset the required accounting charge in respect of decommissioning the assets concerned. This is referred to as 'Capitalised decommissioning costs previously charged to profit' in note 24.

Waste management

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

Reprocessing of fuel

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

g Research and development expenditure

Research and development expenditure on projects not specifically recoverable directly from customers is charged to the profit and loss account in the year in which it is incurred (see note 3). 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.

h Tangible fixed 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 – see accounting policy lf) less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable or if estimated remaining useful economic lives exceed 50 years. Accumulated depreciation includes additional charges made where necessary to reflect impairments in value. Assets in the course of construction are stated at cost and not depreciated until commissioned.
- Depreciation is calculated to write off the historical cost less residual value of assets, generally by equal annual instalments unless a throughput basis is considered more appropriate, over the period assessed as their useful lives. The periods used for depreciation purposes are:
 - Buildings 10 to 60 years
 - Plant and machinery 10 to 20 years
 - Fixtures, fittings, tools and equipment 3 to 10 years.

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

The Group has commercial arrangements in place for Thorp, which recover capital costs of that plant under reprocessing contracts over a shorter period than the plant's potential economic life. In order to maintain a proper matching for accounting purposes of contract income and related costs, an accrual is made for future depreciation recovered over the contract period, which will be released over the remaining useful economic life of the plant once the related reprocessing contracts are complete. This is referred to as the 'Depreciation matching accrual' in note 24.

- Capital grants are treated as deferred income and transfers are made to the profit and loss account, generally by equal annual instalments, over the period used for depreciation purposes for the assets to which they relate (see note 3 and note 24).

i Fixed asset investments

Fixed asset investments comprise investments in and loans to subsidiary and associated undertakings and joint ventures, together with investment portfolios held to fund certain long-term nuclear liabilities (see note 1 2f).

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

Notes to the accounts

1 Accounting policies continued

i Fixed asset investments continued

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

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

j Current asset investments and short-term deposits

Current asset investments and short-term deposits comprise short and medium-term gilt investments intended to be held to redemption, short and medium-term managed investments and other short-term investments (see note 17). Gilt investments intended to be held to redemption that do not form part of the nuclear liabilities investments are also held within current asset investments.

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

k Stocks and work in progress

Stocks and work in progress (see note 13) are valued at cost or net realisable value whichever is the lower, and in the case of work in progress after deduction of progress payments. Cost where appropriate includes a proportion of all production overhead expenses.

l Pensions and post-retirement benefits

The Group operates pension schemes for the benefit of the majority of its employees (see note 34). The schemes are funded by contributions, partly from the employees and partly from the Group, to separately administered funds. For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. Actuaries complete valuations at least every three years and, in accordance with their recommendations, annual contributions from the Group are paid to the scheme to secure the benefits as set out in the rules. The cost of these is charged against profits so as to spread the costs of pensions over employees' working lives.

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

m Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the foreseeable future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse (see note 27).

n 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.

o Derivatives and commodity contracts

The Group uses forward foreign currency contracts to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. These forward contracts are accounted for as hedges, with gains and losses being recognised when the hedged transaction takes place. The Group also enters into contracts for differences and electricity forward agreements to reduce the risks from fluctuating electricity pool prices. The Group records the cost and income relating to these commodity contracts when settlement is made, provided that contracted volumes do not exceed future anticipated sales volumes in the contracted period (see note 30 for details).

p Insurance subsidiaries Investments

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

Outstanding claims

Full provision is made for all claims notified, but not settled at the balance sheet date, on the basis of the most up-to-date information (see note 28).

q 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.

r Liquid resources

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

2 Segmental information

a Business segment analysis:

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Nuclear decommissioning and clean-up £m	Total £m
2000-2001					
Turnover:					
Total	1,129	389	839	186	2,543
Internal	(81)	(17)	(290)	(9)	(397)
Sales to third parties	1,048	372	549	177	2,146
Operating (loss)/profit before revision of previous years' nuclear liabilities:					
Operations before exceptional items	50	(250)	(68)	(30)	(298)
Exceptional items (note 3)	–	–	(10)	165	155
Total	50	(250)	(78)	135	(143)
Revision of previous years' nuclear liabilities:					
Operations before exceptional items	–	23	29	(44)	8
Exceptional items (note 3)	–	–	–	–	–
Total	–	23	29	(44)	8
(Loss)/profit before tax:					
Operations before exceptional items	52	(199)	3	(66)	(210)
Exceptional items (note 3)	(36)	8	6	166	144
Total	16	(191)	9	100	(66)
1999-2000					
Turnover:					
Total	810	578	900	451	2,739
Internal	(80)	(10)	(301)	(284)	(675)
Sales to third parties	730	568	599	167	2,064
Operating (loss)/profit before revision of previous years' nuclear liabilities:					
Operations before exceptional items	23	(37)	100	(21)	65
Exceptional items (note 3)	–	(26)	(123)	(158)	(307)
Total	23	(63)	(23)	(179)	(242)
Revision of previous years' nuclear liabilities:					
Operations before exceptional items	(8)	(117)	140	(60)	(45)
Exceptional items (note 3)	–	(125)	–	–	(125)
Total	(8)	(242)	140	(60)	(170)
(Loss)/profit before tax:					
Operations before exceptional items	6	(109)	266	(89)	74
Exceptional items (note 3)	3	(142)	(116)	(156)	(411)
Total	9	(251)	150	(245)	(337)

Notes to the accounts

2 Segmental information continued

a Business segment analysis continued:

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Nuclear decommissioning and clean-up £m	Corporate £m	Total £m
Shareholders' funds						
2000-2001						
Intangible assets	925	–	–	–	–	925
Tangible assets	533	303	6,286	74	–	7,196
Investments	695	1,069	1,813	470	–	4,047
Total fixed assets	2,153	1,372	8,099	544	–	12,168
Nuclear liabilities recoverable	68	39	3,388	75	–	3,570
Secretary of State's undertaking	–	4,531	–	–	–	4,531
Other net current assets	(476)	2,548	382	137	–	2,591
Unallocated corporation tax	–	–	–	–	(63)	(63)
Net current assets	(408)	7,118	3,770	212	(63)	10,629
Nuclear provisions	(280)	(8,077)	(7,497)	(252)	–	(16,106)
Deferred tax	–	–	–	–	(655)	(655)
Other long-term liabilities and funding balances	(1,227)	(761)	(3,248)	(549)	–	(5,785)
Long-term liabilities and minority interests	(1,507)	(8,838)	(10,745)	(801)	(655)	(22,546)
Shareholders' funds	238	(348)	1,124	(45)	(718)	251
1999-2000						
Intangible assets	462	–	–	–	–	462
Tangible assets	480	287	5,972	73	–	6,812
Investments	658	1,089	1,849	537	–	4,133
Total fixed assets	1,600	1,376	7,821	610	–	11,407
Nuclear liabilities recoverable	–	–	3,801	82	–	3,883
Secretary of State's undertaking	–	4,222	–	–	–	4,222
Other net current assets	295	638	1,031	676	–	2,640
Unallocated corporation tax	–	–	–	–	(58)	(58)
Net current assets	295	4,860	4,832	758	(58)	10,687
Nuclear provisions	(206)	(7,849)	(7,534)	(197)	–	(15,786)
Deferred tax	–	–	–	–	(684)	(684)
Other long-term liabilities and funding balances	(1,463)	1,493	(3,993)	(1,351)	–	(5,314)
Long-term liabilities and minority interests	(1,669)	(6,356)	(11,527)	(1,548)	(684)	(21,784)
Shareholders' funds	226	(120)	1,126	(180)	(742)	310

Further segmental analysis of tangible fixed assets is provided in note 11.

The difference between shareholders' funds as given above and net assets on the consolidated balance sheet on page 45 are the minority equity interests of £2 million (2000: £2 million).

2 Segmental information continued

b Geographical segment analysis:

The information above is reanalysed in the table below by geographic area. The figures for geographic origin show turnover, (loss) before taxation and net assets owned by companies located in each geographic area.

