

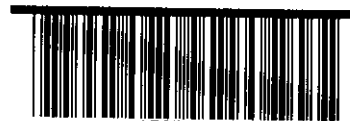
Company No. 1002607



BRITISH NUCLEAR FUELS plc

Annual Report and Accounts 2003

reaching
new horizons



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BNFL is an international nuclear energy business employing 23,000 people in 16 countries and delivering world-class technology and expertise to nuclear utilities and governments.

Our activities span the entire nuclear energy cycle — from reactor design and fuel manufacture to power station decommissioning and clean-up. We have around 12% of the world nuclear market.

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Chairman's statement

prepared for the challenge

The organisational structure we now have in place prepares us well for a competitive marketplace and paves the way for the future.

This is a challenging time for BNFL and the nuclear industry, yet a time of many opportunities. Nuclear energy is experiencing a resurgence in many parts of the world and rightly so. It has a significant contribution to make as a sustainable form of energy, producing virtually carbon-free electricity, with small amounts of waste that can be safely managed.

Recently, we welcomed the publication of the draft Nuclear Sites and Radioactive Substances Bill, which will pave the way for the creation of the Nuclear Decommissioning Authority (NDA). The NDA is being established to focus on the management and clean-up of the UK's public sector civil nuclear liabilities. The creation of the NDA will enable BNFL to become a more competitive international business. It will lead to a transfer of assets and liabilities to the NDA thus restructuring BNFL's balance sheet for the future.

The Secretary of State, Patricia Hewitt, recently announced that the UK Government and the BNFL Board have agreed to conduct a joint review to evaluate options for alternative strategies for BNFL. The Government has decided that a flotation of the company after the NDA has been formed should no longer be an option. The joint review will be conducted against the framework of the Government's policy objectives set out in the White Paper and in particular the need to develop a competitive market for nuclear site management which is fair and open.

In the UK, the Government published its Energy White Paper in February 2003. Central to the paper are ambitious long-term aspirations for the reduction of greenhouse gas emissions and a commitment to non-CO₂ energy sources, which we welcome, as in this regard, nuclear and renewables are complementary. Whilst the decision on whether to build a new generation of nuclear power stations has been deferred, it is clear that nuclear energy offers major attractions as a provider of baseload cover; it simply does not make sense to back up renewables with CO₂ generating forms of electricity. A commitment to reduce carbon emissions by 60% by 2050 opens the way for nuclear power to make a continuing and significant contribution to the UK's energy mix over the longer term.

In its recent report, 'Towards a non-carbon Fuel Economy: Research, Development and Demonstration', the House of Commons Science and Technology Committee independently supported our view. It stated "we believe that nuclear fission should enjoy the full status of carbon-free technology. Renewables are not coming on stream fast enough and nuclear must fill the gap."

An important development in the energy debate is the recently published work by Oxford Economic Research Associates (OXERA). Their independent analysis provides a significant step forward in quantifying the considerable value that nuclear power brings in terms of security of supply and lower infrastructure costs when compared to wind generation.

Results

Despite many success stories in 2002, it is disappointing to have to report an operating loss, before exceptional items, of £190 million, principally due to continuing losses at Magnox, exacerbated by lower electricity prices, planned maintenance shutdowns in Thorp and increased staffing at Sellafield to complete the recommendations of the Nuclear Installations Inspectorate's (NII) team inspection report. In addition, there are exceptional charges before taxation totalling £827 million. The main items are as follows:

Following on from last year's Historic Waste Management Strategy Review, a separate exercise was initiated on the costs of early phases of Magnox station decommissioning. During the year, this was completed and plans approved for two of our stations, Hinkley Point A and Bradwell, which has resulted in cost increases of £415 million.

Due to the contract renegotiation in connection with British Energy's solvent restructuring, the company incurred a one-off charge of £230 million for assets at our Springfields site.

In the US, BNFL Inc. made additional provisions of £175 million against two historic contracts taken on several years ago at fixed prices. The construction phase of one of these contracts is now complete; the other contract is due to complete next year. BNFL Inc. is now under new leadership and we are looking forward to an improved performance in the current year.

