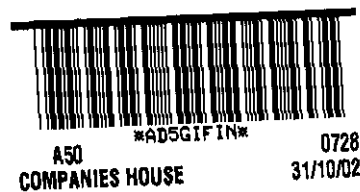


Company Number: 1002607

British Nuclear Fuels Public Limited Company

Annual Report and Accounts 2001/2002



This has been a landmark year for the nuclear industry during which significant decisions have been made. "A Liabilities Management Authority (LMA) will be established to take on responsibility for most of the UK's public sector civil nuclear liabilities on behalf of the Government... The Government's priority is the safe, secure and cost effective discharge of its nuclear liabilities in a way that ensures protection of the environment." Patricia Hewitt, Secretary of State for Trade and Industry, House of Commons, November 2001

a landmark year...

"Nuclear power is currently a key component of energy security and environmental performance. It provides over one third of Europe's electricity and will reduce the European Union's CO2 emissions by over 300 million tonnes in 2010... we recommend that the European Union should aim at least to retain its present proportion of nuclear power generation."

The House of Lords Select Committee, Security of Supply in the EU, February 2002

"Alongside low prices and secure supplies, climate change has become a central aspect of energy policy. Achieving global emission reductions will need major technical innovation, and I am convinced that the UK would benefit from being ahead of the game in moving to clean and low carbon technologies and in sharply improving our performance on energy efficiency."

Tony Blair, UK Prime Minister, Foreword, PIU Report, February 2002

Front cover: Sarah Dower, Senior Technical Support Officer, Research and Technology, Springfields.

Historically BNFL has been responsible, along with customers and the UK Government, for decommissioning and cleaning up nuclear sites. The Government's restructuring of these liabilities, announced in 2001, will give a commercially focused framework for their management and discharge.

What this will mean:

- Transfer of ownership of assets and nuclear liabilities on BNFL's Sellafield, Capenhurst, Drigg and Magnox sites.
- Operating these facilities under contract to the Liabilities Management Authority (LMA).
- Introducing competition into the market place.
- BNFL will have a prime focus on the efficient discharge of these historic liabilities, whilst continuing to deliver value from its other businesses.

...for nuclear energy

The UK Government has to consider a long-term energy policy which will include nuclear energy generation alongside energy produced by oil, gas and renewables.

The Performance and Innovation Unit (PIU) has recommended to the Government that actions have to be taken now to retain nuclear energy as part of a balanced energy mix. The right policy framework must be created to bring nuclear energy to the market place.

2 Chairman's statement	33 Consolidated profit and loss account
4 Chief Executive's review	33 Statement of total recognised gains and losses
9 Commercial and social responsibility	34 Consolidated balance sheet
14 BNFL at a glance	35 Company balance sheet
16 Business review	36 Consolidated cash flow statement
20 Financial review	37 Notes to the accounts
24 Background to nuclear liabilities	71 Principal subsidiary and associated undertakings and joint ventures
26 Board of Directors	72 Financial statistics
28 Report of the Directors	ibc Glossary
29 Corporate governance	
32 Statement of Directors' responsibilities	
32 Independent Auditors' report	

Chairman's statement

This has been a landmark year for BNFL during which significant decisions have been made against a backdrop of substantial achievements. With nuclear power firmly on the energy agenda, the future looks increasingly bright for the industry and the company.

Hugh R Collum Chairman

a landmark year

-
- 1** We will focus on meeting clear project milestones for legacy management during what will be a seamless transition to a Government client-supplier relationship.
 - 2** We will embrace the challenges an international market place will bring.
 - 3** We will remain a supplier of high-tech nuclear products and services for our Utility and Government customers.
 - 4** Our key assets will continue to be our unique nuclear, scientific, technical and engineering knowledge based workforce.
 - 5** We will continue to focus on providing a world-class service to our two main customer groups whilst working towards a future Public Private Partnership (PPP).

In order to build on the substantial progress which we have made throughout the year and the developments that have taken place in the industry, it is now very important that key decisions about the company's future are quickly translated into Government legislation. Without this Government action, the momentum of the last two years will be lost.

In addition, there is a great need for the UK that the Government now takes steps to introduce a balanced and long-term energy policy – one which retains the current nuclear component alongside oil, gas and renewables.

Early progress on the above two issues in the UK is in the long-term interests of the environment, the country and the company.

International business is a key growth area for us. We are re-establishing good relations with our Japanese customers and have continued to build on our strong business base in the USA. Around the world, nuclear power has climbed up the agenda of alternative sources of supply. BNFL is well positioned to take advantage of this improving climate towards nuclear energy.

Key decision

Since its arrival over two years ago, the new management team has recognised that the issue of who should own and manage BNFL's nuclear liabilities had to be resolved if the company was to become a truly successful and commercial enterprise. This key decision, which will have a profound and positive impact on the company, has now been taken.

In November 2001, the UK Government announced that a Liabilities Management Authority (LMA) will be established to take on responsibility for most of the UK's public sector civil nuclear liabilities, including BNFL's. The LMA announcement followed a review by BNFL of its strategy and the most appropriate approach for tackling the historic waste – which arose from the early years of the UK's nuclear programme. As a consequence, BNFL's long-term liabilities were estimated to exceed its assets, a position that the establishment of the LMA will address.

However, creation of the LMA will require UK primary legislation by the Government, which has promised to bring forward a Bill 'at the earliest opportunity.' It is essential that the Government delivers on this promise.

Energy policy

We have been calling for clarity on future energy policy in the UK for a long time. In last year's Annual Report, I noted the announcement by the UK Government of an energy review and the markedly more favourable attitude to nuclear power globally. Since then, the Performance and Innovation Unit (PIU) has published its report to Government which concluded that the necessary actions should be taken to retain the nuclear generation option. We welcomed the PIU report and look forward to the White Paper at the turn of the year, but we do have concerns about the lack of urgency over the need for action. If the Government does not set the policy framework to allow new stations to be commercially built, then nuclear generation will not be an option for the future. We will have missed the boat, with severe consequences for the environment and the long-term security of the UK's energy supply.

We stand ready to deliver the skills, technology and expertise if nuclear generation continues to be part of the energy mix. For example, we have a new generation of reactor designs, one of which, the AP600, is already licensed in the USA and another, the AP1000, is set to follow. As well as new reactor design, we are world-leaders in fuel manufacturing, management of spent fuel and the decommissioning of reactors at the end of their lives.

Linked to any decisions on the future role of nuclear energy is the issue of long-term radioactive waste storage. In this context, it is encouraging to note the progress being made internationally, particularly in the USA. This matter needs now to be addressed in the UK.

On a more general issue, we remain concerned at the impact in the UK that New Electricity Trading Arrangements (NETA) have had on the electricity market. Low prices without corresponding investment are not good for the consumer and are not sustainable in the long-term for the electricity industry. We need to find a way to achieve a better balance.

Progress in 2001-2002

We have continued to progress towards world-class levels of performance in the crucial areas of safety and the environment.

Our commitment remains total and I am pleased that we have improved on last year's performance. We have also made good progress within our operations, underlining the link between safety and efficiency. A significantly improved operational performance helped turn last year's £210 million loss before tax and exceptional items into a £22 million profit this year.

I want to take this opportunity to thank our managers and employees for their tremendous efforts over the past year. It was gratifying that the UK Government recognised this when it acknowledged last year the great deal of work that has been done to refocus BNFL over a relatively short space of time.

The Board

In May this year, Chris Loughlin left the company after 21 years of service, including three years as a member of the Board. We thank him for the contributions he has made and wish him well for the future.

I am very pleased that Joe Darby has joined the Board after 30 years' experience in the oil industry and also Jim Currie, who is expected to take up his position in November 2002, and who has had a distinguished career in the Civil Service both here and at international level. Both bring a wealth of experience which will further strengthen our team.

The future

There is much still to do however, particularly in terms of our financial performance. Significantly improving our numbers will require a step up in our competitiveness and this speaks to an ongoing change in our culture. Only if we do this will we give ourselves the opportunity for PPP.

The short-term outlook in our key markets remains challenging but is now more clearly defined. We are in a much better position to respond to commercial opportunities and to take advantage of these. In the longer term, the prospects for BNFL are promising but we need speedy legislation and implementation of the LMA alongside a positive energy policy.

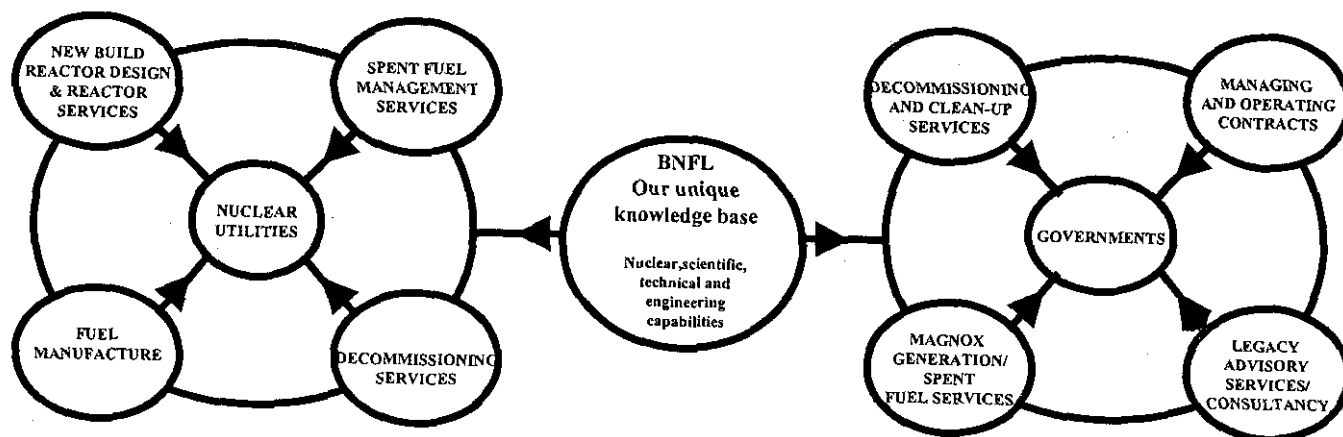


Hugh R Collum Chairman

Norman Askew Chief Executive

focused on serving two

Our strategy is focused on serving two main customer groups, Nuclear Utilities and Governments around the world. We will leverage our unique nuclear, scientific, technical and engineering knowledge base to ensure a high quality service and performance delivery.



Our two main customer groups

We have recently announced a new organisation structure for BNFL which truly reflects the customers we serve.

The company is now structured into two main business groups: Nuclear Utilities Business Group and Government Services Business Group.

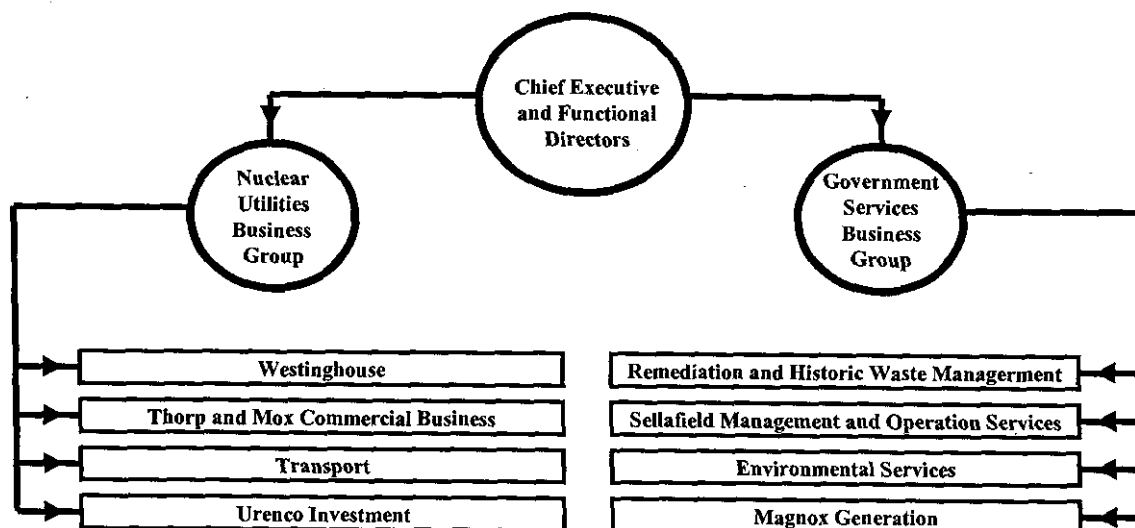
The Nuclear Utilities Business Group includes the global fuel manufacturing and reactor services business of Westinghouse, the commercial management of Thorp and Mox business, our transport operations (including marine and rail) and Urenco

Investment. It will continue to serve our global nuclear utility customers, bringing a clearer and more focused direction.

The Government Services Business Group consists of Remediation and Historic Waste Management, Sellafield Management and Operations Services, Environmental Services and Magnox Generation. It will continue to serve our Government customers worldwide and will embrace the commercial opportunities that the creation of the Liabilities Management Authority will bring.

main customer groups

To reflect our strategy within the market place, we have aligned our business to meet the needs of our two customer groups. We aim to position ourselves as the leading supplier of specialised products and services to the global nuclear sector.



BNFL's new business structure

This is a time of major opportunity for BNFL, one that we are determined to seize. Building on the hard work and achievements of the past two years, BNFL is now taking shape, having regard to the highest safety standards. We are more competitive, commercially focused and developing the best of our talent into a business which is truly successful.

There were two major policy decisions during the last financial year, which will positively impact on BNFL in the years to come.

The first was the announcement by the UK Government to establish the Liabilities Management Authority (LMA). The second was a change in company policy on the way we will be managing historic waste at our UK sites.

Currently, we are responsible along with customers and the UK Government, for decommissioning and the clean up of nuclear sites. This involves carrying £40 billion gross of nuclear liabilities. This is not sustainable for a public company and has to be changed. In November 2001, the Secretary of State announced the intention to establish a Liabilities Management Authority. Once legislation is passed, the LMA will be responsible for most of the public sector civil nuclear liabilities in the UK, including Sellafield and our Magnox power stations.

The establishment of the LMA will have a profound impact on the shape of our business and its culture. We will become a business whose value and strength lie in the unique expert nuclear, scientific, technical and engineering knowledge of our people as well as the high quality products and services they provide. This will enable us to compete for the right to manage the sites on behalf of the LMA.

In order to prepare us well for operating under this new commercially competitive framework, we have set up BNFL ALFA to act as our internal equivalent to the LMA. We are therefore running our business today as we will have to once the LMA is established. This will give us a head start on the transition to the new way in which this part of our business will operate in the future.

The second significant policy change made by our Board was related to the strategy for dealing with historic waste, which we reviewed given the delays and uncertainty surrounding long-term disposal. As a result, we are working with our regulators towards a policy of long-term storage. This will involve us determining a suitable form for the waste to be retained in a safe and passive form. Once stored, it has to be monitored and retrievable. Whilst this change in policy has led to a £1.94 billion charge to profits, it will result in the reduction of hazard for this generation as well as keeping options open for the future.

We have reorganised our business to be aligned with the two types of customer we serve. Our Nuclear Utilities Business Group will service the needs of nuclear utilities around the world and will be led by Charlie Pryor. Our Government Services Business Group will manage the transition to competition in the UK and will also be responsible for our management and operations contracts on a worldwide basis.

Our most important goal continues to be to run our operations to the highest safety and environmental standards. This does not conflict with our need to increase competitiveness throughout our businesses. We are sharing best practice across the Group and the new organisation structure will help to facilitate this further.