	EU (excl. UK) £m	Europe Other £m	Japan and Far East £m	North and South America £m	Total (excl. UK) £m	UK £m	Total £m
2000-2001							
Turnover by destination:							
Sales to third parties	229	95	278	714	1,316	830	2,146
Turnover by origin:							
Total	18	33	3	945	999	1,164	2,163
Inter-segment sales	(2)	–	(2)	(4)	(8)	(9)	(17)
Sales to third parties	16	33	1	941	991	1,155	2,146
Profit/(loss) before tax by origin:							
Operations before exceptional items	7	(11)	(1)	(27)	(32)	(178)	(210)
Exceptional items	–	–	–	(91)	(91)	235	144
Total	7	(11)	(1)	(118)	(123)	57	(66)
Shareholders' funds:							
Total assets less current liabilities	254	–	1	1,601	1,856	20,941	22,797
Long-term liabilities and minority interests	(91)	–	–	(749)	(840)	(21,706)	(22,546)
Shareholders' funds	163	–	1	852	1,016	(765)	251
1999-2000							
Turnover by destination:							
Sales to third parties	113	95	395	506	1,109	955	2,064
Turnover by origin:							
Total	35	6	45	560	646	1,437	2,083
Inter-segment sales	(2)	–	(2)	(2)	(6)	(13)	(19)
Sales to third parties	33	6	43	558	640	1,424	2,064
Profit/(loss) before tax by origin:							
Operations before exceptional items	(2)	30	(3)	6	31	43	74
Exceptional items	–	(10)	–	(113)	(123)	(288)	(411)
Total	(2)	20	(3)	(107)	(92)	(245)	(337)
Shareholders' funds:							
Total assets less current liabilities	4	373	5	808	1,190	20,904	22,094
Long-term liabilities and minority interests	(2)	(10)	(4)	(731)	(747)	(21,037)	(21,784)
Shareholders' funds	2	363	1	77	443	(133)	310

Notes to the accounts

3 Net operating costs and expenses

	2001			2000		
	Total £m	Exceptional items £m	Total before exceptional items £m	Total £m	Exceptional items £m	Total before exceptional items £m
Employee costs	885	–	885	765	–	765
Provision for nuclear liabilities	140	–	140	129	–	129
Provisions for other liabilities	(55)	(155)	100	268	247	21
Depreciation						
– on capitalised decommissioning	51	–	51	24	–	24
– provisions for diminution in value	–	–	–	39	39	–
– other depreciation	358	–	358	357	–	357
Amortisation of goodwill	50	–	50	20	–	20
Raw materials and consumables	492	–	492	450	4	446
Research and development charges not specifically directly recoverable from customers	55	–	55	45	–	45
Other income and operating charges	428	–	428	359	12	347
Changes in stocks of finished goods and work in progress	(6)	–	(6)	11	5	6
Own work capitalised	(92)	–	(92)	(143)	–	(143)
Own work on nuclear fuel stock	(15)	–	(15)	(16)	–	(16)
Regional development grants released	(2)	–	(2)	(2)	–	(2)
Total operating costs and expenses before revision of previous years'						
nuclear liabilities	2,289	(155)	2,444	2,306	307	1,999
Revision of previous years' nuclear liabilities	(8)	–	(8)	170	125	45
	2,281	(155)	2,436	2,476	432	2,044

The individual components of the net operating costs relating to acquisitions which total £293 million are not considered to be material to individual line headings.

Revision of previous years' nuclear liabilities of £8 million (2000: £170 million) is made up of a credit of £87 million (note 26) net of £79 million included within the charge for depreciation on capitalised decommissioning (note 11).

Other income and operating charges include Auditors' remuneration of £1,763,000 (2000: £1,070,000) of which £210,000 (2000: £282,000) relates to the Parent. Amounts paid to Ernst & Young, the Group's auditors, in respect of non-audit services to the company and its UK subsidiaries amounted to £3,031,000 (2000: £4,145,000). It is the Group's policy to engage Ernst & Young on assignments where their expertise and experience with the Group are important or where they win work on a competitive basis. The non-audit work principally consisted of advice in relation to process re-engineering consultancy, tax advice and various other financial projects.

3 Net operating costs and expenses continued

Exceptional Items

The exceptional items are included in separate columns in the profit and loss account. The net benefit of exceptional items before taxation is £144 million (2000: net loss £411 million).

	2001 £m	2000 £m
Reimbursement from MoD of claims for reimbursement of advances made to Nirex on its behalf	216	–
Decontamination and decommissioning of the Manufacturing Sciences Corporation facilities	(24)	–
BNFL Fuel Solutions contract losses	(27)	–
Costs arising from falsification of records in respect of Mox fuel	–	(113)
Impact of early closure of Hinkley A nuclear power station	–	(151)
Provisions for foreseeable losses on long-term contracts	–	(139)
Impairment write down of Manufacturing Sciences Corporation fixed assets	–	(19)
Other	(10)	(10)
Decrease/(increase) in operating profit	155	(432)
Loss/(profit) on disposal of subsidiaries	3	(2)
Costs of reorganisation following acquisition	(40)	–
Profit on sale of fixed assets investments used in continuing activities (note 5)	26	23
Decrease/(increase) in profit before tax	144	(411)

A gain of £216 million has resulted from an agreement with the MoD settling all BNFL's claims for reimbursement of advances made by the company to Nirex on their behalf. These advances were made in respect of the disposal cost of waste arising on BNFL sites up to 31 March 2001. In prior years, BNFL provided against all such advances and wrote off associated costs. The agreement now reached provides for the MoD to make full settlement of the company's claims by 2005.

Manufacturing Sciences Corporation (a subsidiary of BNFL Inc.) maintains facilities used in the recycling and processing of metals. These assets were originally developed and intended for long-term commercial use, primarily in support of the ETTP contract with the US DoE. As a consequence of the suspension of metals recycling within the DoE complex the MSC facilities are to be closed over a period of time and the costs of decontamination and decommissioning of facilities have been charged to the profit and loss account on an accelerated basis.

As part of management efforts to stabilise and refocus the US clean-up operation, an exceptional charge has been taken to cover the costs in discharging a number of loss-making contracts held by BNFL Fuel Solutions. In some cases these contracts have been exited by agreement with the customer.

On 28 April 2000, the Group completed the purchase of ABB's commercial nuclear power businesses for US \$456 million (£291 million). As a result the Group has incurred costs of £40 million in fundamentally reorganising the acquired businesses and integrating them with the Group's other fuel manufacture and reactor service businesses. These costs primarily relate to consolidation of facilities, relocation of people and equipment and reductions in workforce.

Notes to the accounts

4 Employee information

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

	2001 Number	2000 Number
Fuel manufacture and reactor services	8,770	6,025
Magnox generation	3,576	3,681
Spent fuel and engineering	7,031	6,032
Nuclear decommissioning and clean-up	1,719	2,195
Corporate	1,192	1,475
	22,288	19,408

b Employee costs

	2001 £m	2000 £m
Wages and salaries	760	639
Social security costs	66	47
Other pension costs (note 34)	21	22
Other employee costs (early retirement etc)	38	57
	885	765

The figures given above include Parent company Executive Directors. Further details of directors' emoluments are set out on pages 41 and 42. The employee information reflects the acquisition of the nuclear power businesses of ABB.

5 Profit on sale of fixed assets

	2001 £m	2000 £m
Tangible fixed assets	1	5
Fixed asset investments	25	18
	26	23

The profit on sale of fixed asset investments represents realised gains on the nuclear liabilities investment portfolio. The effect of these realised gains on the Group's tax charge was an increase of £8 million (2000: £6 million).