Operational highlights

The last year was certainly demanding for BNFL, but it was one in which further progress was made in laying the ground for the company's future development. We have maintained the momentum established in the past three years, completing a reorganisation that now aligns our worldwide business with its two customer groups, nuclear utilities and governments. In the UK, we have set up an internal team, BNFL ALFA, to prepare us for the competitive marketplace that will come about with the establishment of the proposed NDA. In addition, significant contracts have been won by Westinghouse and by BNFL Environmental Services.

Restructuring

The restructuring of BNFL into two business groups was completed with the appointment of Lawrie Haynes to run our Government Services Group. This group focuses on the remediation of primarily government nuclear sites and, for the present, the operation of the Magnox nuclear reactors. The Nuclear Utilities Group, which comprises our worldwide operations in fuel manufacturing, reactor design and services, will be led by Steve Tritch, currently President and Chief Executive Officer of Westinghouse, when Charlie Pryor, current Head of Nuclear Utilities Group, retires at the end of September 2003. Both appointments bring a wealth of commercial experience from both the public and private sectors.

Through the creation of BNFL ALFA, acting as our internal equivalent of the NDA and bringing a high degree of commercial focus to our business, we are now structured to compete as vigorously in the new domestic market for specialised products and services as we do in the international marketplace.

People

As announced in February 2003, Norman Askew is stepping down as Chief Executive on 31 July 2003. Having taken up his post in March 2000, Norman has made a major contribution in stabilising the business, giving it a new direction and preparing it for the challenges and opportunities that lie ahead. The Board and I would like to thank him for his commitment and determination to make BNFL a more commercial and competitive company.

We are very pleased to announce the appointment of Michael Parker, as Chief Executive as of 1 August 2003. Michael joins us from Dow Chemical Company, where he worked for over 30 years in a career spanning various commercial roles and most recently as President and Chief Executive Officer.

A warm welcome goes to Jim Currie who joined the BNFL Board in November 2002 as a Non-Executive Director. Jim has had a distinguished career in the civil service both in the UK and at international level and will be an asset to the company going forward.

In particular, I would like to take this opportunity to thank our staff, both in the UK and overseas, for all the hard work they have put in over the past year. This has been a period of great change for the company and all have responded with energy and commitment.

A responsible approach

This year, for the first time, BNFL is publishing a Corporate Social Responsibility (CSR) Report. We decided to do so as testimony to the seriousness with which we take our responsibilities to our workforce, the communities in which we operate and the environment at large. The report explains what CSR means to BNFL, how we measure up today and how we intend to make progress in the future.

We intend that the report will become an annual fixture to demonstrate that we are committed to listening and acting on the views of all our stakeholders, whilst meeting our own business objectives. We are determined to ensure that the fundamental principles of corporate social responsibility become integral to the way we conduct our business.

Keys to our future

The establishment of the NDA some time in the next two years and the transfer to it of BNFL's nuclear sites and Magnox power stations, together with most of the associated assets and liabilities, will pave the way for the creation of a new BNFL. We will be responding as part of the wide-ranging consultation ahead of the draft Bill's expected introduction into Parliament before the end of 2003. We are looking forward to the prompt progress of this legislation and the creation of the NDA, which is in the best interests of BNFL and our employees. As always, safe operations and environmental performance remain at the heart of all we do and will not be compromised as we reshape our businesses to meet the opportunities ahead.

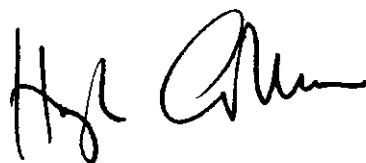
Internationally, the nuclear scene is looking more positive. In the US, for instance, the Bush administration has reaffirmed its support for new plant construction by 2010. Other countries – such as China, Finland, Japan and South Korea – are actively engaged in similar programmes.

We remain committed to promoting the Westinghouse AP1000 Reactor design worldwide. The design is a significant evolution of existing proven Pressurised Water Reactor technology. In the US, the AP1000 is currently going through the licensing process with the Nuclear Regulatory Commission and we expect successful completion by no later than 2005. We firmly believe that it should be the reactor of choice.

Outlook

Going forward, our focus will be on developing a strategy that will allow us to become a key player with a successful future in the nuclear industry and in particular the competitive clean-up market in the UK.