We have made good progress in increasing accountability and clarifying reporting lines. We are benefiting from the arrival of new blood from outside the organisation as well as developing talent from within.

Major achievements

We are experiencing fundamental change within BNFL; change which we welcome and which would not have been possible without the hard work and achievement of the past two years. This was recognised last autumn when the UK's Secretary of State for Trade and Industry said "BNFL's management and workforce have made considerable progress in their efforts to turn the company around". She also added that "there is more still to do", a sentiment I heartily endorse.

One of the major achievements in the past year was gaining approval from the UK Government to use the Sellafield Mox plant (SMP) for Mox fuel production. Customers have clearly indicated their commitment to SMP – the plant already has sufficient contracted business to reach 'break even'. Our customers

have been extremely patient. We can now get on with the job of manufacturing fuel and repaying the commitment they have shown us. Opening SMP has been very important for the business, it comes after five public enquiries and testifies to the commitment and hard work put in by the SMP team.

There has been continued excellent progress in the vital areas of safety and the environment. Also, we have completed the requirements of two out of the three Nuclear Installations Inspectorate (NII) reports on schedule. We are progressing well on the third NII Report – the Team Inspection Report – and are targeting to complete the work before the end of 2002.

We have completed the restructuring of the management team by drawing on the best internal talent and recruiting externally. We have seen some excellent progress within our businesses. Westinghouse, our Fuel Manufacture and Reactor Services business, enjoyed another excellent year of growth alongside our Spent Fuel and Engineering business. The restructuring of our newly-named Environmental Services business is progressing well and the Magnox Generation business performed well in very difficult market conditions. We have now completed the strategic review of all our businesses and have commenced implementation as outlined in this Annual Report.

Driven by the improvement in our operating performance, we made an underlying net profit of £22 million before tax and exceptional items, compared with a loss of £210 million last year – a £232 million improvement. Whilst this is significant progress, it also underlines that more needs to be done. Overall, our results were dominated by exceptional charges of £2.35 billion, the main part of which (£1.94 billion) related to the fundamental review and revision of our historic waste policy. This figure was made public by the Government in November 2001 as part of its announcement on the creation of the LMA.

The opportunity

The necessary changes within the company are being made in the context of improving opinion towards nuclear energy internationally. We are well positioned to take advantage of our strong business base in the USA, with a product and service portfolio which can deliver world-class skills and technology to our two customer groups, Nuclear Utilities and Governments. Specifically, we expect our expertise in new reactor design to pave the way for our participation in a resurgent global nuclear energy market.

As we announce our results, it is very pleasing to see that the Congress of the United States has agreed to proceed towards the commissioning of Yucca Mountain as a long-term storage facility for spent fuel. This

The changes within BNFL are being made in the context of an evolving market place, one that is more promising towards nuclear energy. Our expertise in reactor design will ensure our participation in a resurgent global nuclear energy market.

and the other initiatives being taken in the USA are paving the way for new nuclear build.

Recently, we signed an agreement with our customer British Energy to assess the feasibility of our Westinghouse AP1000 Advanced Pressurised Water Reactor design. The announcement represented a significant step forward in opening the possibility to build a replacement nuclear power station in the UK. The AP1000 is ready to be licensed and we are delighted that British Energy want to pursue this option further.

Three UK Government and Parliamentary reports on Energy, published during the year,* were all positive about the future role of nuclear energy. At BNFL, we are clear that a low carbon future can only be delivered with nuclear generation and renewables contributing in tandem as part of a balanced energy mix. Without the contribution of nuclear power, this country cannot have a continued, secure, diverse and environmentally friendly energy supply.

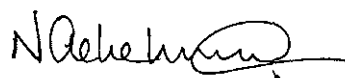
Our focus

It is essential that we continue the drive towards improved output and cost management whilst continuing to have the highest safety and environmental performance. Our focus for the next year is to:

- continue to enhance world-class safety and environmental performance;

- further improve operational and financial performance;
- accelerate competitiveness and change within the company, triggered by the establishment of the LMA;
- complete the requirements of the final HSE report;
- focus on the development of our people resource.

Finally, I would like to thank my team and all our employees for their hard work over the past year. It will not surprise them to hear that more will be required if we are to achieve our goals. I would also like to thank the UK Government for its continued support and recognition of the progress we have made. We now look to them for speedy passage of the LMA legislation so that we can build on the momentum we have created to date.



Norman Askew Chief Executive

*PIU report to the Energy Review; House of Lords Select Committee report on the security of Energy Supplies in the EU; House of Commons Trade and Industry Committee on the security of UK energy supplies.

Commercial and social responsibility

Safety and quality

Continuous improvement in our safety culture remains a top priority and we are sharing the range of good practices currently being used by individual businesses and sites across the Group. A number of awards recognised the continued improvements in our industrial safety record during the year.

Trawsfynydd, a Magnox power station being decommissioned, has passed 1,000 days without a contractor Lost Workday Case. An integrated safety management approach, which considers staff and contractors as one team, has been the foundation of this success. Contractors and staff have been fully involved in the development and implementation of the site's Safety Enhancement Plan. Their contribution to safety on the site cannot be overstated.

The Westinghouse Speciality Metals Plant in Blairsville was recertified as a 'Star Site' by the US Department of Labor's Occupational Safety and Health Administration (OSHA). The Star Status is the highest possible rating achievable under OSHA's Voluntary Protection Program, recognising outstanding protection of safety and health.

In recognition of the integral role safety plays in all business activities at Sizewell A, the station was awarded a level 9 out of a maximum level 10 on both the International Safety Rating System and the International Environmental Rating System for the second year running.

A more detailed account of our environment, health and safety performance is available in our 2002 Environment, Health and Safety Annual Report, published in October 2002.

Safety

Nothing is more important than the safety of our employees, contractors and the general public. This year we have maintained our excellent performance in controlling the amount of radiation our employees are exposed to, with all of our employees receiving significantly less than regulatory limits. We continued to improve our overall safety performance and surpassed our headline injury target for a Total Recordable Incidence Rate of less than 1.24 incidents per 200,000 hours worked by achieving a rate of 0.92.

We encourage our sites to gain external recognition of their safety performance and management systems. This includes seeking Star Status from the US Department of Labor's Occupational Safety and Health Administration (OSHA) for outstanding levels of safety and health, and gaining awards from the UK's Royal Society for the Prevention of Accidents (RoSPA). We are pleased to report that our Blairsville site in the US was recertified as a Star Site and our Engineering function in the UK won the RoSPA Sector award. In addition, we are delighted that our Springfields site in the UK was ranked first by the Chemical Industries Association (CIA) for member sites with more than 1,000 employees. The Aldermaston Weapons Establishment, in which BNFL is part of the management consortium, won RoSPA's top award – the coveted Sir George Earle Trophy, awarded for the most outstanding performance in health and safety by a company or organisation.

Looking forward, good safety culture and employee involvement are key to

achieving continuous improvement in safety performance. We are now identifying good safety practices used by individual sites and business units and sharing them across the organisation. We are revitalising the involvement of staff and unions through programmes such as Behavioural Safety and we are making significant efforts to clarify the expectations and commitment to safety from our managers and supervisors.

Quality

Striving to exceed customers' and stakeholders' quality expectations is vital to our success and we are strengthening awareness of this through the emphasis which the Board of Directors and our Chief Executive place on our Quality Policy in developing quality targets. Also, we are applying the behavioural techniques used successfully in safety performance, to our quality culture.

We have made significant progress in restoring the confidence of our Japanese customers, and convincing our regulator of our quality improvements. Most of our businesses are applying the principles of the new ISO 9001:2000 Quality Management Standard. Our Sellafield Mox Plant, engineering and UK fuel businesses have already been certified to the new standard.

In 2002-2003, we will concentrate on applying our Quality Policy through improved management systems, supporting this through effective independent verification and further work on measures and targets.

Commercial and social responsibility

Environment and health

Our primary goal is to protect our people and the environment and to be respected by our stakeholders for managing our environmental responsibilities. We are developing a number of initiatives and processes to drive continuous improvement in environmental management and awareness across all our operations.

We routinely undertake sampling and analysis of environmental materials, from around our sites, as part of our discharge authorisations. This is to demonstrate that there is no significant impact on man or the environment from our operations. Certain seaweeds are good materials to sample as they respond rapidly to changes in concentrations of environmental radioactivity.

The reduction in the sickness absence rate at Sellafield (from 7.88 days per year to 7.56 per year) was due to an effective partnership between employees, line managers, trade unions and occupational health which focuses on long-term sickness. Its purpose is to identify a suitable position/role for the employee to return to work.

Environment

We aim to be respected and trusted by our stakeholders for managing our environmental responsibilities. In the UK, we reduced the number of non-compliances with discharge authorisations from 27 to 17. While none of these had any significant environmental impacts and achieved our headline target reduction in non-compliances, this is still 17 too many. We will continue to strive for our ultimate target of zero. On our Sellafield site, work is continuing on managing our historic waste legacy and continuing to achieve our commitments to OSPAR.

In order to improve our environmental performance, we recognise that we need to gain better commitment from our employees and have an improved understanding of our global impacts. We are developing a number of initiatives to achieve this, including:

- trialling a programme within Magnox, based on Springfields' environmental culture and awareness experience, to apply to other sites;
- putting environmental management system requirements into our site integrated management systems;
- applying the sustainable environmental approaches currently under development;
- using enthusiastic environmental champions and integrating environment into behavioural safety, new plant design and plant modification procedures.

Health

We value the importance of maintaining a fit and healthy workforce. Nuclear industry workers continue to be a closely studied group for determining the linkage between radiation and adverse health outcomes. Two such studies published recently relate to workers on BNFL sites at Capenhurst and Chapelcross, and have not shown any unexpected findings. A study carried out at Newcastle University by Dr Parker and Dr Dickinson, re-examining the incidences of leukaemia in the children of male radiation workers at Sellafield, showed "no evidence at all that radiation workers employed today and working under current radiological protection guidelines, are putting their children at any increased risk".

Nationally, we have contributed to a scientific review of the operation of the National Registry of Radiation Workers.

Following the successful introduction of our drugs and alcohol policies, reported last year, and extensive education this year, we have identified stress as a priority for 2002-2003. Stress management will be integrated into the Occupational Health Strategic Plan and we will be developing prevention initiatives to supplement the existing measures.

Commercial and social responsibility

Research and technology

Research and technology underpins all aspects of our business. We continue to develop strong research collaborations with academia, in the UK and internationally, educate more scientists and make more of their expertise. During the year, we invested £113 million in Research and Technology.

As part of our overall strategy to internationalise our R&T capabilities and to promote the BNFL Technology Centre as a worldwide centre of excellence for nuclear research and development, we have established a collaboration agreement with JNC in Japan, which covers a whole range of issues including waste and reprocessing.

We are working with many organisations worldwide under the auspices of the European Union collaborative programmes. The objectives are to contribute to scientific and technological developments as well as economic development. Working with other international organisations allows experts around the world to share ideas and best practices as well as ensuring efficient use of the most highly skilled scientists and engineers available to the industry.

The assets of the company are our people and our knowledge base. As a recognised world-leader in providing nuclear technology, our assets will become a premium resource in a climate of growing interest in nuclear generation and subsequent building of new nuclear reactors.

New nuclear generation

With ownership of the rights to the new reactor designs AP600 and AP1000, and a strong interest in the Pebble Bed Modular Reactor (PBMR) concept, we are ideally placed to respond to the encouraging signs of the growing world interest in nuclear energy. We are now working with utilities in the US, UK and elsewhere to commercialise our reactor designs.

BNFL Technology Centre

Based at Sellafield, this new facility provides a focal point for our R&T activities and has already attracted significant interest from existing customers and international delegates from Japan, Russia, Germany, France, the US and China. When fully operational in 2004, the Centre will provide state-of-the-art facilities for nuclear fuel cycle research, encouraging collaborative ventures with international organisations and University Research Alliances.

Technical support

Technology is vital to winning new business and attracting new partners, so we continue to focus on providing key technical support

to our businesses. In particular we worked on several projects at Sellafield, including the Mox commissioning programme, Thorp and Magnox reprocessing and the Historic Waste Management programme. The technological ingenuity we demonstrate in our work for Environmental Services has won us a variety of international work, including a decommissioning study for the Vandelos 2 reactor in Spain. We also continue to work with the Magnox power stations to ensure they achieve their generation and operating targets safely, and provide a range of technology support to British Energy.

Links with academia

Our University Research Alliances are designed to support leading edge scientific research work of direct value to BNFL, by sustaining nuclear competency in Universities and so developing potential recruits for ourselves and the industry generally. The Centres are part of an international network of world-class Research Centres. To date, we have established links with the Universities of Manchester, Leeds and Sheffield.

We are collaborating in 12 co-funded projects with the EU's nuclear research programme covering fuel cycle activities and involving over 30 organisations from Europe, Japan and the US. We continue to carry out research in Russia, exchange technical staff with Japanese research organisations and will develop our collaboration agreements with official Japanese and French bodies in the coming year.

Commercial and social responsibility

Our people

We recognise that our performance depends on our people – on their high quality leadership abilities and their nuclear, scientific, technical and engineering skills. Our expertise and experience in these areas is recognised internationally. We continue to recruit large numbers of technically-qualified graduates to provide the backbone of our future.

Our graduate recruitment programme offers graduates the opportunity to work in various positions around the organisation with personal mentors on hand to offer advice and guidance for future career development.

Students on sandwich courses at Universities with whom BNFL have links are offered the opportunity to complete their 12 months' work experience with the company.

Human resources

As an international knowledge based business, we recognise our performance will depend on our people – on their high quality leadership abilities and their scientific, technical and engineering skills. Our expertise and experience in these areas is recognised internationally. However, to remain competitive and enhance this resource we need to continue to attract, motivate and retain talent in today's competitive employment markets.

Attracting the right people

We continue to recruit large numbers of technically-qualified graduates and postgraduates, particularly in the US and the UK, to provide the backbone of our future technical and leadership roles. In 2002, we recruited over 120 graduates and postgraduates in the UK and 40 in the US. We also continue to improve our professional and technical capabilities at all levels through extensive local and national recruitment campaigns, for example recently recruiting over 400 new people to Sellafield.

Growing our skills base

The company must become more competitive and we have already enjoyed considerable success in raising performance by sharing our international learning and experience across the Group. Graduates, young professionals,

senior managers and technical leaders all have the opportunity to develop and use their skills internationally. This must continue and we remain committed to offering an extensive range of learning opportunities to develop and enhance the technical and professional skills of individuals and teams. Our performance management processes enable us to reward achievement both technically and in leadership positions, and we work closely with our unions to help maximise the potential of all employees.

Making BNFL the employer of choice

While becoming more competitive, our focus is to build on our technical knowledge and expertise. We will continue to recruit scientific and engineering talent in significant numbers, particularly in the UK to support our Historic Waste Management projects at Sellafield. Our priority is to make BNFL the employer of choice for technically-qualified graduates and leaders by offering fulfilling and rewarding international careers.

Emerging opportunities

As our business evolves further into competing for major site management contracts, we will ensure we make the most of our growing technical and leadership skills base to realise the opportunities presented by the new, highly commercial arena.

Commercial and social responsibility

Our work in the community

We are aware that our activities have a social, environmental and economic impact on our local communities and we continue to support initiatives that enhance the quality of community life. Our ongoing programme of community investment and involvement covers education, charitable support and economic regeneration.