6 Investment and interest income

	2001 £m	2000 £m
Nuclear liabilities investment portfolio	204	213
Secretary of State's undertaking	309	273
	513	486
Current asset investments	157	121
Loans to joint ventures	4	3
Loans to associated undertakings	3	3
	677	613
Financing income from long-term contract advance payments reclassified to turnover	(105)	(82)
	572	531

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

7 Interest payable and similar charges

	2001 £m	2000 £m
Revalorisation:		
Nuclear provisions	482	459
Non-nuclear provisions	26	27
	508	486
Interest on loans	33	13
Bank commissions	4	3
Realised exchange gains	(18)	(1)
Group interest payable and similar charges	527	501
Share of joint ventures' interest	1	2
Share of associated undertakings' interest	7	6
	535	509

8 Tax on profit/(loss) on ordinary activities

a Analysis of tax credit in year

	2001			2000		
	Total £m	Exceptional items £m	Operational performance £m	Total £m	Exceptional items £m	Operational performance £m
UK corporation tax in respect of parent and subsidiaries:						
Current year	(1)	–	(1)	–	–	–
Adjustment in respect of prior years	(1)	–	(1)	(17)	–	(17)
	(2)	–	(2)	(17)	–	(17)
Joint ventures' taxation	1	–	1	1	–	1
Associated undertakings' taxation	6	–	6	6	–	6
	5	–	5	(10)	–	(10)
Overseas taxation	4	–	4	5	–	5
Deferred tax in respect of parent and subsidiaries:						
Current year	(29)	35	(64)	(71)	(103)	32
Tax (credit)/charge	(20)	35	(55)	(76)	(103)	27

b Factors affecting tax credit for year

The factors affecting the tax credit for the year are set out below:

	2001 £m	2000 £m
Loss on ordinary activities before taxation	(66)	(337)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2000: 30%)	(20)	(101)
Effects of:		
Permanent differences	(18)	9
Non-equalisation of timing differences through deferred tax	(13)	(10)
Adjustments to tax credit in respect of previous periods	(1)	(17)
Overseas taxation	32	43
Current tax credit for period (note 8(a))	(20)	(76)

9 Dividends

No dividends were paid or proposed in the year (2000: nil).

Notes to the accounts

10 Fixed assets – Intangible assets

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

	Goodwill £m	Licences £m	Total £m
Cost:			
At 1 April 2000	483	3	486
Additions during the year	428	–	428
Exchange adjustments	88	–	88
At 31 March 2001	999	3	1,002
Amortisation:			
At 1 April 2000	24	–	24
Exchange adjustments	3	–	3
Amortisation during the year	49	1	50
At 31 March 2001	76	1	77
Net book value at 31 March 2001	923	2	925
Net book value at 31 March 2000	459	3	462

Goodwill represents amounts arising on the acquisition of the Westinghouse Electric Company in 2000 and ABB's commercial nuclear power businesses in 2001. Goodwill on each acquisition is being amortised on a straight line basis over its useful economic life of 20 years.

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

11 Fixed assets – Tangible assets

a Group

	Land and buildings		Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
	Long leasehold £m	Freehold £m				
Cost at 1 April 2000	17	3,131	6,279	129	1,729	11,285
Exchange adjustments	1	8	16	2	3	30
Acquisition of subsidiary undertakings	–	15	42	4	1	62
Additions:						
Capitalised decommissioning costs	–	–	408	–	–	408
Other	–	40	137	16	225	418
Disposals:						
Capitalised decommissioning costs	–	–	(68)	–	–	(68)
Other	–	(9)	(7)	(3)	–	(19)
Transfers/reclassifications	–	–	(2)	–	2	–
Cost at 31 March 2001	18	3,185	6,805	148	1,960	12,116
Depreciation at 1 April 2000	2	1,213	3,179	79	–	4,473
Exchange adjustments	–	2	3	1	–	6
Charge for the year:						
Capitalised decommissioning costs	–	–	130	–	–	130
Other depreciation	1	145	189	23	–	358
Disposals:						
Capitalised decommissioning costs	–	–	(42)	–	–	(42)
Other	–	–	(2)	(3)	–	(5)
Depreciation at 31 March 2001	3	1,360	3,457	100	–	4,920
Net book value at 31 March 2001	15	1,825	3,348	48	1,960	7,196
Net book value at 31 March 2000	15	1,918	3,100	50	1,729	6,812

Included within additions to capitalised decommissioning costs of £408 million are £76 million revalorisation on customer recoverable assets, £68 million relating to the revision of prior year liability estimates and £264 million (of which £254 million is recoverable from customers) relating to reclassifications from other asset categories.

Disposals include £25 million held at residual value in line with the accounting policy on nuclear liabilities (see note 1f) and is recoverable from customers.

11 Fixed assets – Tangible assets continued

a Group continued

Assets in course of construction include £473 million (2000: £462million) relating to the Sellafield Mox Plant, plutonium commissioning of which is awaiting approval from the DEFRA. The carrying value is based on the assumption that BNFL can demonstrate the plant to be economically justified and that plutonium commissioning will be approved by the DEFRA, following the current round of public consultation and evaluation; the Board remains confident that this is the most appropriate assumption despite the significant uncertainties involved.

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

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Nuclear decommissioning and clean-up £m	Total £m
Cost at 1 April 2000	798	1,040	9,222	225	11,285
Exchange adjustments	25	–	–	5	30
Acquisition of subsidiaries	62	–	–	–	62
Additions:					
Capitalised decommissioning costs	5	99	263	41	408
Other	41	47	317	13	418
Disposals:					
Capitalised decommissioning costs	(3)	(8)	(47)	(10)	(68)
Other	(18)	–	(1)	–	(19)
Reclassifications	–	–	15	(15)	–
Cost at 31 March 2001	910	1,178	9,769	259	12,116
Depreciation at 1 April 2000	318	753	3,250	152	4,473
Exchange adjustment	3	–	–	3	6
Charge for the year:					
Capitalised decommissioning costs	2	98	(12)	42	130
Other depreciation	59	32	261	6	358
Disposals:					
Capitalised decommissioning costs	–	(8)	(27)	(7)	(42)
Other	(5)	–	–	–	(5)
Reclassifications	–	–	11	(11)	–
Depreciation at 31 March 2001	377	875	3,483	185	4,920
Net book value at 31 March 2001	533	303	6,286	74	7,196
Net book value at 31 March 2000	480	287	5,972	73	6,812

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

Net book value at 31 March 2001:

Amounts recoverable from customers (see note 15)	100	–	1,704	18	1,822
Group funded	2	55	51	–	108
	102	55	1,755	18	1,930
Net book value at 31 March 2000:					
Amounts recoverable from customers (see note 15)	98	–	1,382	23	1,503
Group funded	18	54	117	–	189
	116	54	1,499	23	1,692

Notes to the accounts

11 Fixed assets – Tangible assets continued

b Parent

	Freehold land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools, and equipment £m	Assets in course of construction £m	Total £m
Cost at 1 April 2000	3,038	6,561	75	1,712	11,386
Additions:					
Capitalised decommissioning costs	–	570	–	–	570
Other	39	115	27	179	360
Disposals:					
Capitalised decommissioning costs	–	(54)	–	–	(54)
Other	–	–	(2)	–	(2)
Cost at 31 March 2001	3,077	7,192	100	1,891	12,260
Depreciation at 1 April 2000	1,190	2,350	58	–	3,598
Charge for the year:					
Capitalised decommissioning costs	–	20	–	–	20
Other	141	136	19	–	296
Disposals:					
Capitalised decommissioning costs	–	(25)	–	–	(25)
Other	–	–	(1)	–	(1)
Depreciation at 31 March 2001	1,331	2,481	76	–	3,888
Net book value at 31 March 2001	1,746	4,711	24	1,891	8,372
Net book value at 31 March 2000	1,848	4,211	17	1,712	7,788

Included within additions to capitalised decommissioning costs is £157 million revalorisation on customer recoverable assets, £138 million relating to the revision of prior year liability estimates and £275 million (of which £270 million is recoverable from customers) relating to reclassifications from recoverable asset categories.

Disposals include £27 million held at residual value in line with the accounting policy on nuclear liabilities (see note 1f) and is recoverable from customers.

Freehold land, amounting to £8 million (2000: £12 million) for the Group and £6 million (2000: £6 million) for the company, has not been depreciated. The company holds no long leasehold land and buildings.

12 Fixed assets – Investments

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Subsidiary undertakings	–	–	459	329
Joint ventures	108	113	61	65
Associated undertakings	120	117	3	2
Trade investments	4	16	2	2
Nuclear liabilities investment portfolio	3,815	3,887	3,866	3,938
	4,047	4,133	4,391	4,336

See page 83 for details of principal subsidiary and associated undertakings and joint ventures.

12 Fixed assets – Investments continued

a Acquisition of ABB commercial nuclear power business

On 28 April 2000 the Group completed the purchase of ABB's commercial nuclear power businesses (ABB) for US \$456 million (£291 million). The acquisition of ABB involved the purchase of share capital of entities in the US, Sweden, Germany and France for cash.