BNFL will be a business that lives, first and foremost, off its intellectual capital and the world-leading technologies it has developed and will continue to develop. But it will succeed only by exercising commercial skills on a par with its technical abilities and working closely with the local communities in which we operate. I am confident that the changes initiated internally over the past three years have instilled in BNFL the focus and determination to exploit that potential to the benefit of all of its stakeholders.



Hugh Collum Chairman

Chief Executive's review

let's take a closer look

Building on our recent performance improvements, we are well placed to build a successful future in the open and competitive marketplace which will come about with the establishment of the Nuclear Decommissioning Authority.

The next few years will see further great change; BNFL will be well placed to build on its recent performance improvement and to exploit its technical know-how to build successful businesses. However, continuous improvements in health, safety and environmental performance remain the outstanding priorities of our business.

I am pleased to report a significant improvement in the operational performance at BNFL last year. We met or exceeded almost all of the key commercial targets. We won several new high-profile contracts in the international marketplace. Together with the successful implementation of a new organisational structure in the UK, our performance demonstrates that we are now combining operational excellence with a keen competitive edge.

We have also demonstrated our readiness for the advent of an open, competitive marketplace in UK nuclear services that will come about with the establishment of the NDA within the next two years. The UK Government has recently published the draft Nuclear Sites and Radioactive Substances Bill that will create a timetable for the establishment of the NDA, which will take over the assets and liabilities relating to our Sellafield, Drigg and Capenhurst sites and the Magnox power stations.

We strongly support the approach the UK Government is taking to the management of Britain's nuclear legacy. We are well placed to seize the opportunity to compete for the right to manage these sites on behalf of the NDA. We have set up an internal team, BNFL ALFA, to shadow the role of the NDA and are already delivering against challenging cost targets and demanding schedules – set by BNFL ALFA – without compromising on health, safety or environmental issues.

In preparing BNFL for the future, we are now running the company with three business streams: Nuclear Utilities Group, Government Services Group and BNFL ALFA. The latter includes the assets and the liabilities which we expect to transfer to the NDA.

However, we still have to account for BNFL in its current form which at present shows that before exceptional items, we incurred an operating loss of £190 million, of which £159 million is due to Magnox Generation. In the financial

review these figures are highlighted in detail as well as the explanation given for the exceptional charges before taxation of £827 million.

Operational highlights

There have been significant achievements in a number of different areas:

Our Westinghouse subsidiary won some major new contracts, most notably to supply up to 20% of Electricité de France's (EdF) nuclear fuel requirements.

BNFL Environmental Services won a number of new contracts in the USA, Eastern Europe and parts of the former Soviet Union. In the UK, the Ministry of Defence awarded a 15-year extension to a 10-year contract to a consortium, in which BNFL is a partner, to manage the Atomic Weapons Establishments (AWE) at Aldermaston and Burghfield. The contract extension reflects the consortium's success in meeting a range of customer performance measures and demonstrates our ability to meet the demands of the most challenging of government contracts. BNFL Inc. has also delivered, ahead of time, the Advanced Mixed Waste Treatment Project in the USA.

In May this year, the NII confirmed that BNFL has satisfactorily implemented all the requirements of its report on the control and supervision of operations at Sellafield, published in February 2000. With the completion of the three year improvement plan, Sellafield can rightly claim to have set a new standard of best practice in the nuclear industry. The focus is now on continuous improvement and the Sellafield team is committed to this.

In preparation for operating as the future contractor for the Sellafield site, internal contracts were agreed with BNFL ALFA for 2002–2003. Performance against the deliverables set has been good. At Sellafield, a notable 51 of the 54 business targets were completed successfully, although the tragic accident (see page 5) clearly dominated the three that were missed. The remainder were: a delay in meeting a milestone delivery date in the Floc Retrieval Project due to unanticipated but necessary work; and a reduced throughput in the Sellafield Mixed Oxide (MOX) plant resulting from delays in its commissioning. Although

we were disappointed to have missed these targets, there was undoubtedly a wide range of excellent performance achievements across the business, such as:

- 333 containers of Vitrified high-level waste were put into the Vitrified product store against a target of 250. This performance demonstrates that we are overcoming the throughput challenges experienced on the old Vitrification lines;
- B16 Pile Chimney demolition at Sellafield was completed within cost and ahead of the DTI milestone, and
- Our Thorp plant had a very good year, meeting all of its reprocessing targets promptly, allowing important engineering work to be completed prior to recommencing in the new financial year. It is currently half way through an order book worth £12 billion.