During the year, we sponsored the 'Canaries' project in the Deepdale area of Preston. The project offers children and young adults the opportunity to participate in sport. Its objectives are to encourage community cohesion and integration. Through its success, the Canaries project has now evolved into a community-led organisation with homework classes and further support made available for the youngsters in the fields of education and health awareness.

At Fox Wood School in Warrington, BNFL sponsored equipment for a relaxation room for children with special needs, especially those who have physical difficulties and experience discomfort.

The 'Angel Tree' programme at Blairsville in the US involves finding employee 'angels' to buy Christmas presents for underprivileged children. There are currently between 90 and 125 children on the programme.

Community involvement

We have made good progress in our quest to be recognised as a good corporate citizen, aware that our activities have social, environmental and economic impacts on local communities and the countries in which we operate.

Our ongoing programme of community investment and involvement covers:

- education – recognising that our continuous requirement for specialist skills demands that we promote science and technology as an exciting subject;
- charitable support – especially enhancing quality of life through safety and community work and campaigns addressing social exclusion in the communities we operate in;
- economic regeneration – particularly of North-West England and South-West Scotland.

Making education a priority

We support the development of a national education programme by producing educational resources to help teach science, technology and engineering at all education levels in the UK. We support several schools in gaining specialist Government-backed science, technology and engineering status. In addition we work in partnership with colleges and with other industries, to secure high quality further education in the areas in which we operate.

Supporting valuable initiatives

In the UK, we work closely with the Duke of Edinburgh Awards and Business in the Community, and continue to support the Prince's Trust franchise in Cumbria. The focus of our support has once again been for issues such as drug and alcohol abuse, homelessness, youth crime and unemployment. We encourage employees to volunteer for community work and where possible support them through the company's 'match funding' scheme. In the US, we continued to participate in 'Home Safe Home' project, where employees conduct safety checks in the homes of senior citizens and the 'Day of Caring' in Pittsburgh where volunteers renovate local community facilities. This year, over 100 graduates in the UK and the US were involved in community projects during their induction weeks.

Economic regeneration

This year we contributed over £2.8 million to initiatives such as the West Cumbria Development Fund and the science-based postgraduate college within the Westlakes Science Park. We also continue to invest in new technology-based businesses, providing essential support throughout our chosen region.

BNFL at a glance

BNFL is an international knowledge based business with activities in 16 countries employing around 23,000 people. We are focused on serving our two main customer groups, Nuclear Utilities and Governments, by providing a broad portfolio of unique skills and expertise.

Our businesses

Fuel Manufacture and Reactor Services: Westinghouse provides a broad portfolio of products, services and technology to nuclear utilities around the world, helping them to produce safe, low-cost, reliable and environmentally friendly electricity.

Magnox Generation manages six generating and two defuelling nuclear power stations and one hydro-electric power station, producing electricity for the wholesale electricity market in England and Wales.

Spent Fuel and Engineering manages and operates the nuclear assets situated on the Sellafield site. It provides a full range of spent fuel management services to utilities in the UK and worldwide.

Environmental Services specialises in decommissioning and waste management activities for customers including commercial utilities and Governments.

Main activities and services

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

Electricity generation and sales, defuelling, reactor operation and servicing.

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

The decontamination, dismantling and removal of redundant nuclear facilities, and the management and processing of historic wastes from nuclear operations.

Group financial highlights

	2002 £m	2001 £m
Turnover	2,261	2,146
Operating loss before exceptional items	(68)	(298)
Profit/(loss) on ordinary activities before taxation and exceptional items	22	(210)
Exceptional items	(2,350)	144
Loss for financial year	(2,090)	(46)
Capital expenditure	(524)	(413)
Net cash flow in the year	(162)	(275)

Percentage of Group turnover

47%

Business Group turnover £1,070m

Market positioning

Westinghouse is a world-leader in reactor design with the AP600 and AP1000 being at the forefront in reactor technology. Westinghouse is sole supplier of AGR fuel in the UK market and the leading supplier of PWR fuel in the US market.

Under the new Group structure

Westinghouse will form a key part of the Nuclear Utilities Business Group and will continue to serve our nuclear utility customers around the world.

17%

Business Group turnover £380m

During 2001-2002, BNFL provided around 5% of the electricity generated in England and Wales.

Magnox Generation will continue to operate the six Magnox power stations and one hydro-electric power station and continue to defuel a further two as part of the Government Services Business Group.

27%

Business Group turnover £615m

BNFL has robust contracts in place for the reprocessing of Oxide fuel and is one of two key players in the global spent fuel management and recycling services market. Through further commitments from our European customers for Mox fuel, we are well placed to become a major player in the international Mox fuel supply market.

Thorp, Magnox Reprocessing and Mox commercial activities will be provided by the Nuclear Utilities Business Group, along with our transport activities. Management and operations activities at Sellafield (including remediation and historic waste management) will be provided by the Government Services Business Group.

9%

Business Group turnover £196m

The global decommissioning and clean-up market, although in its formative stage, is large and growing. The US has the largest funded market, followed by the UK. BNFL is the leading player in the UK and, through proven expertise in the domestic market, now holds a strong position in the US.

Environmental Services will form part of the Government Services Business Group and will continue to provide decommissioning and waste management activities to US, UK and other Governments.

Business review

Fuel Manufacture and Reactor Services: Westinghouse

The global future for nuclear energy is becoming brighter, allowing us the opportunity to continue to grow as a major international player. We are attracting the engineering and managerial expertise required to offer market-leading technology and services, and make the most of each new business opportunity as it arises.

Charlie Pryor President and Chief Executive Officer, Westinghouse

Turnover	£1,070m
Loss before taxation and exceptional items	£78m
Employees	8,031

Highlights 2001-2002

- Successful integration of ABB nuclear business.
- Erbia fuel production line successfully installed into our fuel manufacturing plant at Columbia.
- Continued improvement in safety performance, including over 40% reduction in the company-wide recordable incident rate.
- Secured strategic long-term contracts.

In readiness for a resurgence of nuclear energy, Westinghouse has developed a new generation of reactors. One of which, the AP600, is already licensed in the US and another, the AP1000 is set to follow. These new generation reactors have a simplified design with shorter construction times and lower capital costs. With the highest safety pedigree, they will be very competitive with other means of electricity.

Overview

Financial performance for the year was very good with all three operating units performing strongly in their markets. Overall the business grew successfully, with turnover of £1,070 million compared to £1,048 million last year. Profit before tax and exceptional items was £78 million an increase of £26 million on last year (2001: £52 million).

We successfully integrated the ABB businesses we acquired last year, concentrating our US-based fuel manufacturing at Columbia and opening a consolidated Repair and Replacement Services facility near Pittsburgh. In addition we acquired a controlling interest in Logitest, a Paris-based nuclear non-destructive testing company, and sold the non-nuclear activities of our Barras Provence operation in France.

We also focused on expanding our international business organically, firstly by finalising several long-term contracts, including E.ON Kernkrafts and Constellation Nuclear. Secondly, by developing innovative customer relationships, such as with the Czech Republic's new Temelin 1 plant, which reached full power capacity with all our instrumentation and control equipment performing well. In the US, we became exclusive supplier of various services, parts and instrumentation for Entergy's Pressurised Water Reactors.

Following the acquisition of ABB's nuclear business, the Erbia fuel production line was successfully installed at our fuel manufacturing plant in Columbia, US without any outage delay to customer orders.

Opportunities

In the US and the UK, Government policies towards building new nuclear power plants are generally positive and the US is looking to have new nuclear plants on-line by 2010. In anticipation of this potential growth market, we expanded our recruitment programme, and have taken on over 200 recent engineering and computing graduates in the last four years. Further afield, many of the world's existing plants have extended their licenses and new plants are underway or planned in Korea, China and Japan. We continued our participation in Korea's programme with bids for the planned Shin Kori and Shin Wolsong projects.

Priorities and outlook

Public support for nuclear energy is higher than it has been for two decades and Westinghouse has an important role to play on the world stage. The new commercial culture of BNFL, combined with new engineering and management talent, will keep us competitive and help us deliver growth by providing leading products and services to improve the efficiency of our customers' operating plants. We look forward to another year of continued growth.

Business review

Magnox Generation

Demonstrating our capability and competence in maximising revenue from operational sites, and defuelling and preparing stations for decommissioning will establish BNFL as the supplier of choice for the Liabilities Management Authority.

Clive Smitton Director, Magnox Generation

Turnover	£380m
Loss before taxation and exceptional items	£115m
Employees	3,475

Highlights 2001-2002

- Significant financial and operational improvements.
- Proposal for Liabilities Management Authority (LMA) to take over ownership of Magnox stations.
- Continued improvement in safety; Sizewell A is the first UK nuclear power station to retain a level 9 status on the ISRS and IERS scales out of a maximum level 10.
- Return to service of Wylfa power station.

Overview

Our underlying financial performance improved markedly, with turnover increasing to £380 million from last year's £372 million, despite a major fall in the price of electricity. As a result, we restricted overall loss before tax and exceptional items to £115 million (2001: £199 million). Exceptional charges of £362 million, resulting mainly from a review of station lifetime strategy (including a decision to shorten the operating lives of two stations), led to a loss before tax of £477 million.

The most significant aspect of our generating performance was the successful return to service of Wylfa power station, out of action for over a year due to engineering modifications. As a result, total electricity output rose 25% over last year to 16.8 TWh.

In March 2002, Bradwell ceased operation as planned and we will now start to remove fuel prior to final decommissioning. Defuelling also began of Hinkley Point A's reactor core, a major step towards its decommissioning.

Our industrial safety performance improved further thanks to increased management focus on the issue – the year's Total Recordable Incidence Rate was 0.42, a reduction of 30% from last year's already excellent level.

Opportunities

As part of Government Policy, the LMA will take over ownership of the Magnox stations and BNFL will aim to provide a management service on an incentivised basis. To ensure we are well positioned to manage and develop our relationship with the LMA, we will provide operational management services to our Assets, Liabilities and Financing Agency (BNFL ALFA), who will act as an internal forerunner to the LMA.

Priorities and outlook

In addition to preparing for the LMA, we will focus on maintaining our high levels of environmental and safety performance and on maximising output over the remaining lifetimes of our plants.

The New Electricity Trading Arrangements (NETA) have driven prices down and created a tough market to operate in – indeed, during 2001-2002, we saw our market price fall by around 25%. We anticipate that these challenging conditions will continue into the future, despite our best efforts to hedge against this trend.

As a result of these low prices, and after a thorough review of all other factors, we have taken the decision to shorten the operating lives of two of our stations – Calder Hall and Chapelcross.

During the year, Magnox Generation has focused on the transition from the Electricity Pool to the New Electricity Trading Arrangements. The new wholesale electricity market is characterised by high volatility and risk. The task of the Energy Sales and Trading Department is to manage that risk and maximise income. Under NETA, contract levels need to closely match generation to avoid punitive imbalance charges.

This has necessitated a significant investment in generation forecasting and Trading & Risk Management support systems.

The Production Management Unit provides long-term generation forecasts and these are fine-tuned on a daily basis by direct liaison between the traders and station operations staff.

Business review

Spent Fuel and Engineering

The proposed formation of the Liabilities Management Authority represents a major opportunity for us and with the new management team in place, our focus is on the discharge of historic liabilities. Our continued safe operations, combined with improved delivery and operational performance, give me confidence that we will achieve our goal of becoming the supplier of choice for future management and operations contracts.

Brian Watson Director, Sellafield Site

Turnover	£615m
Loss before taxation and exceptional items	£32m
Employees	7,667

Highlights 2001-2002

- The announcement of the Liabilities Management Authority.
- Excellent year for both Thorp and Magnox Reprocessing Plants.
- Ministerial approval to begin plutonium commissioning of the Sellafield Mox Plant (SMP).
- Establishing a subsidiary to provide engineering and technical support to Japan's reprocessing plant at Rokkasho Mura.
- New historic waste policy established.
- Commissioning of third Vitrification line.

Overview

Before exceptional charges, our financial performance improved substantially during 2001-2002. Turnover increased by £66 million to £615 million and, even after taking account of reduced interest earned on advance customer payments, profit before tax and exceptional items was still up by £29 million (2001: £3 million). We did incur a net exceptional charge of £1,920 million, mainly in relation to the revision of the Historic Waste Management Strategy, which resulted in an overall loss before tax of £1,888 million.

Care for the safety of our employees and the protection of the environment has continued to be our top priority. Both Thorp and Magnox Reprocessing Plants had an excellent year in terms of performance, together reprocessing over 1,500 tonnes of fuel whilst meeting all safety and environmental targets.

Although 2001-2002 output from the high-level waste Vitrification Plant was disappointing due to technical difficulties, capacity will increase this year following the Nuclear Installations Inspectorate's (NII) approval to introduce highly active liquor into the third Vitrification line.

Our transport subsidiaries, Pacific Nuclear Transport Limited (PNTL) and Direct Rail Services Limited (DRS) each had a strong year. PNTL completed Magnox spent fuel deliveries from Japan and the seventh vitrified waste return shipment. During the year, we bought an additional ship to strengthen our ability to respond to the growing needs of our customers. DRS was commended for its high quality service and broadened its portfolio by introducing an Anglo-Scottish freight service.

Having been given approval by the UK Government to operate the Sellafield Mixed Oxide Plant (SMP), we received the licence from the Nuclear Installations Inspectorate for plutonium commissioning in December 2001. Commissioning began immediately and the company brought together manufacturing, technical and commercial expertise from across the BNFL Group, demonstrating how international

Opportunities

We are preparing to capitalise on the opportunities the formation of the LMA will present us in the years ahead. Our commitment and expertise in managing legacy waste, along with the significant progress we have already made in safely managing legacy issues at Sellafield, places us in a strong position to continue managing Sellafield's liabilities on behalf of the Government.

We have restructured our engineering delivery organisation to better position us to exceed customer expectations by achieving robust operational performance. We are working closely with our supply chain network to achieve enhanced project delivery and increased cost efficiencies.

With the operation of the Sellafield Mox Plant, we are now well placed to compete for contracts as a key international manufacturer of Mox fuel and will be building on this. We also agreed new contractual arrangements with a number of our Thorp baseload customers, as well as deals with other European customers for reprocessing and related services.

Priorities and outlook

We will continue to focus on the management of Sellafield's legacy waste and clean up programme. In anticipation of the LMA, BNFL has established a new Business Group – Assets, Liabilities and Financing Agency (BNFL ALFA). This will be our internal customer interface with the UK Government's Liabilities Management Unit prior to the formation of the LMA, to ensure we are properly prepared to meet future challenges and opportunities. We look forward to a period of change and continued growth.

teamwork can be utilised to ensure value and quality for our customers.

The SMP Analytical Laboratory is a dedicated analysis facility specialising in a range of techniques unique to the SMP product, ensuring a constant level of high quality.

Business review

Environmental Services

We have restructured and refocused, with new management committed to succeeding in an increasingly competitive market. We have the people, technical capability and experience to take a robustly commercial approach to the international growth opportunities for nuclear decommissioning and clean-up services.

Chris Boon Director, Environmental Services

Turnover	£196m
Loss before taxation and exceptional items	£27m
Employees	1,752

Highlights 2001-2002

- A new strategic focus directed at effective project delivery, commercial soundness and a competitive culture.
- £44 million improvement in operating profit before exceptional items.
- New management team in place.
- Excellent safety performance.
- Flagship clean-up project in the US performing ahead of schedule and below cost.

Overview

Financial performance for the year was very satisfactory, pre-exceptional costs. Turnover increased £19 million to £196 million and profit before tax and exceptional items was £27 million (2001: a loss of £66 million). We did however incur an exceptional charge of £70 million as a result of interruption to operations at East Tennessee Technology Park.