Goodwill arising on the acquisition of ABB has been capitalised and will be amortised on a straight line basis over its useful economic life of 20 years, in line with Group policy.

The net assets of ABB at date of acquisition can be analysed as follows:

	Book value £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value to Group £m
Tangible fixed assets	48	29	(15)	62
Intangible fixed assets	5	–	(5)	–
Stocks	50	–	(1)	49
Debtors	110	–	2	112
Cash	58	–	–	58
Creditors: amounts falling due within one year				
Provisions	(24)	–	(82)	(106)
Other	(82)	–	(18)	(100)
Creditors: amounts falling due after more than one year				
Provisions	(37)	(62)	(3)	(102)
Other	(102)	–	(1)	(103)
Net assets acquired	26	(33)	(123)	(130)
Goodwill arising on acquisition				421
Consideration (including associated costs)				291

Accounting policy alignments comprise of adjustments required to account for decommissioning provisions in accordance with FRS12 and discount rate differences on various contract settlements.

The fair value adjustments include a revaluation of fixed assets to depreciated replacement cost and other adjustments including increases in contract provisions to reflect the fair values of anticipated costs and the write off of goodwill on historic acquisitions.

The business made a loss after tax of £259,000 in the period from 1 January 2000 to 28 April 2000 (year ended 31 December 2000: £9 million profit).

The summarised profit and loss account for this period is as follows:

	£000s
Turnover	83,767
Operating profit	1,051
Profit before tax	1,050
Taxation	(1,309)
Loss after tax	(259)

There were no recognised gains and losses other than the loss shown above.

Since the date of acquisition many of the facilities, particularly within the US, have been integrated within the current business, and it has not therefore been possible to identify the impact of the acquisition on individual components of the Group's cash flows.

Notes to the accounts

12 Fixed assets – Investments continued

b Subsidiary undertakings

	Group			Parent	
	Shares £m	Loans £m	Total cost £m	Amounts provided £m	Net book value £m
At 1 April 2000	253	101	354	(25)	329
Additions	193	–	193	–	193
Repayments	–	(59)	(59)	–	(59)
Disposals	(4)	–	(4)	–	(4)
At 31 March 2001	442	42	484	(25)	459

c Joint ventures

	Group				Parent		
	Share of net assets £m	Goodwill £m	Loans and advances £m	Total £m	Shares £m	Loans and advances £m	Total £m
Cost:							
At 1 April 2000	3	69	239	311	20	218	238
Exchange adjustment	1	5	–	6	–	(1)	(1)
Additions	–	–	8	8	–	4	4
Transfer to debtors	–	–	(116)	(116)	–	(116)	(116)
Loans repaid	–	–	(3)	(3)	–	(3)	(3)
Share of retained profit and reserves	(4)	–	–	(4)	–	–	–
At 31 March 2001	–	74	128	202	20	102	122
Amounts provided/amortised:							
At 1 April 2000	–	4	194	198	–	173	173
Provisions released	–	–	(116)	(116)	–	(116)	(116)
New amounts provided/amortised	–	4	8	12	–	4	4
At 31 March 2001	–	8	86	94	–	61	61
Net book value:							
At 31 March 2001	–	66	42	108	20	41	61
At 31 March 2000	3	65	45	113	20	45	65

Loans of £86 million for the Group and £61 million for the Parent (2000: £194 million and £173 million respectively) have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided against.

d Associated undertakings

	Group			Parent		
	Share of net assets £m	Loans and advances £m	Total £m	Shares £m	Loans and advances £m	Total £m
Cost and net book value:						
At 1 April 2000	75	42	117	1	1	2
Disposals	(3)	(2)	(5)	–	–	–
Additions	–	–	–	1	–	1
Share of retained profit and reserves	8	–	8	–	–	–
At 31 March 2001	80	40	120	2	1	3

12 Fixed assets – Investments continued

e Trade investments

	Group			Parent		
	Cost £m	Amounts provided £m	Net book value £m	Cost £m	Amounts provided £m	Net book value £m
Balance at 1 April 2000	25	(9)	16	9	(7)	2
Exchange adjustments	1	–	1	–	–	–
Amounts provided	–	(13)	(13)	–	–	–
Balance at 31 March 2001	26	(22)	4	9	(7)	2

f Nuclear liabilities investment portfolio

	Group			Parent		
	Gilts investment portfolio £m	Managed portfolio £m	Total £m	Gilts investment portfolio £m	Managed portfolio £m	Total £m
Balance at 1 April 2000	2,449	1,438	3,887	2,479	1,459	3,938
Net additions/(reductions)	118	(259)	(141)	114	(258)	(144)
Amortisation of discount/indexation	69	–	69	72	–	72
Balance at 31 March 2001	2,636	1,179	3,815	2,665	1,201	3,866

The amount of listed investments included in the nuclear liabilities investment portfolio is £3,470 million of which £3,520 million are held by the Parent (2000: £3,752 million and £3,803 million). The market value of these investments was £3,662 million for the Group and the Parent (2000: £4,005 million for the Group and the Parent). The amount of listed investments in the Parent is greater than the amount in the Group, due to the transfer of investments from Magnox Electric plc to the Parent at the then market value, being in excess of cost, following the acquisition of that company in the year ended 31 March 1998. Unlisted investments comprise of bank deposits.

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

The Group has invested £2,636 million of the portfolio in index-linked gilts, which it is intended to hold until redemption. These have an average maturity of 9.6 years and returned 2.42% per annum after tax and inflation in 2000-2001. The advantages of this instrument to the portfolio are tax-free indexation cover for inflation; a roughly constant annual post-tax real yield to maturity and excellent credit risk.

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

A further £1,179 million is invested through fund managers, against a cash benchmark. The purpose of using fund managers is to provide some flexibility and add value by active strategic investment. Performance is monitored through monthly reports and regular meetings. The potential change in value on the funds is controlled by the benchmarks and by maturity limits. Credit risk on non-gilt investments is controlled by limiting the amount that can be placed with each counterparty and specifying a minimum creditworthiness of the counterparty as determined by the rating agencies.

Notes to the accounts

13 Stocks

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Nuclear fuel	25	23	5	4
Raw materials and consumables	163	148	46	47
Work in progress	233	221	19	20
Finished goods	35	27	11	11
	456	419	81	82

Work in progress in both the Group and Parent is stated after deducting progress payments of £9 million (2000: £4 million).

14 Debtors

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade debtors	309	340	80	154
Nuclear liabilities recoverable within one year (note 15)	242	222	490	425
Recoverable on long-term contracts	212	70	—	—
VAT	22	8	25	9
Corporation tax	46	—	67	8
Owed by Group undertakings	—	—	1,313	941
Owed by joint ventures	2	1	2	1
Owed by associated undertakings	10	10	1	1
Prepayments and accrued income	245	202	380	131
Other debtors	256	—	23	—
	1,344	853	2,381	1,670

Debtors due to the Group above include £258 million (2000: £46 million) due in more than one year. Debtors due to the Parent above include £237 million (2000: £19 million) due in more than one year.

At the end of the year, there were 94 loans amounting to £726,000 outstanding with employees of the Group (2000: 81 loans amounting to £528,000). Of these loans, 91 amounting to £615,000 were in the Parent (2000: 71 loans amounting to £468,000).

15 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	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts recoverable in respect of:				
Decommissioning	2,046	1,929	4,065	3,744
Waste management	3,346	3,457	5,980	6,219
Reprocessing	–	–	846	848
	5,392	5,386	10,891	10,811
Included in fixed assets (note 11)	1,822	1,503	3,523	2,932
Included in debtors due after more than one year	3,328	3,661	6,878	7,454
Included in debtors due within one year (note 14)	242	222	490	425
	5,392	5,386	10,891	10,811

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

	Decommissioning fixed assets £m	Decommissioning debtor £m	Waste management debtor £m	Reprocessing debtor £m	Total recoverable £m
Group					
Balance at 1 April 2000	1,503	426	3,457	–	5,386
Revalorisation	76	22	128	–	226
Revision of prior year liabilities estimates	14	19	(135)	–	(102)
Increase/(decrease) in the year	–	11	–	–	11
Amounts recovered	(25)	–	(104)	–	(129)
Reclassifications	254	(254)	–	–	–
Balance at 31 March 2001	1,822	224	3,346	–	5,392
Parent					
Balance at 1 April 2000	2,932	812	6,219	848	10,811
Revalorisation	157	33	233	28	451
Revision of prior year liabilities estimates	191	(47)	(281)	(27)	(164)
Increase/(decrease) in the year	–	14	33	34	81
Amounts recovered	(27)	–	(224)	(37)	(288)
Reclassifications	270	(270)	–	–	–
Balance at 31 March 2001	3,523	542	5,980	846	10,891

Notes to the accounts

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

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Balance at 1 April 2000	4,222	3,949	–	–
Interest accrued during the year	309	273	–	–
Balance at 31 March 2001	4,531	4,222	–	–

The Secretary of State's undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and Magnox Electric plc. The Secretary of State has undertaken to pay Magnox Electric plc £3,700 million (March 1998 money values) together with interest at a rate of 4.5% above inflation (based on RPI) 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 85% 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.