Our Sellafield MOX plant is still some way from full commissioning, although we have started to manufacture fuel rods and production is being progressively increased. We have agreed new delivery timetables with our European customers, who understand that the priority of the plant is to accelerate production steadily and safely.

Our record of achievement against such a broad range of targets shows that the focus given to clean-up work does not compromise our commercial operation. This summary can only capture the briefest aspect of the variety and depth of work that we have successfully and safely undertaken across the BNFL Group.

Health, safety and the environment

Health, safety and environmental performance are the overriding priorities of our business. I am therefore pleased to be able to report another improvement in safety standards across the company last year. In particular, Sellafield has reduced the frequency rate of recordable incidents, involving both employees and agency staff, by half in the year. Sadly, however, that record was marred by an accident that led to the death of an employee of one of our contractors in January 2003. As with all events, we immediately conducted an investigation into the incident and acted on its findings. This has ensured that the immediate issues arising from this event have been communicated at all levels across the Group and that improvements are made for the future.

Learning from experience is key to our continuing improvement in standards of health and safety which are a way of life for our organisation.

Similar efforts are taken to instill a consciousness of our environmental responsibilities at every level of the organisation. Our performance in the UK last year demonstrated those efforts are bearing fruit.

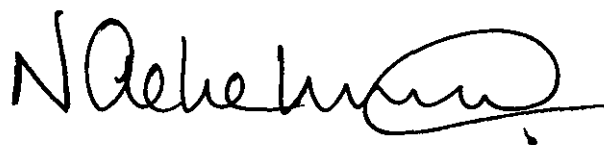
Knowledge base

Our greatest asset is our people, who constitute one of the most highly skilled and educated workforces in the world. In 2002, we recruited more than 160 graduates in the UK and USA and extended the number of University Research Alliances in the UK. We have also worked hard at sharing knowledge and experience between different parts of the Group. Our aim is to make BNFL the employer of choice for science and engineering graduates on both sides of the Atlantic.

As part of our long-term vision for nuclear power, we are engaged in a number of projects for advanced nuclear reactors. As well as owning the AP1000 Advanced Pressurised Water Reactor design, the most advanced system currently available, BNFL has an interest in the Pebble Bed Modular Reactor and a number of collaborative ventures around the world investigating future reactor designs.

Finally, let me end on a personal note. Earlier this year, I announced my intention to step down and make way for someone who will be able to see the company through the next stage of its development. My successor will inherit a first-class management team, made up of internal as well as external appointments, to whom great credit is due for the transformation BNFL has undergone in the past three years. I thank them and all our employees for the hard work they have put in over the past year.

The next few years will see great changes at BNFL as many of its assets and liabilities are transferred to the NDA. Once the process is complete, with a revitalised balance sheet, it will be well placed to build on its recent performance improvements and exploit its technical know-how and skills. I look forward to watching it achieve that goal.



Norman Askew Chief Executive

BNFL at a glance

Our goal is to be trusted as a quality supplier, delivering safe, environmentally-sound and profitable nuclear services and products.

In achieving that goal we are guided by five core values. We strive to:

- Act with integrity and respect for others;
- Be safe and environmentally responsible;
- Commit to achieve success for our customers;
- Deliver value and profit, and
- Excel in our operations.