Our priority this year has been to improve service and performance. We have invested heavily in new project management systems, recruited senior executives with extensive commercial experience, and are introducing leadership programmes to develop our most talented people.

At Berkeley, Trawsfynydd and Hunterston in the UK and Big Rock Point in the US, we are already at the leading edge of nuclear power station decommissioning and have made good progress on each site. In clean-up, we have a presence on nearly all the major sites in the world's largest market, the US. Our customer, the US Department of Energy (US DoE), demands ever tighter costs and timescales and we are responding – our project delivery on the Advanced Mixed Waste Treatment Plant (AMWTP) at Idaho being recognised by the DoE as setting new standards.

In the UK, our joint venture to manage and operate the Aldermaston Weapons Establishment is widely seen as a proven model for the delivery of complex and demanding services to Government and is therefore highly

relevant to our future work with the LMA. Similarly we are gaining valuable knowledge of this sort of market through Westinghouse Government Services, our financially successful joint venture as management and operations contractor for the Savannah River site in the US.

Opportunities

We have developed programmes to maximise the learning from our existing decommissioning projects. In this way we spread best practice from our unmatched capability throughout BNFL, and position our proposals and project delivery to compete for the international business opportunities in this sector. In the short-term these arise as stations are closed down in Europe, and as Magnox stations become available for decommissioning in the UK. In the clean-up market, we are aiming to extend our operations where we already have proven capabilities, such as at the Idaho National Engineering and Environmental Laboratory at Oak Ridge in Tennessee.

Priorities and outlook

The international market for nuclear environmental services is still developing and through our proven expertise in this field, we are in an excellent position to succeed. Our well established technical and scientific capabilities now have a commercial focus and this is positioning us not only to deliver on existing project work, but to win substantial new business. We look forward to a year of continued improvement.

The Advanced Mixed Waste Treatment Plant (AMWTP) at the Idaho National Engineering and Environmental Laboratory (INEEL) is a \$860 million contract we have with the US DoE to design, construct and operate the plant. The AMWTP is designed to retrieve, treat and package an estimated 65,000 cubic metres of transuranic-contaminated waste currently stored at INEEL, which will then be shipped to the Waste

Isolation Pilot Plant in New Mexico. The project continues on schedule and retrieval operations are due to start in late 2002.

The 'heart' of the AMWTP facility, the Fontijne Supercompactor, which reduces the volume of the waste by 70%.

This has been a pivotal year in terms of the future financial structure of BNFL and the public sector nuclear industry generally in the UK.

John Edwards Group Finance Director

Overview

2002 has proved to be a pivotal year for BNFL, particularly in terms of the future financial structure of the Group. We have been successful in our efforts to stabilise and turn around our operational and underlying financial performance, both of which have improved markedly over the previous year, although there is clearly still a lot of work to be done.

Despite the improvement in underlying financial performance, our results for the year have been dominated by the impact of significant lifetime cost increases arising from the review of our Historic Waste Management Strategy (HWM) at Sellafield which has necessitated an exceptional provisions charge amounting to some £1,935 million. This has been further compounded by the impact of a recently concluded review of the economics of continued operation of our Magnox stations which has resulted in a decision to move to earlier closure of two stations and has given rise to a £375 million adverse accounting charge.

The recognition of these issues in our balance sheet has resulted in the Group having an excess of liabilities relative to total assets (ie a net asset deficit) of some £1,843 million at the end of the financial

year. Whilst it is our belief that we have adequate financial resources to meet our obligations in the short- to medium-term, it is evident that the Group in its current form would not generate sufficient cash to meet these, now increased, longer term liabilities.

I highlighted in my report last year the fragile relationship between liabilities and net worth and the need for some degree of balance sheet restructuring to be considered. The Government's declared intention to establish a Liabilities Management Authority (LMA), which will fund and be responsible for the future discharge of public sector civil nuclear liabilities, has now greatly clarified BNFL's future financial position. This intention – set out in the Secretary of State's statement of 28 November 2001 – will lead to the removal of a substantial proportion of the liabilities from our balance sheet and will address the issue of our current net asset deficit.

In making a positive going concern assertion in these Accounts, we have placed reliance on the Secretary of State's statement, along with the subsequent actions taken by the Government in this respect, which underline its commitment to push ahead on this front 'at the earliest opportunity'.

In view of the Group's current balance sheet position, we look forward to an early financial restructuring and are already reorganising our business and gearing up for the new challenges ahead.

Financial performance

Group turnover at £2,261 million, grew by some 5% over the previous year (2001: £2,146 million). The bulk of this increase being the result of increased throughputs in the Sellafield reprocessing plants.

At the operating level, before revision of previous years' nuclear liabilities and exceptional items, a loss of £68 million was incurred. This represents a major improvement from the comparable (£298 million) loss incurred in 2001 and was largely attributable to significant improvements in performance across the majority of our operations.

After contributions from joint ventures, associates and financing returns, the Group generated a profit before tax and exceptional items of £22 million, which although modest in the context of our turnover, represents a major turnaround from the substantial losses of the previous year (2001: £210 million loss).

The pre-tax loss for the year, after revision to previous years' nuclear liabilities and recognition of exceptional charges totalling £2,350 million, amounted to £2,328 million. This compares to a £66 million loss before tax last year.

After accounting for taxation credits of £240 million and minority interests of £2 million, the Group incurred an overall post-exceptional loss of £2,090 million for the year (2001: £46 million loss).

The Group sustained a cash outflow of £162 million in the year. This was £113 million better than the £275 million outflow incurred last year.

Exceptional items

Exceptional charges amounted to £2,350 million before tax. These are set out in detail in note 3 to the accounts and comprise four elements:

- a £1,935 million provision increase arising from the fundamental review and revision of lifetime costs relating to the strategy for dealing with Historic Waste Management at Sellafield;

- a £70 million provision in relation to additional costs incurred in the US Environmental Services business, as a consequence of interruption to operations at the East Tennessee Technology Park, as a result of the events of 11 September 2001, coupled with changes in the regulatory environment;
- a £375 million charge relating to impairment in the carrying value of fixed assets, coupled with accelerated decommissioning charges, arising from the revision to the Magnox reactor power station closure programme. This reflects the proposed earlier shut down of specific facilities and follows a recently concluded in-depth review of the financial case for continued operation of all of our Magnox reactor power stations. This exercise, based on current market expectations, also affirmed the economic value of continuing to operate the rest of the operational stations to their previously declared end dates;
- a £30 million realised gain on the Nuclear Liabilities Investment Portfolio was also classified as exceptional.

Business Group performance

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. Consistent with the approach adopted for the first time last year the following table has been included in this report in an effort to clarify further the respective contributions each of our major businesses has made to the overall Group results for the financial years' 2001 and 2002.

The totality of centrally allocated costs, financing gains, revisions to prior years' provisions and central consolidation adjustments has reduced significantly relative to the previous year, from £169 million in 2001 to £38 million in 2002.

This has arisen due to Head Office costs being reduced significantly on a year-on-year basis, as a result of a drive to improve the effectiveness of the Corporate Centre, coupled with the fact that in 2001 we were faced with significant, non-recurring, central

	Fuel Manufacture and Reactor Services		Magnox Generation		Spent Fuel and Engineering		Environmental Services	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Contribution from operations profit/(loss)	106	93	(139)	(161)	64	40	29	(13)
Allocated central costs, financing gains and charges, revisions to prior years' provisions and central consolidation adjustments	(28)	(41)	24	(38)	(32)	(37)	(2)	(53)
Profit/(loss) from operations before exceptional items	78	52	(115)	(199)	32	3	27	(66)
Exceptional items (charge)/gain	1	(36)	(362)	8	(1,920)	6	(69)	166
Profit/(loss) before tax per segmental analysis	79	16	(477)	(191)	(1,888)	9	(42)	100

Business Group performance continued charges and adjustments in relation to FRS 12. Furthermore, the level of financing gain available for allocation to the Group entities has increased over 2001 levels.

Turnover within the **Fuel Manufacturing and Reactor Services Business Group** was, at £1,070 million, £22 million up on the previous year. Contribution from operations, showed some improvement and at £106 million was £13 million better than 2001, due primarily to improved performance in relation to provisions for warranty settlement obligations. The profit before tax, after exceptional items, was £79 million (2001: £16 million).

Despite achieving a higher level of output than in 2001, due primarily to the successful return to service of the largest station in the fleet, Wylfa, during the year, the financial performance of the **Magnox Generation Business Group** continues to adversely affect the Group position. Turnover remained broadly static compared to the previous year, the improved output being offset by the continuing decline in the market price of electricity, and a loss from operations of £139 million, before central allocations and exceptional items, was incurred (2001: £161 million). After taking into account net exceptional charges of £362 million, mainly relating to impairment and one off charges arising from the review of station lifetimes, a loss before tax of £477 million was incurred (2001: £191 million loss). A separate review of the costs of station decommissioning has

also begun but it is too early to anticipate the results of this exercise.

Spent Fuel and Engineering Business Group produced an excellent operational performance in the year. The Thorp and Magnox reprocessing facilities at Sellafield in particular both exceeded their respective target outputs. Turnover, at £615 million was up by £66 million over 2001 levels, the increase attributable to improved operational performance being somewhat offset by a reduction in the amount of interest earned on customer advance payments reclassified into turnover (see note 6). This latter issue also had an adverse impact on contribution from operations, which before central allocations and exceptional items, amounted to £64 million, (2001: £40 million). A net exceptional charge of £1,920 million, largely in relation to the revision to the HWM strategy, was incurred which resulted in a post-exceptional loss before tax of £1,888 million (2001: £9 million profit). The segmental allocation of this exceptional charge is based upon the Spent Fuel Group's responsibility for the management of the liability discharge.

Turnover within the **Environmental Services Business Group** increased to £196 million, from £177 million in the previous year. A positive contribution from operations, before central allocations and exceptional items, of £29 million was achieved compared with a loss of £13 million in the previous year. This turnaround was primarily due to additional provisions and adverse foreign

currency movements incurred in 2001. Net exceptional charges, mainly relating to potential future contract losses, of £69 million were incurred (2001: £166 million gain) which resulted in an overall loss of £42 million. This compares to a 2001 profit after exceptional items of £100 million that included £216 million of exceptional gains relating to the settlement of an outstanding claim on the MoD.

Balance sheet

The net worth of the Group has fallen by £2,096 million during the year to a negative £1,843 million (2001: £253 million), due primarily to the retained loss for the year which was largely the result of the significant adverse exceptional items.

Treasury

The financial resources of the Group at 31 March 2002 are as follows:

	£m
Nuclear Liabilities Investment Portfolio (at cost)	4,023
Investments and short-term deposits	1,800
Cash at bank and in hand	50
	5,873
Secretary of State's undertaking	4,784
	10,657

The Group remains relatively debt-free with total loans of £135 million (2001: £38 million), principally relating to the funding of the US operations of the Fuel Manufacture and Reactor Services Business Group.

The increase over the previous year reflects the draw down of an existing Westinghouse credit facility, to fund normal course of business in the US, coupled with loans associated with uranium supply.

Company restructuring

The future restructuring of the Group's assets and liabilities and the potential changes in BNFL's contractual arrangements will have a major impact on the future financial shape of the Group. Work has only recently started on developing the assumptions and assessing the implications of these changes, but it is intended that a substantial proportion of the Group's business will be placed on an incentivised fee arrangement. Under this arrangement the profitability of the Group is likely to improve as the losses of the Magnox Generation Business Group and liabilities costs will be removed and incentives paid as targets are met. The details of these assumptions will evolve, as the exact role and purpose of the LMA continues to be developed in conjunction with the Government.

The financial structure of the BNFL Group will undergo significant change at the formation of the Liabilities Management Authority. It is anticipated that this will remove around £20 billion of nuclear liabilities, the Nuclear Liabilities Investment Portfolio, the Secretary of State's Undertaking and other assets from the Group Balance Sheet. This will

potentially leave BNFL with relatively low levels of fixed assets and working capital that will largely be concentrated in the Fuel Manufacture and Reactor Services business. Clearly given the Group's current position, the Board wish to see this proceed to the earliest possible timescales.

We look forward therefore to a 'post LMA' Group which has a good level of profitability, much reduced net asset exposure and viable rates of return.

In summary, 2002 has been a crucial year for the Group. With underlying improvements in operational performance and a Government commitment to a restructuring of UK public sector civil nuclear liabilities, which will address our net asset deficit, I believe we can look forward with a degree of optimism.



John Edwards Group Finance Director

Background to nuclear liabilities

The safe treatment and disposal of waste and ultimate decommissioning of our facilities are fundamental responsibilities of the Group. These activities will take place over long timescales unique to the nuclear industry. The financial liabilities that arise from these activities have to take account of numerous uncertainties including the nature of the waste, its final destination and the ultimate status of our sites. It is these very uncertainties over such long timescales which makes Government plans to restructure, fund and manage the liabilities through a Liabilities Management Authority so important.

Background

The Group's nuclear liabilities arise from the operation of facilities for the production of nuclear fuel, the generation of electricity using first generation Magnox nuclear reactors, reprocessing of fuel to separate useful nuclear materials from the small amount of waste product and, most significantly, managing the legacy of historical nuclear industry activity. The major part of this latter activity is carried out at Sellafield. A significant amount of the company's plant and equipment used in this process was already in existence when BNFL was formed in 1971 to take over the assets of 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 treating and disposing of the waste produced and their ultimate decommissioning and demolition. As a result the costs of so doing are now very considerable. Similarly, the age of the Group's Magnox reactors and their differing designs also mean that decommissioning is complex and costly.

The challenge of estimating future costs

The task of assessing how best to decommission the Group reactors or how waste can be retrieved from the original storage facilities, and then treated for long-term storage/disposal, and how decommissioning and dismantling of these early plants should be carried out, is itself very difficult. For example, records of plant design and operations leave a number of unanswered questions, including the exact quantities and chemical composition of historic wastes. The long period over which these wastes have been stored, in some cases under water, has resulted in deterioration in the condition of the wastes and the storage facilities. Consequently, characterisation of the wastes, and design of technical solutions

required to retrieve the wastes to enable treatment, will be difficult and demanding and will require innovative treatment solutions. New waste treatment plants that may be required to handle these wastes must be physically integrated into Sellafield's already complex infrastructure, and the construction of plants on such a site itself presents unique engineering challenges. Although the Group has considerable experience of delivering high quality safe solutions to such complex problems, considerable uncertainties remain, and will do so until work is done over a number of years to study further the historic wastes stored and the condition of the buildings. For plants designed and built later, waste treatment, decommissioning and dismantling issues were considered during the design and operation stage, and the relative costs are therefore lower, estimating these costs is therefore easier, and assumptions can be made with greater confidence.

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 costs. 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 arising from the nature and age of the facilities 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. As highlighted in note 26 to the accounts, in the particular area of historic wastes relating to the military and early civil nuclear programmes, work undertaken to revisit the waste retrieval and disposal strategy has highlighted significant uncertainty as to the quantities and composition of these wastes. The Board has used the best available knowledge to estimate the related liabilities but, pending several more years' work,

it has not been possible to quantify the financial implications of a range of possible alternative outcomes or circumstances with the degree of certainty required to enable an estimate of this risk to be recorded in the balance sheet. The accounts, therefore, disclose this specific uncertainty which could result in a significant and material impact on the Group's results and financial position at the point at which it crystallises. As additional knowledge of the nature and quantity of waste becomes available the estimate will be refined.