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

17 Current asset investments and short-term deposits

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Gifts investments – medium-term maturity	106	125	106	125
– short-term maturity	152	237	152	237
Managed investments	1,142	1,228	560	583
Short-term deposits	684	938	508	432
	2,084	2,528	1,326	1,377

The amount of listed investments included above is £1,370 million (2000: £1,571 million), of which £810 million are held by the Parent (2000: £942 million). The market value of these investments was £1,396 million for the Group and £836 million for the Parent (2000: £1,604 million and £975 million). Other investments comprise bank deposits and other fixed and call deposits.

Included in total current asset investments for the Group are £560 million of the listed investments which are carried at market value (2000: £629 million). These are listed investments held in insurance subsidiaries. The historic cost of these investments was £550 million (2000: £627 million). No listed investments are carried at market value in the Parent.

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

Risks and controls for current asset investments and short-term deposits are similar to those outlined in note 12f above for the nuclear liabilities investment portfolio.

18 Creditors: amounts falling due within one year

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Current portion of long-term loans (note 20)	3	71	-	-
Bank overdraft	-	19	56	99
Payments received on account (note 21)	518	428	384	583
Obligations under finance leases (note 22)	1	1	-	-
Trade creditors	159	145	61	42
Owed to Group undertakings	-	-	2,795	2,958
Owed to joint ventures	2	-	2	-
VAT	15	-	10	-
Corporation tax	109	58	89	-
Other taxes and social security	11	8	5	4
Accruals and deferred income	350	374	135	149
Other creditors	23	-	4	-
	1,191	1,104	3,541	3,835

19 Creditors: amounts falling due after more than one year

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans (note 20)	35	94	-	-
Payments received on account (note 21)	4,047	3,711	5,695	5,072
Obligations under finance leases (note 22)	4	5	-	-
Accruals and deferred income (note 24)	477	425	476	418
Other	12	9	-	-
	4,575	4,244	6,171	5,490

20 Loans

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
In one year or less, or on demand	3	71	-	-
In more than one year but not more than two years	33	3	-	-
In more than two years but not more than five years	2	91	-	-
In more than five years	-	-	-	-
	38	165	-	-

Loans are secured by Parent company guarantees.

21 Payments received on account

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Expiring:				
In one year or less, or on demand	518	428	384	583
In more than one year but not more than two years	617	480	616	384
In more than two years but not more than five years	1,270	1,731	1,254	1,807
In more than five years	2,160	1,500	3,825	2,881
	4,565	4,139	6,079	5,655

Payments on account have been received from customers for the provision of services under long-term contracts. Sales will be recognised when the services are expected to be provided within periods from the balance sheet date as analysed above.

Notes to the accounts

22 Obligations under finance leases and hire purchase contracts

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts payable:				
In one year or less	1	1	–	–
In more than one year but not more than two years	4	–	–	–
In more than two years but not more than five years	–	4	–	–
In more than five years	–	1	–	–
	5	6	–	–

23 Undrawn committed borrowing facilities

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Expiring:				
In one year or less, or on demand	–	1	–	–
In more than one year but not more than two years	142	–	–	–
In more than two years but not more than five years	–	65	–	–
In more than five years	–	–	–	–
	142	66	–	–

24 Accruals and deferred income

	Capital grants £m	Depreciation matching accrual (note 1h) £m	Capitalised decommissioning costs previously charged to profit (note 1f) £m	Total £m
Group				
Balance at 1 April 2000	14	403	9	426
Increase in year	–	61	10	71
Release in year	(2)	–	(17)	(19)
Balance at 31 March 2001	12	464	2	478
Analysed as follows:				
Amounts due within one year	1	–	–	1
Amounts due after one year	11	464	2	477
	12	464	2	478
Parent				
Balance at 1 April 2000	14	403	2	419
Increase in year	–	61	5	66
Release in year	(2)	–	(6)	(8)
Balance at 31 March 2001	12	464	1	477
Analysed as follows:				
Amounts due within one year	1	–	–	1
Amounts due after one year	11	464	1	476
	12	464	1	477

25 Provisions for liabilities and charges

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

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Nuclear provisions (note 26)	16,106	15,786	12,559	12,420
Deferred tax (note 27)	655	684	339	348
Other provisions (note 28)	1,208	1,068	463	400
	17,969	17,538	13,361	13,168

26 Nuclear provisions

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

	Decommissioning £m	Waste management £m	Reprocessing £m	Total £m
Group				
Balance at 1 April 2000	7,766	6,962	1,058	15,786
Exchange adjustment	6	–	–	6
Acquisition	47	–	–	47
Reclassification	(51)	89	(33)	5
Revaluation:				
fixed assets (note 11)	76	–	–	76
debtors (note 15)	22	128	–	150
profit and loss account (note 7)	289	157	36	482
Revision of previous year's liabilities:				
fixed assets (note 11)	68	–	–	68
debtors (note 15)	19	(135)	–	(116)
profit and loss account (note 3)	(97)	18	(8)	(87)
Increase in the year:				
fixed assets (note 11)	–	–	–	–
debtors (note 15)	11	–	–	11
profit and loss account (note 3)	12	48	80	140
Amounts recovered from third parties to discharge nuclear provisions:				
fixed assets (note 11)	(25)	–	–	(25)
debtors (note 15)	–	(104)	–	(104)
Discharge of Group funded liabilities	(82)	(161)	(90)	(333)
Balance at 31 March 2001	8,061	7,002	1,043	16,106

The note references above refer to the following notes within the accounts:

- Note 3 – Net operating costs and expenses
- Note 7 – Interest payable and similar charges
- Note 11 – Fixed assets – tangible assets
- Note 15 – Nuclear liabilities recoverable

Notes to the accounts

26 Nuclear provisions continued

a A summary of the provisions for nuclear liabilities and charges continued

	Decommissioning £m	Waste management £m	Reprocessing £m	Total £m
Parent				
Balance at 1 April 2000	4,637	6,725	1,058	12,420
Reclassification	(7)	40	(33)	—
Revalorisation:				
fixed assets (note 11)	157	—	—	157
debtors (note 15)	33	233	28	294
profit and loss account	46	19	8	73
Revision of previous year's liabilities:				
fixed assets (note 11)	138	—	—	138
debtors (note 15)	(47)	(281)	(27)	(355)
profit and loss account	55	(9)	19	65
Increase in the year:				
fixed assets (note 11)	—	—	—	—
debtors (note 15)	14	33	34	81
profit and loss account	8	15	46	69
Amounts recovered from third parties to discharge nuclear provisions:				
fixed assets (note 11)	(27)	—	—	(27)
debtors (note 15)	—	(224)	(37)	(261)
Discharge of Group funded liabilities	(9)	(33)	(53)	(95)
Balance at 31 March 2001	4,998	6,518	1,043	12,559

The Group has estimated the financial cost of meeting its obligations to decommission radioactive facilities and has provided for them. These obligations cover complete demolition of plants used for fuel manufacture, reprocessing operations and generating plant together with the disposal of associated waste. In addition, provisions are made for the treatment, handling and disposal of waste products arising from reprocessing operations together with defuelling, reprocessing and waste management of used nuclear fuel from the Group's reactors. The bulk of these provisions relate to treatment plant and related facilities at Sellafield, where the complexity and number of plants is significantly greater than at the other locations for which the Group has site licence responsibility.