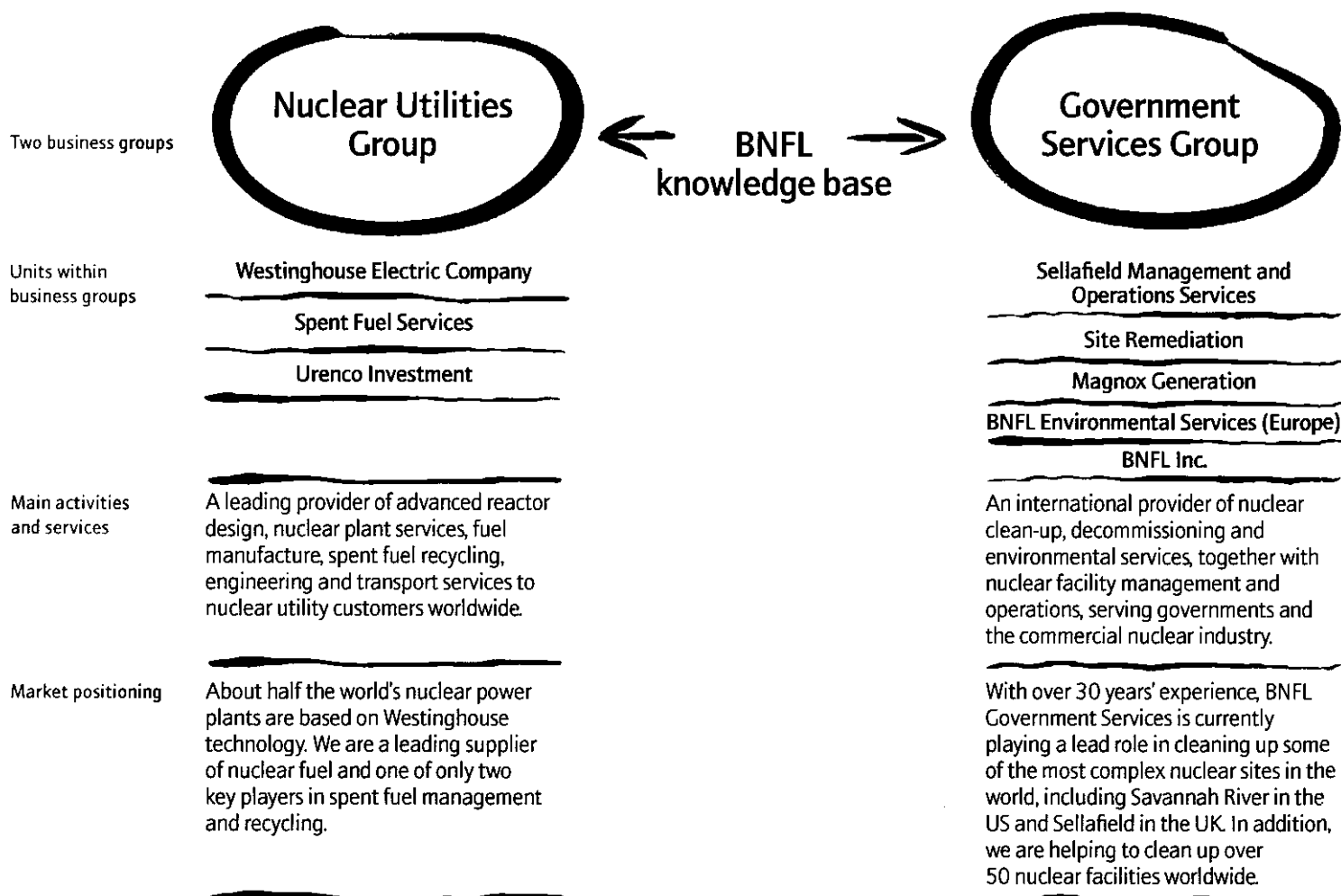
Making values concrete

How do we make those values concrete? How do we give them genuine meaning? We have put in place a new

integrated management framework that is not only guided by those values but measures our actions against them. At its heart is a commitment to be a responsible and responsive business – one that builds relationships based on trust yet retains an entrepreneurial spirit that promotes long-term profitability. It allows us to achieve a consistent approach to our business throughout the Group.

Our values influence all our decisions. They are reflected in a series of nine business principles that set out our commitment to integrity, accountability and business leadership and codify the way we deal with our customers, employees, contractors, suppliers, shareholder, the communities in which we operate and the environment at large.

focused on success



Within the BNFL Group structure is BNFL ALFA which acts as an internal customer and whose role is to operate an internal market environment to ensure the Government Services Group is ready to compete in an open marketplace. Its aim is to drive change by raising the commercial focus. BNFL ALFA has responsibility for all the assets, liabilities and funding which we expect to pass to the Nuclear Decommissioning Authority.