Timescales for decommissioning

Natural decay in radioactivity means that by delaying some decommissioning tasks, the risk radiation exposures to people engaged in dismantling plants reduces dramatically. For example, deferring final decommissioning until 135 years after a nuclear 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, hazard reduction and cost reasons, decommissioning plans aim to achieve the best balance between:

- i) deferring dismantling tasks to allow radioactivity to reduce, 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.

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, mainly arising from reprocessing and waste management activity as high-level waste. The previous assumption of both Government and of the

nuclear industry has been that intermediate- and high-level wastes would be placed underground, whether permanently or in retrievable form, in facilities specially created for this purpose. Whilst this is now subject to public consultation, 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 for disposal 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.

Intermediate- and high-level waste are planned to be sent for underground storage, in separate repositories, which is significantly more costly than above ground storage. Furthermore, 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%). Previously, 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. Whilst the national strategy for ultimate waste disposal is reviewed, it is the Board's view that underground disposal will not in fact be available in the short- to medium-term. As a result, provision has been made for maintaining safe and secure storage facilities for at least 100 years by which time it is assumed that a repository will be available.

Uranium and plutonium

The Group 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 has value in a continuing nuclear programme, as it is the essential starting element in creating nuclear fuel. The Group'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, which in some cases may require extensive treatment prior to reuse, 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. There is no agreed process for disposing of plutonium if either the material is not required or treatment for reuse proves uneconomic, and pending reuse, therefore, the Group does not provide for disposal costs. All stocks are stored in secure conditions and, subject to demand for Mox fuel, are likely to remain so for a long time. The Board will continue to consider its assumptions with respect to plutonium and treated uranium in the light of the national energy review.

The ultimate status of sites

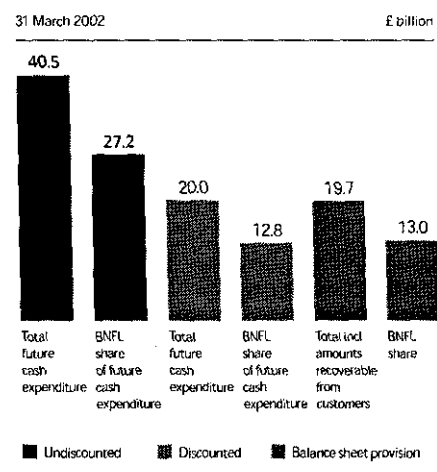
The Board of BNFL has long estimated its provisions for decommissioning and waste management on the assumption that the existing plants and buildings are demolished and sites are cleared, but not to the extent that the sites would be returned to farmland. This reflects the approach which industry typically follows where there is no requirement in law or otherwise to do more than ensure that an industrial site is made safe. In the case of the historic waste storage facilities, the extent of decommissioning during the next century will be defined by considering the requirements to render the wastes that they contain safe for long-term storage, the need to reduce radioactive discharges, and the protection of our workforce from unnecessary exposure to radiation. Removing all of the historic wastes would increase the length of the retrievals operations by many years, which would in turn require waste treatment plants to be kept open and delay decommissioning of the Sellafield site. For certain plants, therefore, it would be illogical to visualise removing the whole of a building including its foundations from the site – excavating the foundations and relocating the waste to another site is unlikely to be justified on cost, environmental or safety grounds.

Discounting

The Group'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 estimate of a long-term rate of investment return after accounting for risk and tax. The Group's investments and the terms of the financial undertaking from the Secretary of State in respect of certain nuclear liabilities related to the Magnox fuel cycle 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.

Nuclear liabilities

The Group's nuclear liabilities can be analysed as follows:



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.

Board of Directors

1 Hugh Collum (61)

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 Safeway plc and Whitehead Mann Group plc. He is also Deputy Chairman of Celltech Group plc. He was a member of the Cadbury Committee on the Financial Aspects of Corporate Governance.

2 Norman Askew (59)

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 US, 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 a Director of Pilot Fields.

3 Brian George CBE (66)

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

4 Dr Gail de Planque (57)

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 the Director of the Department 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 Board of Northeast Utilities.

5 Bill Lowther CBE (62)

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 has recently been appointed Chairman of the Cumbrian Strategic Partnership, an umbrella organisation between private industry and Government promoting business in the region.

6 David Bonser (53)

BNFL ALFA 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. He is a member of the Government's Radioactive Waste Management Advisory Committee (RWMAC) and was Chairman of UK Nirex until December 2001.

7 Gordon Campbell (55)

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 Wade Ceramics Limited and Jupiter Split Trust plc. He is also a Vice-President of the Royal Academy of Engineering and a former President of the Institution of Chemical Engineers.

8 Joe Darby (53)

Non-Executive Director joined the Board on 23 January 2002. He was previously Chief Executive Officer and Deputy Chairman of LASMO plc. He is a Non-Executive Director of John Mowlem & Company plc and a Fellow of the Institute of Petroleum.

9 John Edwards (53)

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.

10 Richard Stone (59)

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 Limited and Non-Executive Director of Halma plc, TR Property Investment Trust plc, Trust Union Finance (1991) plc, CSW Group Limited and Gartmore Global Trust plc.

Report of the Directors

For the year ended 31 March 2002

1 The directors of British Nuclear Fuels plc present to the shareholders their thirty-first Annual Report together with the audited accounts for the year ended 31 March 2002.

Review of the year

2 Group results

The Group loss for the year, after taxation and minority interests, amounted to £2,090 million (2001: loss of £46 million), made up of profit on ordinary activities before taxation and exceptional items of £22 million (2001: loss of £210 million), exceptional items of £2,350 million (2001: net profit of £144 million) and a tax credit of £240 million (2001: tax credit of £20 million). Further information on the Group's results is contained in the Financial review on pages 20 to 23.

3 Dividend

No dividend is proposed (2001: 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.
- Environmental Services (formerly 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, Business review and Financial review appearing on pages 2 to 23. These reflect the Ministerial Statement made by the Secretary of State for Trade and Industry in the House of Commons on 28 November 2001 outlining the proposed changes to the discharge of civil nuclear liabilities within the UK and its impact on the Group.

5 Research and development

The Group has a significant research and development programme. During the year costs charged against profits were £54 million (2001: £55 million). In addition, £59 million (2001: £37 million) incurred was charged to customers.

6 Personnel

The average number of persons employed by the Group during the year was 22,248 (2001: 22,288). At 31 March 2002 the total number of persons employed by the Group was 22,826 (2001: 22,556). Further information is given in Note 4 within the Accounts on page 44.

The company attaches importance to the involvement of its employees in the company's development and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. 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) (4*)
Mr N Askew (Chief Executive)
Mr J Edwards
Mr C Loughlin – left the company 31 May 2002
Mr D Bonser

Non-Executive Directors:

Mr G A Campbell (3*), (4)
Mr J Darby – appointed 23 January 2002 (1), (3)
Dr E G de Planque (1), (3)
Mr B V George (1*), (2)
Mr W Lowther (2)
Mr R A Stone (2*), (4)

Committees:

- (1) Environmental, Health and Safety Committee
 - (2) Audit Committee
 - (3) Remuneration Committee
 - (4) Nominations Committee
- * denotes Chairman of the Committee

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 to 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

The Group has made political donations amounting to £109,000 in the United States of America during the year. The Group also has the policy of allowing employees who are local councillors a certain amount of time to attend to their duties in that capacity which may be considered to be a political donation. Charitable contributions during the year amounted to £4.2 million (2001: £4.1 million), in support of the Group's community involvement and economic regeneration initiatives. These contributions include £2.8 million (2001: £2.9 million) to support West Cumbrian economic regeneration initiatives.

10 Policy on the payment of suppliers

The company has continued its commitment to the Prompt Payers Code of Practice drawn up by the CBI, 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 81% of invoices submitted against these terms were paid on time which is marginally down on last year (84%). The average age of invoices outstanding at 31 March 2002 was 25 days (2001: 27 days).

11 Auditors

A resolution to reappoint the auditors, Ernst & Young LLP, as the company's auditor will be proposed to the forthcoming Annual General Meeting.

By order of the Board


A J Shuttleworth Secretary
26 June 2002

Corporate governance

Statement of compliance

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

The Board

The Board comprises a Chairman, three Executive Directors including a Chief Executive and six Non-Executive Directors. The Non-Executive Directors are independent from management and are free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. The Non-Executive Directors bring a wide range of experience to the Board and participate in decisions on key issues facing the Group.

Eight Board meetings are held during the year with additional meetings convened as necessary and consider 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 one has 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 five committees, the Environment, Health and Safety Committee, the Audit Committee, the Remuneration Committee, the Nominations Committee and the General Purposes Committee. Each Board committee consists solely of Non-Executive Directors with exception of the General Purposes Committee. All Non-Executive Directors receive notice of each committee meeting and are entitled to attend. Only those directors who have formally been appointed to a committee have the right to vote on matters presented to it. The Company Secretary is the secretary of each committee.

Environment, Health and Safety Committee

The Environment, Health and Safety Committee seeks to provide 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.

Audit Committee

The Audit 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.

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 decisions on directors' remuneration are made by the Shareholder.

Nominations Committee

The Nominations Committee reviews the Board structure, size and composition and makes recommendations to the Shareholder.

General Purposes Committee

The General Purposes Committee has all the powers of the Board in relation to any matters which, in the opinion of the Chairman or Chief Executive be deemed urgent or necessary for the proper conduct of the business of the company. The Committee reports all matters undertaken by it to the next meeting of the Board.

Internal control

During the financial year the Group continued to develop and embed the 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.

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. This process was fully implemented across the Group by December 2001.

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

- The Audit Committee reviews the effectiveness of the internal control within the Group and refers its findings to the Board. It receives reports from the internal and external auditors as well as from business groups as appropriate.
- 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 and the probability of those risks occurring, 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 for 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, via the Audit Committee, reviews the significant risks biannually 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 from its Board Committees, business groups and risk management functions which include details of any control failures, 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 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 one for a notice period of six months, and notices can be given at any time. Non-Executive Directors are appointed for a fixed term not exceeding three years before being eligible for re-election.
- 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 process required by the Turnbull Committee Report was not fully implemented across the Group from the commencement of the year.
- The Remuneration Committee makes recommendations on the remuneration of Executive Directors, which then need to be agreed by the Shareholder.
- The Group does not currently have any institutional investors and therefore the requirements of the Combined Code in this area are not relevant.

Going concern

During the year the Group has incurred a net asset deficit of £1,843 million, principally as a result of the Historic Waste Management Strategy. The Ministerial Statement, made in the House of Commons on 28 November 2001, contained proposals for the management of the Government's interest in the discharge of public sector civil nuclear liabilities. This includes the removal of most of the nuclear liabilities and associated assets from the Group's balance sheet, thus taking steps to address the Group's net asset deficit.

In considering the continued adoption of the going concern assumption in preparing these accounts, the Directors have taken account of the Group's cash resources and have placed reliance on the Ministerial Statement made in the House of Commons on 28 November 2001. More recently confirmation has been received from the Secretary of State for Trade and Industry, of the Government's continuing resolve to implement the proposals set out in the Statement.

The Directors accordingly continue to adopt the going concern basis in preparing the accounts.

Remuneration policy

The nature of the company's activities is such that it needs 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, except the General Purposes Committee for which no fees are paid.

Directors' emoluments were as follows:

	Basic salary and fees		Annual bonus		Benefits		Compensation for loss of office		Total remuneration		Pension contributions	
	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £
Chairman												
H R Collum	150,000	150,000	-	-	21,268	20,080	-	-	171,268	170,080	-	-
Executive												
N Askew	365,000	350,000	136,510	75,250	7,500	7,654	-	-	509,010	432,904	33,390	32,130
J Edwards	266,000	191,250	94,962	44,750	13,381	10,793	-	-	374,343	246,793	26,600	19,125
C Loughlin	193,000	185,400	71,410	38,000	13,746	13,262	-	-	278,156	236,662	-	-
D Bonser	193,000	185,400	71,796	38,000	14,356	13,591	-	-	279,152	236,991	-	-
Non-Executive												
W Lowther	22,500	13,958	-	-	-	-	-	-	22,500	13,958	-	-
G A Campbell	25,000	15,417	-	-	-	-	-	-	25,000	15,417	-	-
B V George	29,700	1,507	-	-	-	-	-	-	29,700	1,507	-	-
E G de Planque	22,972	7,662	-	-	-	-	-	-	22,972	7,662	-	-
R A Stone	25,000	6,250	-	-	-	-	-	-	25,000	6,250	-	-
J Darby*	4,722	-	-	-	-	-	-	-	4,722	-	-	-
Former												
R A N Chiese	-	71,070	-	10,874	-	10,308	-	277,000	-	369,252	-	6,900
G R Smith	-	8,333	-	-	-	-	-	-	-	8,333	-	-
N L Wicks	-	6,667	-	-	-	-	-	-	-	6,667	-	-
D J S Roques	-	16,250	-	-	-	-	-	-	-	16,250	-	-
K M H Mortimer	-	15,625	-	-	-	-	-	-	-	15,625	-	-
A G J McFarlane	-	6,667	-	-	-	-	-	-	-	6,667	-	-
Sir John Boyd	-	-	-	-	-	-	-	-	-	-	-	-
J D Rimington	-	6,667	-	-	-	-	-	-	-	6,667	-	-
Total	1,296,894	1,238,123	374,678	206,874	70,251	75,688	-	277,000	1,741,823	1,797,685	59,990	58,155

*Emoluments for J Darby represent payments for the part of the year during which he held office only, as indicated in note 7 of the directors' report.

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

Pension contributions for Mr N Askew and Mr J Edwards were made to their personal defined contribution pension schemes. Mr D Bonser is and Mr C Loughlin was an active member of the Combined Pension Scheme of the UKAEA. No employer contributions have been made to this scheme during the year. Details of these directors' pension benefits are as follows:

	Accrued pension benefits		Increase after inflation £	Accumulated lump sum		Increase after inflation £	Transfer value of increases £
	2002 £	2001 £		2002 £	2001 £		
D Bonser	81,001	75,493	4,224	243,003	226,479	12,671	75,861
C Loughlin	47,387	43,218	3,419	142,161	129,654	10,257	49,793
	128,388	118,711	7,643	385,164	356,133	22,928	125,654

Fees paid to former directors

During the year the following former directors received payments from the Group. These payments relate to the provision of consultancy services within the areas of their individual expertise.

	£
G G Butler	85,000
L N Chamberlain	23,500
K G Jackson	5,000
R Pilling	1,000
J Rimington	4,200
G L Watts	16,667
W L Wilkinson	36,000
	171,367

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.