For safety reasons associated with the rapid reduction in exposure risks that results from allowing the natural reduction in radioactivity that occurs with the passage of time, much of the dismantling and demolition work will not occur for a considerable time. In the same way, the costs of constructing long-term storage for waste will not be incurred for a long time, and the accounting provisions for such costs must necessarily be based on estimates. A substantial amount of practical experience has already been gained in the management of waste materials, and the estimates of the costs of handling such materials reflect the extensive knowledge of this activity that already exists.

In all cases the estimates on which the provisions are based are themselves based on assumptions derived from detailed technical assessments of the processes and methods likely to be used to discharge the obligations. These assumptions reflect a combination of latest technical knowledge available, the timescale involved before the work is carried out and the requirements of the existing regulatory regime and commercial agreements.

The accounting provisions for each category of obligation are sensitive to each of these four factors although, by the nature of the obligations involved, fundamental uncertainties remain regarding the measurement of the liabilities and the timing of the cash flows. Further background on nuclear liabilities is provided on pages 36 and 37.

26 Nuclear provisions continued

a A summary of the provisions for nuclear liabilities and charges continued

The provisions are discounted at 2.5% per annum. The table below shows the discounted provisions split between the Group funded provisions and those recoverable under commercial agreements.

	Recoverable under commercial agreement (note 15) £m	Group funded £m	Discounted total £m
Decommissioning	2,046	6,015	8,061
Waste management	3,346	3,656	7,002
Reprocessing of fuel	–	1,043	1,043
At 31 March 2001	5,392	10,714	16,106
At 31 March 2000	5,386	10,400	15,786

The following table shows the current estimate of total lifetime future cash expenditure and the proportion funded by BNFL.

	Total future cash expenditure		Group funded future cash expenditure	
	Undiscounted £m	Discounted £m	Undiscounted £m	Discounted £m
Decommissioning	20,374	7,994	15,720	6,025
Waste management	12,021	5,933	6,614	3,145
Reprocessing of fuel	2,360	1,919	1,581	1,267
At 31 March 2001	34,755	15,846	23,915	10,437
At 31 March 2000	34,242	15,998	23,164	10,383

Total lifetime future cash expenditure to discharge the Group's nuclear liabilities is projected to extend to around the year 2150.

Total cash expenditure to be incurred in the next ten years, amounting to approximately £8 billion on an undiscounted basis, is 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 £10 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 £17 billion) relate primarily to the final stages of decommissioning the Group's nuclear facilities, together with those associated with the construction and operating of a deep waste repository.

b The Group remains committed to ensuring that funds are available to meet long-term nuclear liabilities

The funding position at 31 March 2001 is as follows:

	£m
Future discounted cash expenditure in respect of existing liabilities:	
Discounted Group funded provision	10,714
Non-cash (see below)	(958)
	9,756
Funding of liabilities:	
Nuclear liabilities investment portfolio market value	4,007
Secretary of State's undertaking in relation to the liabilities of Magnox Electric plc	4,531
	8,538
Level of funding	88%

Waste management and reprocessing provisions include the remaining depreciation on certain historic capital expenditure, which will be charged against provisions over the remaining operating life of those assets. Remaining depreciation within provisions, which does not represent a further cash outgoing and is therefore not included in the future cash expenditure figure above, amounts to £1,917 million, of which £958 million is Group funded and the remainder is recoverable under commercial agreements.

Notes to the accounts

27 Deferred tax

Deferred tax has been provided in full as follows:

	2001 £m	2000 £m
Capital allowances in advance of depreciation:		
Parent company	801	873
Subsidiary undertakings	(13)	(13)
Group	788	860
Other timing differences:		
Parent company	(437)	(500)
Subsidiary undertakings	329	349
Group	(108)	(151)
Recoverable advance corporation tax:		
Parent company	(25)	(25)
Subsidiary undertakings	-	-
Group	(25)	(25)
Total:		
Parent company	339	348
Subsidiary undertakings	316	336
Group	655	684

The deferred tax movement within the Group is attributable to a current year deferred tax credit to the profit and loss account of £29 million. The deferred tax movement within the Parent is £9 million, again attributable to a current year deferred tax credit.

28 Other provisions

Other provisions can be analysed as follows:

	Contract settlements £m	Other contract provisions £m	Restructuring costs £m	Warranty provisions £m	Other provisions £m	Total £m
Group						
Balance at 1 April 2000	439	375	146	22	86	1,068
Acquisitions	50	15	30	3	64	162
Exchange adjustment	59	10	4	3	14	90
Revalorisation	15	6	5	-	-	26
Reclassifications	-	(7)	(2)	-	19	10
Increase/(decrease) in the year:						
Exceptional	-	27	-	-	24	51
Other	(32)	53	32	24	23	100
Expenditure in the year	(139)	(99)	(41)	(15)	(5)	(299)
Balance at 31 March 2001	392	380	174	37	225	1,208
Parent						
Balance at 1 April 2000	-	251	134	-	15	400
Revalorisation	-	4	5	-	-	9
Reclassifications	-	-	(2)	-	4	2
Increase/(decrease) in the year:						
Exceptional	-	-	-	-	-	-
Other	-	31	-	-	94	125
Expenditure in the year	-	(50)	(23)	-	-	(73)
Balance at 31 March 2001	-	236	114	-	113	463

The Fuel Manufacture and Reactor Services Business Group has existing obligations in respect of steam generator supply contract settlements and uranium supply contract settlements of £392 million (2000: £439 million) which have been provided as shown above, and are described in more detail on the following page.

28 Other provisions continued

- The provision for steam generator supply contracts relates to the settlement of various claims brought by US utilities, claiming damages in connection with alleged tube degradation in steam generators sold as components of nuclear steam supply systems. The contracts require the provision of certain products and services at prices discounted at varying rates together with cash payments. Tolling agreements have been entered into with some parties who have asserted steam generator claims. As at 31 March 2001, tolling agreements existed for two claims. Provisions have been made for the best estimate of costs to settle these matters. The liabilities are expected to be satisfied over the next 16 years, with the majority of expenditures occurring over the next nine years. The provisions are therefore discounted. The provisions are sensitive to a number of factors including timing and amount of discounted products and services offered.
- The provision for uranium supply contracts relates to the settlement of various contract suits which arose in the late 1970s. Settlements have been agreed whereby Fuel Manufacture and Reactor Services Business Group provide equipment and fuel supplies, of which eight remain open as at 31 March 2001. The supply of equipment is essentially complete and the fuel supplies extend through 2013.

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

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

Other sundry cost provisions comprise insurance provisions of £23 million (2000: £31 million) and various miscellaneous provisions of £202 million (2000: £55 million). Insurance provisions are best estimates of existing self-insurance liabilities for claims incurred but not reported and are calculated in accordance with established insurance industry practice.

29 Called up share capital

	2001 £m	2000 £m
Ordinary shares of £1 each authorised	43	43
Allotted, called up and fully paid	33	33

Notes to the accounts

30 Derivatives and other financial instruments

As explained on page 50 note 1(o) the Group uses derivatives and other financial instruments in managing the risk associated with its business. The Group does not engage in speculative treasury arrangements, in that all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board. The following numerical analysis gives an indication of the significance of these instruments to the Group.

a Interest rate risk

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

Financial assets

	Floating rate £m	Fixed rate £m	No interest £m	Total £m	Fixed rate instruments	
					Weighted average interest rate %	Weighted average period to maturity Years
Currency						
Sterling	4,586	1,339	365	6,290	5.3	3.0
US Dollar	–	31	11	42	7.5	2.0
Total assets at 31 March 2001	4,586	1,370	376	6,332	5.3	3.0
Sterling	4,772	1,178	123	6,073	5.9	3.5
US Dollar	598	–	11	609	–	–
Total assets at 31 March 2000	5,370	1,178	134	6,682	5.9	3.5

Analysed as follows:

	2001 £m	2000 £m
Nuclear liabilities investment portfolio (note 12)	3,815	3,887
Current asset investments and short-term deposits (note 17)	2,084	2,528
Loans and advances to associated undertakings and joint ventures	94	97
Debtors due in more than one year (note 14)	258	46
Trade investments (note 12) and cash	81	124
	6,332	6,682