Business review: Nuclear Utilities Business Group

competing to win

With leading-edge technology and value-adding spent fuel solutions, we work to help nuclear utilities around the world produce safe, low-cost and environmentally-friendly electricity.

Our Nuclear Utilities Business Group combines advanced reactor design and services, fuel manufacture, spent fuel recycling, engineering and transport, making us one of the world's leading suppliers of nuclear plant products and technologies.

Formed last year under the leadership of Charlie Pryor, the group comprises Westinghouse, Spent Fuel Services and the Urenco Investment. With a more focused organisational structure, we are better able to serve our common customer base, for example through a single customer relations and sales organisation.

Our vision is to be the supplier of choice in serving the world's growing need for energy with leading-edge nuclear technology and safe value-adding spent fuel solutions. With a broad range of products and services founded on proven technology, we work to help nuclear utilities around the world produce safe, low-cost, reliable and environmentally-friendly electricity.

During 2002–2003, Nuclear Utilities Group continued to improve its already good health and safety performance, reducing its Days Away Case Rate from 0.55 to 0.41 per 200,000 hours worked.

Our exemplary environmental, health and safety standards are demonstrated by the retention of 'Star Site' status, under the Occupational Safety and Health Administration (OSHA) Voluntary Protection Programme at Westinghouse's Columbia and Blairsville sites in the US. Our Springfields plant in the UK was commended by the Royal Society for the Prevention of Accidents (RoSPA) for excellent safety performance in the manufacturing sector.

Westinghouse

Westinghouse continued its impressive financial performance during 2002–2003, with a turnover of £1,131 million. The company also had an excellent year for new orders, logging more than £1,139 million in this important area.

At Westinghouse, we confirmed our position as the world's leading supplier of nuclear plant products and technologies with a number of significant contract wins last year. One of the largest was a US\$400 million contract to provide components, instrumentation and control equipment, and technical and engineering support services to four new nuclear plants to be built in the Republic of Korea. The plants are all based on proven Westinghouse System 80® technology. The contracts further solidify our position as the pre-eminent supplier of new plant technology to the world's fastest-growing new plant programme.

In a major breakthrough into the French fuel market, we were awarded a contract to supply fuel to Electricité de France (EdF). The landmark contract, which will give us the opportunity to provide up to 20% of the French utility's total nuclear fuel requirements, is especially significant because France generates around three-quarters of its electricity from nuclear power and operates more than 50 Pressurised Water Reactors (PWRs), all of which are based on Westinghouse designs.

We also began implementation of a multi-year alliance with the US electricity generator, Entergy, to provide a broad range of engineering, field services, replacement parts and instrumentation and control upgrades to Entergy's fleet of five PWRs and four Boiling Water

Key financial summary

	Total turnover £m	Profit before interest and taxation and exceptional items £m	Average number of employees
Westinghouse	1,131	90	8,044
Spent Fuel Services (incl Transport)	88	(5)	501
Urenco Investment	—	36	—
	1,219	121	8,545

Business review: Nuclear Utilities Business Group

Reactors (BWRs). The agreement is highly innovative in nature; both companies will share in the rewards of improved plant performance.

More conventional wins included a US\$12 million contract to provide replacement steam generator services at Unit 2 of the Doel nuclear power station in Belgium – a contract that includes an innovative technical approach to the replacement process – and a US\$50 million steam generator services contract for Exelon's Byron 1 and 2 and Braidwood 1 and 2 nuclear stations in Illinois, in the US. We also won a US\$22 million contract to provide reload fuel for the Isar 2 power station in Germany and a multi-million dollar award to serve as the exclusive supplier of instrumentation and controls upgrades for Kernkraftwerk's Leibstadt nuclear power plant, in Northern Switzerland.

Future prospects are bright. There are positive indications of renewed interest in nuclear power in a number of countries, not least the US, where the Bush administration has endorsed the construction of new nuclear power plants by 2010 and where plans for a long-term waste repository at Yucca Mountain have passed a significant legislative hurdle. Yucca Mountain holds the key to the renewal or expansion of nuclear power in the US.