Independent Auditors' report

To the members of British Nuclear Fuels plc

We have audited the Group's accounts for the year ended 31 March 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 40. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Report of the Directors 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 information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's statement, Chief Executive's review, Business review, Financial review, Report of the Directors, Corporate Governance statement and financial statistics. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Fundamental uncertainty

In forming our opinion on the full annual accounts, we have taken note of the fundamental uncertainty inherent in the estimation of nuclear liabilities which are described in Note 26a. 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 2002 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 LLP Registered Auditor
Manchester
26 June 2002

Ernst & Young ^{LLP}

Consolidated profit and loss account

For the year ended 31 March

	Note	2002			2001		
		Operations before exceptional items £m	Exceptional items (note 3) £m	Total £m	Operations before exceptional items £m	Exceptional items (note 3) £m	Total £m
Turnover from continuing operations		2,502	—	2,502	2,291	—	2,291
Less: share attributable to joint ventures		(241)	—	(241)	(145)	—	(145)
	2	2,261	—	2,261	2,146	—	2,146
Operating costs and expenses before revision of previous years' nuclear liabilities	3	(2,329)	(445)	(2,774)	(2,444)	155	(2,289)
Operating (loss)/profit from continuing operations before revision of previous years' nuclear liabilities		(68)	(445)	(513)	(298)	155	(143)
Revision of previous years' nuclear liabilities	3	—	(1,935)	(1,935)	8	—	8
Operating (loss)/profit from continuing operations		(68)	(2,380)	(2,448)	(290)	155	(135)
Operating profit – joint ventures		13	—	13	9	—	9
– associates		27	—	27	34	—	34
Profit on disposal of subsidiaries		—	—	—	—	3	3
Costs of reorganisation following acquisition	3	—	—	—	—	(40)	(40)
Profit on sale of fixed assets	5	—	30	30	—	26	26
Profit/(loss) before investment income, interest and taxation		(28)	(2,350)	(2,378)	(247)	144	(103)
Investment income	6	430	—	430	572	—	572
Interest payable and similar charges	7	(380)	—	(380)	(535)	—	(535)
Profit/(loss) on ordinary activities before taxation		22	(2,350)	(2,328)	(210)	144	(66)
Tax on (loss)/profit on ordinary activities	8	(9)	249	240	55	(35)	20
Profit/(loss) on ordinary activities after taxation		13	(2,101)	(2,088)	(155)	109	(46)
Profit attributable to minority equity interests				(2)			—
Loss for the financial year				(2,090)			(46)
Dividends	9			—			—
Retained loss for the financial year				(2,090)			(46)

Statement of total recognised gains and losses

For the year ended 31 March

	2002 £m	2001 £m
Loss for the financial year	(2,090)	(46)
Currency translation differences	(8)	(13)
Total gains and losses recognised since last annual report	(2,098)	(59)

Consolidated balance sheet

As at 31 March

	Note	£m	2002 £m	£m	2001 £m
Fixed assets					
Intangible assets	10		877		925
Tangible assets	11		7,570		7,196
Investments:	12				
Joint ventures					
Share of gross assets		726		783	
Share of gross liabilities		(676)		(717)	
Loans and advances		—		42	
		50		108	
Associates		122		120	
Nuclear liabilities investment portfolio		4,023		3,815	
Other		20		4	
			4,215		4,047
			12,662		12,168
Current assets					
Stocks	13	376		456	
Debtors:					
Amounts falling due within one year	14	1,482		1,344	
Amounts falling due after more than one year					
Nuclear liabilities recoverable from customers	15	4,356		3,328	
Secretary of State's Undertaking	16	4,784		4,531	
Investments and short-term deposits	17	1,800		2,084	
Cash at bank and in hand		50		77	
		12,848		11,820	
Creditors: amounts falling due within one year	18	(1,760)		(1,191)	
Net current assets			11,088		10,629
Total assets less current liabilities			23,750		22,797
Creditors: amounts falling due after more than one year	19	(4,430)		(4,575)	
Provisions for liabilities and charges	25	(21,163)		(17,969)	
			(25,593)		(22,544)
Net (liabilities)/assets			(1,843)		253
Capital and reserves					
Called up share capital	29	33		33	
Profit and loss account	30	(1,880)		218	
Shareholders' funds – equity interests			(1,847)		251
Minority interests – equity interests			4		2
			(1,843)		253

Hugh R Collum Chairman
26 June 2002

Norman Askew Chief Executive
26 June 2002

John Edwards Group Finance Director
26 June 2002

Company balance sheet

As at 31 March

	Note	2002		2001	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	11		8,233		8,372
Investments	12		4,951		4,391
			13,184		12,763
Current assets					
Stocks	13	70		81	
Debtors:					
Amounts falling due within one year	14	2,952		2,381	
Amounts falling due after more than one year					
Nuclear liabilities recoverable from customers	15	8,673		6,878	
Investments and short-term deposits	17	1,075		1,326	
Cash at bank and in hand		2		—	
		12,772		10,666	
Creditors: amounts falling due within one year	18	(4,016)		(3,541)	
Net current assets			8,756		7,125
Total assets less current liabilities			21,940		19,888
Creditors: amounts falling due after more than one year	19	(6,092)		(6,171)	
Provisions for liabilities and charges	25	(15,524)		(13,361)	
			(21,616)		(19,532)
Net assets			324		356
Capital and reserves					
Called up share capital	29		33		33
Profit and loss account	30		291		323
Shareholders' funds – equity interests			324		356

Hugh R Collum Chairman
26 June 2002



Norman Askew Chief Executive
26 June 2002



John Edwards Group Finance Director
26 June 2002



Consolidated cash flow statement

For the year ended 31 March

	Note	2002 £m	2001 £m
Reconciliation of net cash inflow/(outflow) from operating activities			
Operating loss		(2,448)	(135)
Nuclear liabilities charged to operating costs (note 26)		1,733	53
Nuclear liabilities discharged (note 26)		(408)	(333)
Other provisions charged to operating costs		146	151
Other provisions discharged (note 28)		(310)	(299)
Depreciation/amortisation/impairment charges		1,112	538
Increase in advance payments		265	417
Other cash inflow/(outflow) from operating activities		32	(417)
		122	(25)
Cash outflow from non-operating exceptional items		-	(24)
Net cash inflow/(outflow) from operating activities	33	122	(49)
Cash flow statement			
Net cash inflow/(outflow) from operating activities	33	122	(49)
Dividends from joint ventures and associates	34	27	11
Returns on investment and servicing of finance			
Interest received	34	154	146
Bank commissions	34	(3)	(4)
Taxation	34	(9)	(3)
Capital expenditure and financial investment			
Net (inflow)/outflow (to)/from nuclear liabilities investment portfolio	34	(179)	141
Other capital expenditure	34	(514)	(398)
Acquisitions and disposals	34	(24)	(237)
Net cash outflow before use of liquid resources and financing		(426)	(393)
Management of liquid resources			
Net realisation of short-term deposits and current investments	34	168	246
Financing			
Repayment of loans and long-term credit	34	(1)	(128)
New loans	34	97	-
Decrease in cash in year	36	(162)	(275)

Notes to the accounts

1 Accounting policies

a Accounting convention

The accounts have been prepared on a going concern basis, having taken account of the Group's cash resources and relying on the Ministerial Statement made in the House of Commons on 28 November 2001 containing proposals for the management of public sector civil nuclear liabilities, regarding which further information is set out on pages 6 and 20. More recently confirmation has been received from the Secretary of State for Trade and Industry of the Government's continuing resolve to implement the proposals set out in the Statement.

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 United Kingdom accounting standards. FRS 17 Retirement Benefits, FRS 18 Accounting Policies and FRS 19 Deferred Taxation have been implemented in the year in accordance with the timescales set out in those Standards.

FRS 18 Accounting Policies and FRS 19 Deferred Taxation have no material impact on the results and financial position of the Group. The additional disclosures required by these standards can be found in notes 1 and 27. FRS 17 Retirement Benefits will in future years, on the timescales set out in the Standard, cause a change in the accounting policy related to certain of the Group's retirement benefits; additional disclosure can be found within note 11 of the accounting policies and note 37 of the Notes to the accounts.

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 (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 (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 through a combination of bilateral contracts, exchange deals and the balancing mechanism. The New Electricity Trading Arrangements came into force on 27 March 2001 and superseded the previous pooling arrangement. Instead of a single prevailing price, generators and suppliers enter into physical contracts

(forwards or options) for the sale and purchase of electricity.

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 (note 6). 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 commercial terms.

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 and the nature of the business concerned. 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 (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 reprocessing of fuel from the Group's reactors (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. They are derived from a combination of the latest technical knowledge available, the existing regulatory regime, commercial agreements and using statistical modelling techniques to evaluate the impact of a range of possible alternative outcomes. 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. In respect of waste management or reprocessing the recoverable amounts are included in debtors (note 15), whereas amounts which relate to decommissioning are included in fixed assets (note 11a). 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

Notes to the accounts

1 Accounting policies continued

f Nuclear liabilities continued

remove one year's discount from provisions made in prior years and the restatement of these provisions to current price levels.

In respect of the Historic Waste Management Strategy referred to in the 'Background on Nuclear Liabilities' on pages 24 and 25 and in note 26a, the accounting treatment varies from the normal Group procedures. Despite the extensive work undertaken, the nature of wastes, the length of time for which they have been stored and the age of the storage facilities mean that much further work will be required over a number of years to confirm and further refine this strategy. The Board has recorded its best estimate of the related liabilities based on available knowledge, including a normal level of cost contingency. This estimate would normally be required to include risk, which means the financial implications of a range of possible alternative outcomes associated with the treatment of these wastes. In this case however, the level of uncertainty associated with these alternatives is such that the Board has been unable to quantify the financial impact of the range of alternative outcomes with reasonable certainty.

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 and thereby reducing the radiological hazard. These decommissioning activities address the demolition of facilities and the management of the associated waste. The extent of decommissioning during the next century will be defined by considering both the requirements to reduce radioactive discharges and to protect the workforce by restricting dose uptake. From a safety or environmental viewpoint complete removal of all facilities on all sites may not be justified. The provisions take account of such issues and consider both facilities which are already operating and those 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 (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 (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 1f) 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; and
- fixtures, fittings, tools and equipment 3 to 10 years

Provision is not made for depreciation on freehold land or assets in the 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 (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 (note 12f).

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

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

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

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 (note 17). Gilt investments intended to be held to redemption that do not form part of the nuclear liabilities investment portfolio 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 (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 provides pension schemes for the benefit of the majority of its employees (note 37). 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 via

the scheme to the Consolidated Fund. The cost of these is charged against profits so as to spread the costs of pensions over employees' working lives.

For the Electricity Supply Scheme and the Group Pension Scheme the company operates defined benefit pension schemes which requires contributions to be made to separately administered funds. The contributions to these funds are based on independent actuarial valuations designed to secure the benefits as set out in the rules. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The regular cost is attributed to individual years using a projected unit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

Westinghouse Electric Company and its subsidiaries provide post-retirement benefits in the form of pensions, defined medical, dental and life insurance benefits for eligible retirees and dependants. The cost of providing these pension 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 recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date, including the following exceptions:

- Deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.
- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date (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 (note 30).

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 enters into contracts to sell electricity generated by its power stations. The principal contracts for physical delivery are accounted for either on the spot or forward price. These forward contracts, where they are not speculative, are accounted for as hedges, with gains and losses recognised when the hedged transaction takes place. Where the forward contract is speculative, these are marked to market on a regular basis.

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 (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.

Notes to the accounts

2 Segmental information

a Business segment analysis

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Environmental services £m	Total £m
2001-2002					
Turnover					
Total	1,153	396	996	259	2,804
Internal	(83)	(16)	(381)	(63)	(543)
Sales to third parties	1,070	380	615	196	2,261
Operating profit/(loss) before revision of previous years' nuclear liabilities					
Operations before exceptional items	59	(160)	19	14	(68)
Exceptional items (note 3)	-	(375)	-	(70)	(445)
Total	59	(535)	19	(56)	(513)
Revision of previous years' nuclear liabilities					
Operations before exceptional items	-	-	-	-	-
Exceptional items (note 3)	-	-	(1,935)	-	(1,935)
Total	-	-	(1,935)	-	(1,935)
Profit/(loss) before tax					
Operations before exceptional items	78	(115)	32	27	22
Exceptional items (note 3)	1	(362)	(1,920)	(69)	(2,350)
Total	79	(477)	(1,888)	(42)	(2,328)
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 profit/(loss) 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
Profit/(loss) 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)

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Environmental services £m	Corporate £m	Total £m
2001–2002						
Intangible assets	877	–	–	–	–	877
Tangible assets	623	232	6,420	295	–	7,570
Investments	722	1,174	1,828	491	–	4,215
Total fixed assets	2,222	1,406	8,248	786	–	12,662
Nuclear liabilities recoverable	10	22	4,594	98	–	4,724
Secretary of State's Undertaking	–	4,784	–	–	–	4,784
Other net current (liabilities)/assets	(532)	2,678	(351)	(155)	–	1,640
Unallocated corporation tax	–	–	–	–	(60)	(60)
Net current assets	(522)	7,484	4,243	(57)	(60)	11,088
Nuclear provisions	(307)	(4,915)	(14,150)	(304)	–	(19,676)
Deferred tax	–	–	–	–	(420)	(420)
Other long-term liabilities	(1,048)	(4,885)	899	(467)	–	(5,501)
Long-term liabilities and minority interests	(1,355)	(9,800)	(13,251)	(771)	(420)	(25,597)
Shareholders' funds	345	(910)	(760)	(42)	(480)	(1,847)
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 (liabilities)/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	(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

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 34 are the minority equity interests of £4 million (2001: £2 million).

The movement within provisions between Magnox Generation and Spent Fuel and Engineering Business Groups reflects the current managerial responsibility for the discharge of the related liabilities. This transfer has been funded via the inter group accounts within other long-term liabilities. In addition there has been a gross increase as a result of the Historic Waste Management Strategy within Spent Fuel and Engineering Business Group, amounting to £3,500 million (note 26a).

Notes to the accounts

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, profit/(loss) before taxation and Shareholders' funds 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
2001-2002							
Turnover by destination							
Sales to third parties	213	46	426	744	1,429	832	2,261
Turnover by origin							
Total	181	6	2	830	1,019	1,264	2,283
Inter-segment sales	–	–	(2)	(4)	(6)	(16)	(22)
Sales to third parties	181	6	–	826	1,013	1,248	2,261
Profit/(loss) before tax by origin							
Operations before exceptional items	23	3	1	(11)	16	6	22
Exceptional items	–	–	–	(70)	(70)	(2,280)	(2,350)
Total	23	3	1	(81)	(54)	(2,274)	(2,328)
Shareholders' funds							
Total assets less current liabilities	145	3	–	1,641	1,789	21,961	23,750
Long-term liabilities and minority interests	(44)	–	–	(723)	(767)	(24,830)	(25,597)
Shareholders' funds	101	3	–	918	1,022	(2,869)	(1,847)
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

In this geographical analysis the full charge for amortisation of goodwill (on the acquisition of Westinghouse and ABB), together with the internal cost of financing these and other US based operations, are reflected in 'North and South America' results.

3 Net operating costs and expenses

	2002			2001		
	Total before exceptional items £m	Exceptional items £m	Total £m	Total before exceptional items £m	Exceptional items £m	Total £m
Employee costs	939	–	939	885	–	885
Provisions for nuclear liabilities	139	76	215	140	–	140
Provisions for other liabilities	76	70	146	100	(155)	(55)
Depreciation – on capitalised decommissioning costs	18	87	105	51	–	51
– provisions for diminution in value	–	209	209	–	–	–
– other depreciation	369	–	369	358	–	358
Amortisation of goodwill	50	–	50	50	–	50
Raw materials and consumables	472	–	472	492	–	492
Research and development charges not directly recoverable from customers	54	–	54	55	–	55
Other income and operating charges	284	–	284	428	–	428
Changes in stocks of finished goods and work in progress	18	3	21	(6)	–	(6)
Own work capitalised	(75)	–	(75)	(92)	–	(92)
Own work on nuclear fuel stock	(14)	–	(14)	(15)	–	(15)
Regional development grants released	(1)	–	(1)	(2)	–	(2)
Total operating costs and expenses before revision of previous years' nuclear liabilities	2,329	445	2,774	2,444	(155)	2,289
Revision of previous years' nuclear liabilities	–	1,935	1,935	(8)	–	(8)
	2,329	2,380	4,709	2,436	(155)	2,281

Revision of previous years' nuclear liabilities of £1,935 million (2001: net benefit £8 million) relates to provisions for liabilities and charges as a direct result of the Historic Waste Management Strategy. This is made up of a charge of £1,518 million (2001: credit of £87 million) (note 26a) and £417 million (2001: £79 million) included mainly within the charge for depreciation on capitalised decommissioning costs (note 11).