30 Derivatives and other financial instruments continued

a Interest rate risk continued

Financial liabilities

	Floating rate £m	Fixed rate £m	No interest £m	Total £m	Fixed rate instruments	
					Weighted average interest rate %	Weighted average period to maturity Years
Currency						
Sterling	–	2	10	12	8.0	3.6
US Dollar	35	4	2	41	8.5	48.0
Other	2	–	2	4	–	–
Total liabilities at 31 March 2001	37	6	14	57	8.4	35.9
Sterling	19	2	–	21	8.0	3.6
US Dollar	165	4	–	169	8.5	49.0
Total liabilities at 31 March 2000	184	6	–	190	8.3	33.9

Analysed as follows:

	2001 £m	2000 £m
Loans (note 20)	38	165
Bank overdrafts	–	19
Amounts owed to associated undertakings and joint ventures (note 18)	2	–
Obligations under finance leases (note 22)	5	6
Other	12	–
	57	190

Included within financial assets bearing no interest are equity investments of £72 million (2000: £88 million), debtors due in more than one year of £252 million (2000: £46 million) and advances to associated undertakings and joint ventures of £52 million (2000: £nil). Included within financial liabilities bearing no interest are other creditors due after one year of £10 million (2000: £nil) and amounts owed to associated undertakings and joint ventures of £2 million (2000: £nil). Other creditors due after one year have a weighted average period to maturity of 3.2 years (2000: £nil). Debtors due in more than one year have a weighted average period to maturity of 3.2 years (2000: 2.6 years).

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

The interest rate characteristics of the Secretary of State's undertaking are explained in note 16.

b Currency exposures

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

Functional currency of operation	Net foreign currency monetary assets/(liabilities)			
	US Dollar £m	Euro £m	Other £m	Total £m
Sterling	236	10	(20)	226
US Dollar	–	(1)	5	4
At 31 March 2001	236	9	(15)	230
Sterling	252	–	(5)	247
US Dollar	–	–	1	1
At 31 March 2000	252	–	(4)	248

Notes to the accounts

30 Derivatives and other financial instruments continued

c Fair value of derivatives and other financial instruments

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

	Book values		Fair values	
	2001 £m	2000 £m	2001 £m	2000 £m
Assets:				
Assets held in nuclear liabilities investment portfolio	3,815	3,887	4,007	4,140
Gilt investments	258	362	279	393
Managed investments	1,142	1,228	1,147	1,230
Short-term deposits	684	938	684	938
Other assets	433	267	433	267
Liabilities:				
Short-term borrowings and current portion of long-term loans	3	71	3	71
Long-term borrowings	35	94	35	94
Other liabilities	19	6	19	6
Derivatives:				
Forward foreign currency contracts	–	–	18	8

d Hedges

Board policy is that all significant firm foreign exchange transaction exposures should be hedged. This is done by forward contracts or, where appropriate, by matching of receipts and payments in the same currency, or a combination of the two. Where their guidelines permit, the investment managers of the captive insurance companies may invest in non-sterling instruments. This is controlled by limiting the amount of such investments which may be left unhedged to a percentage of the total portfolio. However, at 31 March 2001, the captives held no significant unhedged exposures.

The Group had gains and losses on other foreign currency hedges as at 31 March 2001 of £26 million and £8 million respectively (2000: £9 million and £1 million respectively). The majority of these unrecognised gains and losses are expected to be recognised within one year.

e Commodity contracts

As explained earlier, prior to 27 March 2001 in order to mitigate the risks associated with fluctuating electricity pool prices, the Group entered into contracts for differences and electricity forward agreements. Use of these instruments was governed by the Group's hedging policies and procedures, which are regularly reviewed and approved. Under the new electricity trading arrangements which were effective from 27 March 2001, the majority of contracts for differences and electricity forward agreements were converted into agreements for the sale or purchase of electricity. A small number of contracts have not been converted; the Group estimates the fair value of these instruments at 31 March 2001 to be £nil (2000: £7 million). The estimate is based on a comparison between the contracted price (specified at the date of the deal) and the forward price for a similar contract at the year-end (based on available market data). All of these instruments will expire in the course of the next financial year.

31 Reserves

	Group	Parent
	Profit and loss account £m	Profit and loss account £m
Balance at 1 April 2000	277	181
Exchange differences	(13)	—
(Loss)/profit for the year	(46)	142
Balance at 31 March 2001	218	323

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

32 Reconciliation of movements in shareholder's funds

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Loss for the financial year	(46)	(262)	142	(338)
Exchange gains/(losses)	(13)	(4)	—	—
	(59)	(266)	142	(338)
Opening shareholders' funds	310	576	214	552
Closing shareholders' funds	251	310	356	214

Cumulative goodwill written off to reserves in respect of acquisitions before 1 April 1998 amounts to £119 million (2000: £119 million). This goodwill had been eliminated as a matter of accounting policy prior to the adoption of FRS 10 by the company, which requires goodwill acquired as the result of acquisitions to be capitalised on the balance sheet, and will be charged in the profit and loss account if and when the businesses to which it relates are disposed of.

33 Capital expenditure authorised

	Group		Parent	
	2001 £m	2000 £m	2001 £m	2000 £m
Contracted for but not provided for	86	41	65	31

Notes to the accounts

34 Pensions and other post-retirement benefits

- a The majority of the employees of the Group are covered by four defined benefit (final salary) pension schemes. These are:
- The Combined Pension Scheme of the United Kingdom Atomic Energy Authority
 - The BNFL Group Pension Scheme
 - The Westinghouse Electric Company Pension Plan
 - The Electricity Supply Pension Scheme

The Group's contributions to pension schemes are as follows:

	2001 £m	2000 £m
Combined Pension Scheme	—	—
BNFL Group Pension Scheme	3	6
Westinghouse Electric Company Pension Plan	10	8
Electricity Supply Pension Scheme	8	8
	21	22

- b 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).

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 next valuation is expected to be received later this year. The entry age method was used and the main long-term assumptions made were as follows:

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

The results of the valuation were as follows:

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

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

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

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

The results of the valuation were as follows:

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

The subsidiaries contribute to the scheme at rates recommended by the scheme's actuaries. These rates range from 8.0% to 9.0% depending on the subsidiary concerned.

34 Pensions and other post-retirement benefits continued

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

Investment return	8.75% per annum
Salary increase	6% per annum
Pensions increase	4.5% per annum

The results of the valuation were as follows:

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

The surplus will be utilised by:

- a reduction in the company contributions from the regular rate of 12% to 6% between 1 April 2000 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 2000;
- 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 2000. The first UK actuarial valuations of these plans will be carried out as at 31 March 2003.

Notes to the accounts

35 Contingent liabilities

At 31 March 2001, the Parent company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the directors, no material losses are expected to arise. Details are:

- a Guarantees, indemnities and charges have been given to banks, insurance companies and other organisations in respect of credit and foreign exchange facilities of £508 million in respect of overseas Group companies.
- b Letters of support have been provided to certain subsidiaries, in particular Magnox Electric plc, in order for them to continue operating safely and to meet their liabilities as they fall due for the foreseeable future. The net liabilities of Magnox Electric plc, as disclosed in its accounts, amount to approximately £2.1 billion.
- c The Group and its subsidiaries have entered into various guarantees in respect of contract performance, working capital facilities, technical services and plant maintenance, in the ordinary course of business.

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

- a A potential liability of £35 million plus accrued interest has previously been disclosed in respect of use of pension surplus by Magnox Electric plc. This disclosure was based on a claim against Magnox Electric plc and the Trustees of the Magnox Electric Pension Group of the Electricity Supply Pension Scheme (ESPS) which was similar in certain respects to proceedings against National Power and National Grid. The House of Lords ruled in favour of the ESPS employers on 4 April 2001 and the Pension Ombudsman has now advised that the claim against Magnox Electric will not be investigated further; on this basis the Group no longer has a contingent liability in this respect.
- 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 is committed to vigorously defend the action. As the proceedings are at an early stage it is not practical to estimate the financial effects of the conducting of the case or its outcome.