Our AP1000 Reactor design, which represents a significant evolution of existing, proven technology, is on target for design certification in the US by no later than 2005. The AP1000 combines simplified, modular construction with much lower waste volumes than earlier reactors. It gives us a significant competitive edge in a world market that is progressively re-embracing the nuclear power option.

Spent Fuel Services

Spent Fuel Services (SFS) acts as the commercial interface for utility customers that have reprocessing and MOX fuel fabrication contracts at Sellafield. This role involves sales and contract management activities, dealing with both utility customers and Sellafield Management and Operations Services (SM&OS), the operator of the

reprocessing and MOX plants, to ensure production programmes meet customer requirements.

SFS also provides a transport service, principally bringing spent fuel to the reprocessing plants and returning MOX fuel to utility customers. This covers UK rail transport and overseas marine transport.

This is the first year SFS has operated as a separate profit centre and the fee formula for the management of reprocessing and MOX contracts had not been introduced for financial year 2002–2003, although all costs were covered. The loss we incurred is largely a result of the expected losses on European transport.

The major landmark last year was the successful return to Britain of the MOX fuel assemblies originally delivered to Japan in 1999. BNFL promised to transport the entire consignment back to Sellafield after a quality assurance issue was raised over a small number of the fuel assemblies. In 2002, we delivered on that promise, allowing us to rebuild further the relationship we have with our Japanese customers.

In our transport business, arrangements were completed for spent fuel shipments from our Italian customer to recommence after a gap of eight years. This was an important landmark because it enables their baseload contract to be fulfilled.

Because of the slow start in MOX manufacture, following delays in UK Government and regulatory approval and various legal challenges, we regrettably had to inform some of our initial European customers that we were unable to meet the original target dates for MOX delivery. However, we have now managed to renegotiate new delivery dates or arrange some limited subcontracting to ensure our customers' requirements are fulfilled.

We are working with our customers to help them meet the challenges they face in a liberalised marketplace. In

- We won a US\$400 million contract in the Republic of Korea.
- We safely transported the final shipment of spent fuel from Dodewaard in Holland.
- We made a major breakthrough into the French fuel market.
- Our latest technology AP1000 Reactor is on target for design certification in the US.

particular, a majority of overseas customers have moved to fixed price reprocessing contracts which will allow them to determine more accurately their future costs. The British Energy contracts have also been renegotiated.

We are also in discussions with customers and the UK Government regarding the issues surrounding the safe and efficient return of waste arising from the reprocessing of spent fuel at Sellafield.

Our international transport operations continue to achieve the highest standards of safety and we are well advanced with plans for transporting MOX fuel and conditioned wastes from Sellafield to our customers.

Last year, we safely transported the final consignment of spent fuel from Dodewaard in Holland to Sellafield for reprocessing. The Dodewaard Nuclear Power Plant, operated by GKN, started operation in 1969 and closed in 1997. The storage pond at the Dodewaard facility is now empty of fuel, enabling decommissioning operations to commence and the plant to be placed in what is termed 'safe enclosure'.

SFS subsidiary Direct Rail Services continues to provide safe and efficient spent fuel transport to Sellafield from the UK's nuclear power stations. It is a small operation but, in terms of reliability and safety, it can claim to be the UK's leading rail operator.

Going forward, our focus is on completing our current MOX fuel supply contracts and related transport operations. In the area of engineering services, our experience of nuclear process operations is providing much valued support to customers in Japan, as the Rokkasho-mura reprocessing plant moves from the construction phase into early commissioning. Similarly, in China, we have been helping to provide safety training for future plant operators by drawing on the world-class safety standards that apply at Sellafield. We aim to secure more work of this kind.

Urenco Investment

Urenco was formed in 1971 through a joint venture of the British, Dutch and German Governments. Its objective was to develop a centrifuge process of uranium enrichment. Following many years of successful development of the technology, Urenco now provides the most cost-effective enrichment process in the world. Its output, from three plants in the UK, Netherlands and Germany, supplies around 15% of the world's enrichment services market.

BNFL holds a 33% share of Urenco and in the financial year just ended, this investment continued to provide a positive return to profit and cash flow for BNFL. Furthermore, in August 2002, Urenco announced plans to build a fourth enrichment plant – in the United States. This will further grow market share for Urenco and enhance future returns to BNFL.