Other income and operating charges include Auditors' remuneration of £1,397,000 (2001: £1,763,000) of which £335,000 (2001: £210,000) relates to the parent company. Amounts paid to Ernst & Young, the Group's auditors, in respect of non-audit services to the Group amounted to £2,498,000 (2001: £3,031,000). 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 project support in the US, tax advice and various other financial projects.

Exceptional items

The exceptional items are included in separate columns in the profit and loss account. The exceptional items can be summarised as follows:

	2002 £m	2001 £m
Historic Waste Management Strategy	(1,935)	–
Impact of revised Magnox Lifetime Strategy	(375)	–
Contract loss on East Tennessee Technology Park	(70)	–
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)
Other	–	(10)
(Decrease)/increase in operating profit	(2,380)	155
Profit on disposal of subsidiaries	–	3
Costs of reorganisation following acquisition	–	(40)
Profit on sale of fixed assets investments used in continuing activities (note 5)	30	26
(Decrease)/increase in profit before tax	(2,350)	144

Notes to the accounts

3 Net operating costs and expenses continued

Exceptional items continued

Dealing with the legacy at Sellafield is recognised as the most important task facing the Group and this year a fundamental review of the Historic Waste Management Strategy has been undertaken. The scope of the Historic Waste Management Strategy includes radioactive intermediate-level waste from historic ponds, silos, sludge storage and associated facilities on the Sellafield site. These have been generated as a result of the early nuclear programme. The result of this fundamental review has increased the lifetime costs, which has led to a one-off charge of £1,935 million in the profit and loss account.

A review of the value of continued operation of the Magnox stations has been undertaken, taking into consideration likely operational performance and reliability for a fleet of this age, expectations of future electricity prices in the post New Electricity Trading Arrangements market and the treatment of the spent fuel from the reactors. The closure profile has been revised, the major change being that Calder Hall and Chapelcross stations are to cease operation earlier than previously planned, whilst the economic value of continued operation of the remaining stations has been confirmed. As a result of this review, a number of accounting adjustments have been made, comprising an impairment charge based on a discount rate of 8% and additional costs due to the change in timing of decommissioning, which in total amounts to £375 million.

Following the events of 11 September the US Department of Energy suspended operations involving contaminated material at the East Tennessee Technology Park and, in addition, required safety improvements across the whole site. This had a major impact on decommissioning activities at the site and, although work has recommenced, the additional costs incurred as a result has required an increase to provisions with an exceptional cost of £70 million.

During the year there were realised gains of £30 million on the sale of fixed asset investments within the nuclear liabilities investment portfolio.

4 Employee information

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

	2002 Number	2001 Number
Fuel Manufacture and Reactor Services	8,031	8,770
Magnox Generation	3,475	3,576
Spent Fuel and Engineering	7,667	7,031
Environmental Services	1,752	1,719
Corporate	1,323	1,192
	22,248	22,288

b Employee costs

	2002 £m	2001 £m
Wages and salaries	796	760
Social security costs	64	66
Other pension costs (note 37)	29	21
Other employee costs (early retirement etc)	50	38
	939	885

The figures given above include Parent company executive directors. Further details of directors' emoluments are set out in the Remuneration Policy on pages 30 and 31.

5 Profit on sale of fixed assets

	2002 £m	2001 £m
Tangible fixed assets	–	1
Fixed asset investments	30	25
	30	26

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 £9 million (2001: £8 million).

6 Investment and interest income

	2002 £m	2001 £m
Nuclear liabilities investment portfolio	163	204
Secretary of State's Undertaking	253	309
	416	513
Current asset investments	85	157
Loans to joint ventures	3	4
Loans to associated undertakings	3	3
	507	677
Financing income from long-term contract advance payments reclassified to turnover	(77)	(105)
	430	572

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 generated should match the time-related increases in nuclear liabilities included under interest payable and similar charges.

7 Interest payable and similar charges

	2002 £m	2001 £m
Revalorisation:		
Nuclear provisions	347	482
Non nuclear provisions	23	26
	370	508
Interest on loans	11	33
Bank commissions	3	4
Realised exchange gains	(10)	(18)
	374	527
Group interest payable and similar charges	–	1
Share of joint ventures' interest	6	7
	380	535

Notes to the accounts

8 Tax on profit/(loss) on ordinary activities

a Analysis of tax credit in year

	2002			2001		
	Operational performance £m	Exceptional items £m	Total £m	Operational performance £m	Exceptional items £m	Total £m
UK corporation tax in respect of parent and subsidiaries:						
Current year	–	–	–	(1)	–	(1)
Advance corporation tax written off	25	–	25	–	–	–
Adjustment in respect of prior years	(3)	–	(3)	(1)	–	(1)
	22	–	22	(2)	–	(2)
Joint ventures' taxation	1	–	1	1	–	1
Associated undertakings' taxation	9	–	9	6	–	6
	32	–	32	5	–	5
Overseas taxation	4	–	4	4	–	4
	36	–	36	9	–	9
Current taxation	36	–	36	9	–	9
Deferred tax in respect of parent and subsidiaries:						
Current year	(27)	(249)	(276)	(64)	35	(29)
Tax (credit)/charge	9	(249)	(240)	(55)	35	(20)

b Factors affecting tax credit for year

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

	2002 £m	2001 £m
Loss on ordinary activities before taxation	(2,328)	(66)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(698)	(20)
Effects of:		
Permanent differences	21	(18)
Deferred tax not provided	416	(19)
Adjustments in respect of prior year	(3)	(1)
Associates and joint venture taxation	–	2
Overseas taxation	24	36
Deferred tax credit for the year	276	29
Current tax charge for period (note 8a)	36	9

Deferred tax not provided principally relates to taxation losses which under FRS 19 cannot be recognised in the current period.

9 Dividends

No dividends were paid or proposed in the year (2001: nil).

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 2001	999	3	1,002
Additions during the year	3	–	3
Exchange adjustments	(1)	–	(1)
At 31 March 2002	1,001	3	1,004
Amortisation:			
At 1 April 2001	76	1	77
Amortisation during the year	49	1	50
At 31 March 2002	125	2	127
Net book value at 31 March 2002	876	1	877
Net book value at 31 March 2001	923	2	925

During the year, as required by FRS 10, a review was undertaken which confirmed the carrying value of the goodwill arising on the acquisition of Westinghouse and ABB's commercial nuclear power businesses.

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 2001	18	3,185	6,805	148	1,960	12,116
Acquisition of subsidiary undertakings	–	–	67	–	–	67
Additions:						
Capitalised decommissioning costs	–	–	1,084	–	–	1,084
Other	7	382	588	19	(451)	545
Disposals:						
Capitalised decommissioning costs	–	–	(121)	–	–	(121)
Other	–	–	(6)	(9)	(4)	(19)
Transfers/reclassifications	(18)	–	(868)	(6)	97	(795)
Cost at 31 March 2002	7	3,567	7,549	152	1,602	12,877
Depreciation at 1 April 2001	3	1,360	3,457	100	–	4,920
Impairment of assets	–	22	124	7	56	209
Charge for the year:						
Capitalised decommissioning costs	–	–	484	–	–	484
Other depreciation	–	147	205	17	–	369
Disposals:						
Capitalised decommissioning costs	–	–	(62)	–	–	(62)
Other	(2)	–	–	(7)	–	(9)
Transfers/reclassifications	–	–	(604)	–	–	(604)
Depreciation at 31 March 2002	1	1,529	3,604	117	56	5,307
Net book value at 31 March 2002	6	2,038	3,945	35	1,546	7,570
Net book value at 31 March 2001	15	1,825	3,348	48	1,960	7,196

Included within additions to capitalised decommissioning costs of £1,084 million are £63 million (note 26) revalorisation on customer recoverable assets and £204 million (note 26), of which £64 million (note 15), is recoverable from customers, relating to normal provision charge. The remainder mainly relates to the revision of prior year estimates (Historic Waste Management Strategy).

Disposals include £46 million held at residual value in line with the accounting policy on nuclear liabilities (see note 1f) and is recoverable from customers.

Notes to the accounts

11 Fixed assets – tangible assets continued

a Group continued

The reclassifications within plant and machinery relate to provisions for the treatment of intermediate-level waste and other related operational issues.

These provisions were previously classified within note 26 as decommissioning, but have now been reclassified to waste management in line with the treatment of other similar provisions. Decommissioning provisions are capitalised and depreciated (hence treated as fixed assets), however waste management provisions are not treated in the same way. As a result of this, a total net book value of £251 million has been reclassified from plant and machinery fixed assets to nuclear liabilities recoverable.

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	Environment services £m	Total £m
Cost at 1 April 2001	910	1,178	9,769	259	12,116
Acquisition of subsidiaries	–	–	67	–	67
Additions:					
Capitalised decommissioning costs	48	182	851	3	1,084
Other	86	116	203	140	545
Disposals:					
Capitalised decommissioning costs	(4)	(15)	(89)	(13)	(121)
Other	(6)	–	(5)	(8)	(19)
Reclassifications	18	(348)	(557)	92	(795)
Cost at 31 March 2002	1,052	1,113	10,239	473	12,877
Depreciation at 1 April 2001	377	875	3,483	185	4,920
Impairment of assets	–	209	–	–	209
Charge for the year:					
Capitalised decommissioning costs	2	100	382	–	484
Other depreciation	52	45	267	5	369
Disposals:					
Capitalised decommissioning costs	–	–	(55)	(7)	(62)
Other	–	–	(5)	(4)	(9)
Reclassifications	(2)	(348)	(253)	(1)	(604)
Depreciation at 31 March 2002	429	881	3,819	178	5,307
Net book value at 31 March 2002	623	232	6,420	295	7,570
Net book value at 31 March 2001	533	303	6,286	74	7,196
The reclassification within Magnox Generation and Spent Fuel and Engineering Business Groups relates to several factors, firstly the decommissioning provisions reflecting the change in managerial responsibility for the discharge of related liabilities (note 2a), and secondly the provisions for intermediate-level waste being reclassified into waste management noted above.					
Included in net book values above are the following amounts in respect of capitalised decommissioning costs:					
Net book value at 31 March 2002					
Amounts recoverable from customers (note 15)	125	180	1,661	13	1,979
Group funded	31	–	169	–	200
	156	180	1,830	13	2,179
Net book value at 31 March 2001					
Amounts recoverable from customers (note 15)	100	–	1,704	18	1,822
Group funded	2	55	51	–	108
	102	55	1,755	18	1,930

The capitalised decommissioning costs reflect the current managerial responsibility as referred to in note 2a.

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 2001	3,077	7,192	100	1,891	12,260
Additions:					
Capitalised decommissioning costs	–	1,187	–	–	1,187
Other	350	548	14	(604)	308
Disposals:					
Capitalised decommissioning costs	–	(561)	–	–	(561)
Other	(30)	(2)	(3)	(3)	(38)
Reclassifications	(3)	(581)	(2)	–	(586)
Cost at 31 March 2002	3,394	7,783	109	1,284	12,570
Depreciation at 1 April 2001	1,331	2,481	76	–	3,888
Impairment of fixed assets	3	21	1	4	29
Charge for the year:					
Capitalised decommissioning costs	–	201	–	–	201
Other	135	145	12	–	292
Disposals:					
Capitalised decommissioning costs	–	(3)	–	–	(3)
Other	(13)	–	(4)	–	(17)
Reclassifications	–	(53)	–	–	(53)
Depreciation at 31 March 2002	1,456	2,792	85	4	4,337
Net book value at 31 March 2002	1,938	4,991	24	1,280	8,233
Net book value at 31 March 2001	1,746	4,711	24	1,891	8,372

Included within additions to capitalised decommissioning costs of £1,187 million are £110 million (note 26) of revaluation on customer recoverable assets and £190 million (note 26), of which £122 million (note 15) is recoverable from customers, relating to normal provision charge. The remainder mainly relates to the revision of prior year liability estimates.

Disposals include £529 million held at residual value in line with the accounting policy on nuclear liabilities (note 1f) and is recoverable from customers.

In respect of the reclassification within plant and machinery refer to note 11a.

Freehold land, amounting to £6 million (2001: £8 million) for the Group and £5 million (2001: £6 million) for the company, has not been depreciated. The company holds no long leasehold land and buildings.

Notes to the accounts

12 Fixed assets – investments

	2002 £m	Group 2001 £m	2002 £m	Parent 2001 £m
Subsidiary undertakings (note 12b)	–	–	897	459
Joint ventures (note 12c)	50	108	2	61
Associated undertakings (note 12d)	122	120	–	3
Trade investments (note 12e)	20	4	2	2
Nuclear liabilities investment portfolio (note 12f)	4,023	3,815	4,050	3,866
	4,215	4,047	4,951	4,391

See page 71 for details of principal subsidiary and associated undertakings and joint ventures.

a During the year the Group has made the following acquisitions:

Fellside Heat and Power Limited

On 31 January 2002, the Group purchased the remaining 50% of the share capital of Fellside Heat and Power Limited for £20 million. The consideration paid was equal to the net assets acquired. Prior to acquisition Fellside Heat and Power Limited was accounted under the gross equity method. The Group has adopted the acquisition method of accounting.

Logitest SA

On 31 December 2001, the Group purchased 50.5% of the share capital of Logitest SA from SGS Qualitest for FF 27.3 million (£2.5 million). The book value of the assets acquired, £5.6 million, equalled that of the fair value. Logitest SA has been accounted for under the acquisition method of accounting.

b Subsidiary undertakings

	Shares £m	Loans £m	Total cost £m	Amounts provided £m	Parent Net book value £m
At 1 April 2001	442	42	484	(25)	459
Additions	401	40	441	–	441
Repayments	–	(3)	(3)	–	(3)
At 31 March 2002	843	79	922	(25)	897

The additions include Fellside Heat and Power Limited, Logitest SA (refer to above) and other subsidiaries relating to an internal reorganisation.

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 2001	–	74	128	202	20	102	122
Additions	2	–	7	9	1	8	9
Disposal	–	(20)	(3)	(23)	(20)	(3)	(23)
Loans repaid	–	–	(2)	(2)	–	(2)	(2)
Transfers to subsidiary undertakings (Fellside loan)	–	–	(40)	(40)	–	(40)	(40)
Share of retained profit and reserves	2	–	–	2	–	–	–
At 31 March 2002	4	54	90	148	1	65	66
Amounts provided/amortised:							
At 1 April 2001	–	8	86	94	–	61	61
Provisions released	–	–	(3)	(3)	–	(3)	(3)
New amounts provided/amortised	–	1	6	7	–	6	6
At 31 March 2002	–	9	89	98	–	64	64
Net book value:							
At 31 March 2002	4	45	1	50	1	1	2
At 31 March 2001	–	66	42	108	20	41	61

Loans of £89 million for the Group and £64 million for the Parent (2001: £86 million and £61 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 2001	80	40	120	2	1	3
Disposals	(2)	(1)	(3)	(2)	(1)	(3)
Share of retained profit and reserves	5	–	5	–	–	–
At 31 March 2002	83	39	122	–	–	–

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 2001	26	(22)	4	9	(7)	2
Disposal	(15)	14	(1)	–	–	–
Reclassifications from debtors	17	–	17	–	–	–
Balance at 31 March 2002	28	(8)	20	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 2001	2,636	1,179	3,815	2,665	1,201	3,866
Reclassifications	75	(75)	–	75	(75)	–
Additions	14	671	685	10	649	659
Disposals	(506)	–	(506)	(506)	–	(506)
Amortisation of discount/indexation	29	–	29	31	–	31
Balance at 31 March 2002	2,248	1,775	4,023	2,275	1,775	4,050

The amount of listed investments included in the nuclear liabilities investment portfolio is £3,696 million of which £3,723 million are held by the Parent (2001: £3,470 million and £3,520 million). The market value of these investments was £3,844 million for the Group and the Parent (2001: £3,662 million). 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 are principally 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 £506 million disposal within the gilts investment portfolio was caused by the 2001 index-linked gilt maturing during this year; this was subsequently reinvested in the managed portfolio.