36 Reconciliation of operating loss to net cash inflow from operating activities

	2001 £m	2000 £m
Operating loss	(135)	(412)
Nuclear liabilities charged to operating costs	53	(525)
Nuclear liabilities discharged	(333)	(318)
Other provisions charged to operating costs	151	280
Other provisions discharged	(299)	(290)
Profit on disposal of fixed assets	(1)	(1)
Depreciation/amortisation/impairment charges	538	1,256
Increase in debtors	(280)	(14)
(Decrease)/increase in creditors	(198)	104
Decrease/(increase) in stock and work in progress	42	(90)
Grants released	(2)	(2)
Increase in advance payments	417	243
Investment provisions	22	14
	(25)	245
Net cash (outflow) from non-operating exceptional items	(24)	—
	(49)	245

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

	2001 £m	2000 £m
Dividends from joint ventures and associates:		
Joint ventures	2	2
Associates	9	7
Net cash inflow from dividends from joint ventures and associates	11	9
Returns on investment and servicing of finance:		
Interest received	217	185
Interest paid	(71)	(5)
Bank commissions	(4)	(3)
Net cash inflow for returns on investments and servicing of finance	142	177
Taxation:		
UK corporation tax (paid)/received	(3)	(95)
Net cash (outflow)/inflow on taxation	(3)	(95)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(413)	(489)
Purchase of intangible fixed assets	-	(3)
Proceeds from disposal of tangible fixed assets – exceptional	-	10
– other	15	5
	(398)	(477)
Net outflow/(inflow) to nuclear liabilities investment portfolio	141	83
Net cash outflow for capital expenditure and financial investment	(257)	(394)
Acquisitions and disposals:		
Acquisitions of subsidiary undertakings	(298)	15
Net cash acquired with subsidiary undertakings	58	-
New loans/advances to joint ventures	(8)	(7)
New loans/advances to associates	-	(3)
Loans repaid by joint ventures	3	3
Acquisitions of associates	-	(3)
Disposals of associate undertakings	5	-
Disposals of subsidiary undertakings	3	9
Net cash disposed of with subsidiary undertakings	-	(3)
Other investments	-	(10)
Net cash (outflow)/inflow for acquisitions and disposals	(237)	1
Equity dividends paid:		
Dividends paid to shareholders	-	(49)
Net cash outflow on equity dividends	-	(49)
Management of liquid resources:		
Net realisation/(investment) of short-term deposits and current investments	246	(30)
Net cash inflow/(outflow) from management of liquid resources	246	(30)
Financing:		
Repayment of loans and long-term credit	(128)	(1)
New loans	-	106
Net cash (outflow)/ inflow from financing	(128)	105

Notes to the accounts

38 Analysis of changes in net funds

	At 31 March 2000 £m	Cash flow £m	Non-cash movements £m	At 31 March 2001 £m
Cash at bank and in hand	108	(31)	–	77
Cash in short-term deposits	670	(263)	–	407
Overdrafts (note 18)	(19)	19	–	–
Loans due after one year (note 20)	(94)	59	–	(35)
Loans due within one year (note 20)	(71)	68	–	(3)
Finance leases (note 22)	(6)	1	–	(5)
Current asset investments	1,858	(246)	65	1,677
	2,446	(393)	65	2,118

39 Reconciliation of net cash flow to movement in net funds

	2001 £m	2000 £m
Decrease in cash in the year	(275)	(31)
Net funds/(debt) acquired with subsidiaries	–	–
Translation differences	–	(1)
Amortisation, indexation and revaluation of current asset investments	65	(6)
Cash flow from financing	128	(105)
Cash flow from management of liquid resources	(246)	30
Movement in net funds in the period	(328)	(113)
Opening net funds	2,446	2,559
Closing net funds	2,118	2,446

40 Related party transactions

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

- i Undertakings under common control of the Government
 - The Ministry of Defence
 - The UK Atomic Energy Authority
- ii Associated undertakings – The principal associated undertakings are listed on page 83.
- iii Joint ventures – The principal joint ventures are listed on page 83.

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

	Turnover £m	Purchases £m	Amounts due from related parties at 31 March Trading £m	Amounts due to related parties at 31 March Trading £m
2000-2001				
Undertakings under common control	106	15	43	–
Joint ventures	6	22	1	–
Associated undertakings	5	23	1	–
1999-2000				
Undertakings under common control	118	15	119	–
Joint ventures	6	34	1	–
Associated undertakings	6	13	10	–

For further details regarding equity and loan transactions with associated undertakings and joint ventures refer to note 12.

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 (UK) Limited

It is wholly owned by BNFL and its purpose is to provide business opportunities related to fuel manufacturing and reactor services within Europe.

International Nuclear Fuels Limited (INFL)

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

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

BNFL Uranium Asset Management Company Limited

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

Direct Rail Services Limited

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

Deva Manufacturing Services Limited

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

Hinton Insurance Limited

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

Rutherford Indemnity Limited

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

Electricity Producers Insurance Company Limited

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

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

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

Associated undertakings

Urenco Limited

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

Joint ventures

Westinghouse Government Environmental Services Company LLC

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

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

Westinghouse Government Services Company LLC

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

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

United Kingdom Nirex Limited

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

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

Fellside Heat and Power Limited

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

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

AWE Management Ltd

Its purpose is to manage and facilitate the Aldermaston weapons facilities on behalf of the MoD.

BNFL holds 33% of the ordinary shares. The remainder are held by Lockheed-Martin and Serco.

Financial statistics

	2001	2000	1999 Restated	1998 Restated	1997	1996
	£m	£m	£m	£m	£m	£m
Assets employed						
Fixed assets	12,168	11,407	10,713	7,438	5,280	5,015
Net current assets	10,629	10,687	10,065	12,004	1,121	1,166
	22,797	22,094	20,778	19,442	6,401	6,181
Financed by						
Loans and advance payments	4,098	3,819	3,588	3,330	3,902	3,848
Provisions for liabilities and charges	17,969	17,538	16,253	15,306	1,913	1,808
Accruals and deferred income	477	425	359	285	18	21
Share capital	33	33	33	33	33	33
Profit and loss account and reserves	218	277	543	486	534	470
Shareholders' funds	251	310	576	519	567	503
Minority interests	2	2	2	2	1	1
	22,797	22,094	20,778	19,442	6,401	6,181
Turnover and profits						
Turnover:						
Home	830	955	1,062	896	840	1,048
Export	1,316	1,109	503	445	422	501
	2,146	2,064	1,565	1,341	1,262	1,549
(Loss)/profit before investment income, interest and taxation	(103)	(359)	125	32	129	247
Net financing income/(expense)	37	22	93	128	87	69
(Loss)/profit on ordinary activities before taxation	(66)	(337)	218	160	216	316
(Loss)/profit for the financial year	(46)	(262)	132	91	124	(88)
Dividends	-	-	(65)	(53)	(46)	(93)
Retained (loss)/profit for the year	(46)	(262)	67	38	78	(181)

Note:

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

Glossary

AGR

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

BWR

Boiling Water Reactor.

CO₂

Carbon dioxide (the main greenhouse gas emitted into the atmosphere).

Drigg

The national low-level radioactive waste repository. Situated near to Sellafield.

DTI

Department of Trade and Industry.

Greenhouse gases

Various gases which when released into the atmosphere increase the greenhouse effect, causing climate change.

HAL Tanks

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

HSE

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

Hydro-electric Station

Produces electricity using water power.

ISO14001

International Standard for Environmental Management Systems.

Kilowatt

Unit for measuring power. One kilowatt is equal to one thousand watts.

Magnox

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

MoD

Ministry of Defence.

Mox

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

MDF

Mox Demonstration Facility – small demonstration plant to make Mox at Sellafield. Became operational in 1993.

mSv

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

NETA

New Electricity Trading Arrangements mean that electricity generated is now subject to sales contracts.

NII

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

OSHA

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

OSPAR

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

PNTL

Pacific Nuclear Transport Limited (a BNFL subsidiary company).

PPP

Public Private Partnership.

PWR

Pressurised Water Reactor – common type of nuclear reactor used throughout the world.

RIDDOR

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

RoSPA

Royal Society for the Prevention of Accidents.

SMP

Sellafield Mox Plant – new plant designed to make Mox fuel.

Thorp

Thermal Oxide Reprocessing Plant. Reprocesses ACR, PWR and BWR fuel at Sellafield.

TRIR

Total Recordable Incident Rate.

TWh

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

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