The Group has invested £2,248 million of the portfolio in index-linked gilts, which it is intended to hold until redemption. These have an average maturity of 11.1 years and returned 2.48% per annum after tax and inflation in 2001–2002. 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. There are two areas of risk associated with this instrument; firstly the taxation legislation may change, and secondly, given 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 £1,775 million is invested through fund managers, against either a LIBID or index-linked benchmark dependent upon the maturity profile of the investment. 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	
	2002 £m	2001 £m	2002 £m	2001 £m
Nuclear fuel	21	25	8	5
Raw materials and consumables	233	163	45	46
Work in progress	106	233	14	19
Finished goods	16	35	3	11
	376	456	70	81

Work in progress in both the Group and Parent is stated after deducting progress payments of £2 million (2001: £9 million).

14 Debtors

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade debtors	301	309	63	80
Nuclear liabilities recoverable within one year (note 15)	368	242	680	490
Recoverable on long-term contracts	233	212	—	—
VAT	8	22	14	25
Corporation tax	47	46	41	67
Owed by Group undertakings	—	—	1,785	1,313
Owed by joint ventures	—	2	—	2
Owed by associated undertakings	8	10	—	1
Prepayments and accrued income	250	245	349	380
Other debtors	267	256	20	23
	1,482	1,344	2,952	2,381

Debtors due to the Group above include £278 million (2001: £258 million) due in more than one year. Debtors due to the Parent above include £253 million (2001: £237 million) due in more than one year. The majority of these amounts are included within prepayments and accrued income.

At the end of the year, there were 80 loans amounting to £631,000 outstanding with employees of the Group (2001: 94 loans amounting to £726,000). Of these loans, 79 amounting to £610,000 were in the Parent (2001: 91 loans amounting to £615,000).

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	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts recoverable in respect of:				
Decommissioning	2,044	2,046	3,474	4,065
Waste management	4,659	3,346	8,328	5,980
Reprocessing	—	—	870	846
	6,703	5,392	12,672	10,891
Included in fixed assets (note 11)	1,979	1,822	3,319	3,523
Included in debtors due after more than one year	4,356	3,328	8,673	6,878
Included in debtors due within one year (note 14)	368	242	680	490
	6,703	5,392	12,672	10,891

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 2001	1,822	224	3,346	–	5,392
Revalorisation	63	8	118	–	189
Revision of prior year liabilities estimates	314	(151)	942	–	1,105
Increase/(decrease) in the year	64	(16)	7	–	55
Amounts recovered	(33)	–	(5)	–	(38)
Reclassifications	(251)	–	251	–	–
Balance at 31 March 2002	1,979	65	4,659	–	6,703
Parent					
Balance at 1 April 2001	3,523	542	5,980	846	10,891
Revalorisation	110	19	211	30	370
Revision of prior year liabilities estimates	152	(406)	1,583	(6)	1,323
Increase/(decrease) in the year	122	–	8	–	130
Amounts recovered	(36)	–	(6)	–	(42)
Reclassifications	(552)	–	552	–	–
Balance at 31 March 2002	3,319	155	8,328	870	12,672

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

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Balance at 1 April 2001	4,531	4,222	–	–
Interest accrued during the year	253	309	–	–
Balance at 31 March 2002	4,784	4,531	–	–

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% per annum 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 the 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 is due on 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.

Notes to the accounts

17 Current asset investments and short-term deposits

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Gilts investments – medium-term maturity	108	106	108	106
– short-term maturity	122	152	122	152
Managed investments	587	1,142	–	560
Short-term deposits	983	684	845	508
	1,800	2,084	1,075	1,326

The amount of listed investments included above is £815 million (2001: £1,370 million), of which £230 million are held by the Parent (2001: £810 million). The market value of these investments was £834 million for the Group and £249 million for the Parent (2001: £1,396 million and £836 million). Other investments are bank deposits and other fixed and call deposits.

Included in total current asset investments for the Group are £585 million of the listed investments which are carried at market value (2001: £560 million). These are listed investments held in insurance subsidiaries. The historic cost of these investments was £579 million (2001: £550 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 the maturity of bank deposits are timed. 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	
	2002 £m	2001 £m	2002 £m	2001 £m
Current portion of long-term loans (note 20)	135	3	–	–
Bank overdraft	8	–	52	56
Payments received on account (note 21)	909	518	899	384
Obligations under finance leases and hire purchase contracts (note 22)	3	1	–	–
Trade creditors	175	159	53	61
Owed to Group undertakings	–	–	2,834	2,795
Owed to joint ventures	–	2	–	2
VAT	15	15	12	10
Corporation tax	105	109	36	89
Other taxes and social security	16	11	6	5
Accruals and deferred income	356	350	124	135
Other creditors	38	23	–	4
	1,760	1,191	4,016	3,541

19 Creditors: amounts falling due after more than one year

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Loans (note 20)	–	35	–	–
Payments received on account (note 21)	3,893	4,047	5,560	5,695
Obligations under finance leases and hire purchase contracts (note 22)	1	4	–	–
Accruals and deferred income	532	477	532	476
Other	4	12	–	–
	4,430	4,575	6,092	6,171

20 Loans

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Repayable:				
In one year or less, or on demand	135	3	–	–
In more than one year but not more than two years	–	33	–	–
In more than two years but not more than five years	–	2	–	–
	135	38	–	–

Loans are secured by Parent company guarantees.

21 Payments received on account

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 follows:

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
In one year or less	909	518	899	384
In more than one year but not more than two years	611	617	954	616
In more than two years but not more than five years	1,682	1,270	2,850	1,254
In more than five years	1,600	2,160	1,756	3,825
	4,802	4,565	6,459	6,079

22 Obligations under finance leases and hire purchase contracts

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts payable:				
In one year or less	3	1	–	–
In more than one year but not more than two years	1	4	–	–
	4	5	–	–

Notes to the accounts

23 Undrawn committed borrowing facilities

The Group has undrawn committed borrowing facilities of £63 million which expire within one year (2001: £142 million in more than one year, but not more than two years).

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 2001	12	464	2	478
Increase in year	–	57	–	57
Release in year	(1)	–	(2)	(3)
Balance at 31 March 2002	11	521	–	532
Analysed as follows:				
Amounts due after one year	11	521	–	532
	11	521	–	532
Parent				
Balance at 1 April 2001	12	464	1	477
Increase in year	–	57	–	57
Release in year	(1)	–	(1)	(2)
Balance at 31 March 2002	11	521	–	532
Analysed as follows:				
Amounts due after one year	11	521	–	532
	11	521	–	532

25 Provisions for liabilities and charges

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

	Group		Parent	
	2002 £m	2001 £m	2002 £m	2001 £m
Nuclear provisions (note 26)	19,676	16,106	14,823	12,559
Deferred tax (note 27)	420	655	89	339
Other provisions (note 28)	1,067	1,208	612	463
	21,163	17,969	15,524	13,361

26 Nuclear provisions

a Summary of the provisions for nuclear liabilities and charges

	Decommissioning £m	Waste management £m	Reprocessing £m	Total £m
Group				
Balance at 1 April 2001	8,061	7,002	1,043	16,106
Reclassification	(1,102)	1,108	(6)	-
Revalorisation				
Fixed assets (note 11)	63	-	-	63
Debtors (note 15)	8	118	-	126
Profit and loss account (note 7)	199	119	29	347
Revision of previous years' liabilities				
Fixed assets	761	-	-	761
Debtors (note 15)	(151)	942	-	791
Profit and loss account (note 3)	(355)	1,739	134	1,518
Increase in the year				
Fixed assets (note 11)	204	-	-	204
Debtors (note 15)	(16)	7	-	(9)
Profit and loss account (note 3)	33	84	98	215
Amounts recovered from third parties to discharge nuclear provisions				
Fixed assets (note 15)	(33)	-	-	(33)
Debtors (note 15)	-	(5)	-	(5)
Discharge of Group-funded liabilities	(92)	(207)	(109)	(408)
Balance at 31 March 2002	7,580	10,907	1,189	19,676

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 Summary of the provisions for nuclear liabilities and charges continued

	Decommissioning £m	Waste management £m	Reprocessing £m	Total £m
Parent				
Balance at 1 April 2001	4,998	6,518	1,043	12,559
Reclassification	(650)	655	(5)	—
Revalorisation				
Fixed assets (note 11)	110	—	—	110
Debtors (note 15)	19	211	30	260
Profit and loss account	33	15	5	53
Revision of previous years' liabilities				
Fixed assets	385	—	—	385
Debtors (note 15)	(406)	1,583	(6)	1,171
Profit and loss account	(128)	251	(22)	101
Increase in the year				
Fixed assets (note 11)	190	—	—	190
Debtors (note 15)	—	8	—	8
Profit and loss account	1	50	64	115
Amounts recovered from third parties to discharge nuclear provisions				
Fixed assets (note 15)	(36)	—	—	(36)
Debtors (note 15)	—	(6)	—	(6)
Discharge of Parent-funded liabilities	(14)	(37)	(36)	(87)
Balance at 31 March 2002	4,502	9,248	1,073	14,823

The Group has estimated the financial cost of meeting its obligations to decommission radioactive facilities and has provided for them. These obligations address the 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 respect of Historic Wastes, specifically those arising from the early nuclear programme, following extensive work over a number of years, the Board has approved a substantially revised retrieval and processing strategy. This has resulted in a gross increase in nuclear liabilities of £5,700 million (discounted £3,500 million) of which the Group's share amounts to £3,000 million (discounted £1,935 million). The profit and loss account impact of this change amounted to £1,935 million and is disclosed in note 3 to the accounts. Despite the extensive work undertaken, the nature of the wastes, the length of time for which they have been stored and the age of the storage facilities mean that much further work will be required over a number of years to confirm and further refine this strategy. The Board has recorded its best estimate of the related liabilities based on available knowledge. The Group's procedures would normally require this estimate to include risk, which in this context means the financial implications of a range of possible alternative outcomes associated with the treatment of these wastes. In this case however, the level of uncertainty associated with these alternatives is such that the Board has been unable to quantify this incremental financial impact with reasonable certainty. As a consequence, it is likely that the liabilities will differ from the amounts recorded although these amounts remain the best available estimate at the present time.

The estimates on which all the provisions are based are themselves reliant 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, in addition to statistical modelling of the financial impact of the various outcomes. 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. Until the new structure announced by Government is established and responsibility for these liabilities transferred, the impact of any additional liabilities could materially affect the results of operations and financial condition of the Group. Further background on nuclear liabilities is provided on pages 24 and 25.

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	2,044	5,536	7,580
Waste management	4,659	6,248	10,907
Reprocessing of fuel	–	1,189	1,189
At 31 March 2002	6,703	12,973	19,676
At 31 March 2001	5,392	10,714	16,106

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	18,140	7,691	13,756	5,623
Waste management	19,140	9,928	11,627	5,768
Reprocessing of fuel	3,240	2,409	1,807	1,392
At 31 March 2002	40,520	20,028	27,190	12,783
At 31 March 2001	34,755	15,846	23,915	10,437

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 £10.5 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 years eleven to fifty, costs amounting to approximately £14 billion in total, are mainly associated with decommissioning the Group's nuclear facilities and with waste management activities including waste disposal. The remaining costs (approximately £16 billion) relate primarily to the final stages of decommissioning the Group's nuclear facilities, together with those associated with the construction and 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 2002 is as follows:

	£m
Future discounted cash expenditure in respect of existing liabilities:	
Discounted Group-funded provision	12,973
Non-cash (see below)	(974)
	11,999
Funding of liabilities:	
Nuclear liabilities investment portfolio market value	4,171
Secretary of State's undertaking in relation to the liabilities of Magnox Electric plc	4,784
	8,955
Percentage level of funding	75%

As a result of the increase in the future cash expenditure, largely due to the impact of the Historic Waste Management Strategy, the percentage level of funding has reduced from 88% in 2001.

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 £2,008 million, of which £974 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:

	2002 £m	2001 £m
Capital allowances in advance of depreciation:		
Parent company	615	801
Subsidiary undertakings	15	(13)
Group	630	788
Other timing differences:		
Parent company	(526)	(437)
Subsidiary undertakings	316	329
Group	(210)	(108)
Recoverable advance corporation tax:		
Parent company	–	(25)
Group	–	(25)
Total:		
Parent company	89	339
Subsidiary undertakings	331	316
Group	420	655

The £235 million movement in deferred tax in the year is directly attributable to a current year deferred tax credit to the profit and loss account of £276 million less acquisition of subsidiary deferred tax balances of £16 million and less advance corporation tax of £25 million (tax credit in the parent company being £274 million less advance corporation tax of £25 million).

28 Other provisions

Other provisions can be analysed as follows:

	Contract settlements (a) £m	Other contract provisions (b) £m	Restructuring costs (c) £m	Warranty provisions £m	Other provisions (d) £m	Total £m
Group						
Balance at 1 April 2001	392	380	174	37	225	1,208
Revalorisation	14	4	5	–	–	23
Reclassifications	–	–	(2)	–	2	–
Released in the year	(34)	–	–	–	–	(34)
Increase/(decrease) in the year:						
Other	–	90	23	7	26	146
Expenditure in the year	(76)	(86)	(55)	(9)	(50)	(276)
Balance at 31 March 2002	296	388	145	35	203	1,067
Parent						
Balance at 1 April 2001	–	236	114	–	113	463
Revalorisation	–	3	4	–	–	7
Reclassifications	–	–	–	–	102	102
Increase/(decrease) in the year:						
Other	–	26	11	–	60	97
Expenditure in the year	–	(34)	(19)	–	(4)	(57)
Balance at 31 March 2002	–	231	110	–	271	612

a 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 £296 million (2001: £392 million).

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 2002, 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 fifteen years, with the majority of expenditures occurring over the next eight 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 seven remain open as at 31 March 2002. The supply of equipment is essentially complete and the fuel supplies extend through 2013.

b Other contract provisions are for loss making contracts and sundry contractual claims.

c The main elements of restructuring costs are 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.

d Other sundry cost provisions include insurance provisions of £16 million (2001: £23 million) and various miscellaneous provisions of £187 million (2001: £202 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

	2002 £m	2001 £m
Ordinary shares of £1 each authorised	43	43
Allotted, called up and fully paid	33	33

30 Reserves

	Group Profit and loss account £m	Parent Profit and loss account £m
Balance at 1 April 2001	218	323
Exchange differences	(8)	—
Loss for the year	(2,090)	(32)
Balance at 31 March 2002	(1,880)	291

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