20% Westinghouse continued to improve its already good health and safety record by outperforming its industrial safety target for the fiscal year by 20%.

Business review: Government Services Business Group

working together responsibly

In the UK our goal is to be the supplier of choice to the Nuclear Decommissioning Authority, the new Government body that will take over the Group's UK nuclear sites and power stations.

Our Government Services Business Group delivers BNFL's technical expertise in site management, remediation and environmental services to government customers worldwide. It also operates BNFL's fleet of Magnox power stations. In January 2003, Lawrie Haynes joined us as Head of Government Services Business Group. Bringing a wealth of both public and private sector experience, Lawrie is focusing the group on enhanced delivery and performance – on which our future success depends.

In the UK, we are on track for a successful transition to the working environment in which we will operate once the new UK Government body, the NDA, is established to take over the Group's UK nuclear sites and power stations.

Our aim is to establish ourselves as one of the NDA's suppliers of choice to manage and operate nuclear sites across the UK. To achieve that, we must be in a position to deliver a safe, reliable and accelerated performance, meet or exceed our customer's expectations and provide value for money. Therefore, nothing short of operational excellence will do. Through close cooperation with the Liabilities Management Unit at the Department of Trade and Industry (DTI), we are developing an ever deeper understanding of the needs of our future customer.

During 2002–2003, we demonstrated our ability to operate under these new arrangements as a contractor to the future NDA. A new unit, BNFL ALFA, was set up internally to shadow the role of the NDA and ensure that we are well placed to operate in a highly competitive marketplace. In its first year, it set us demanding targets for

service delivery against which the businesses demonstrated excellent operational performance. We expect 2003–2004 targets to be even more challenging.

During 2002–2003, we were pleased to improve upon our already good health and safety performance, reducing our Days Away Case Rate from 0.44 to 0.36 per 200,000 hours worked. We succeeded in reducing the number of environmental non-compliance incidents in the UK from 14 to two, none of which had a significant adverse impact on the environment. This represents a major improvement in our environmental performance but we will continue to strive towards our target of zero incidents.

The high standard of our health and safety performance within Government Services is demonstrated by the many awards the group received for this area of its operations. Environmental management is also of high priority to the business and all of Government Services' nuclear sites maintained certification to the ISO 14001 international environmental management standard.

Sellafield Management and Operations Services (SM&OS)

SM&OS responded well to the BNFL ALFA target, meeting or exceeding 51 out of 54 contract deliverables at competent or higher performance levels, spanning all areas of liabilities management, remediation, operations and engineering site support. In addition, the Sellafield long-term asset care programme was also accepted by BNFL ALFA. This plan is important as it provides a basis for working as a management and operations contractor, which is key to successful delivery in the future.

Key financial summary

	Total turnover £m	Profit before interest and taxation and exceptional items £m	Average number of employees
Sellafield Management and Operations Services	936	95	7,601
BNFL Environmental Services	164	52	1,961
Magnox Generation	417	31	3,518
Other	(34)	1	49
	1,483	179	13,129

We continued to improve our operational performance, achieving a number of new records. Our expanded Vitrification plant, which immobilises high-level waste for long-term storage, achieved a record output of 333 containers to store, substantially beating the target of 250 containers to store set by BNFL ALFA. Our Thorp reprocessing plant produced more than 3,500 drums of reprocessed uranium to service British Energy and our overseas customers. We also demonstrated an improved performance in engineering delivery, achieving a number of key milestones and making good progress on risk reduction, including accelerating the clean-up and decommissioning programme at Sellafield. Successes include the removal of one of the original Windscale Pile Chimneys, the early emptying of a number of older waste stores and significant progress in preparing an historic solid waste silo for emptying.

As a result of the excellent operational performance during the year, SM&OS received a fee of £95 million for the 2002–2003 financial year from BNFL ALFA.

Our Total Recordable Injury Rate has continued to improve, with many of our safety statistics amongst the 'best in class' levels. Regrettably, an employee of one of our contractors working on the Sellafield site suffered a fatal accident in early 2003. The immediate issues identified by this tragic incident have been communicated to all parts of BNFL and will serve to redouble our efforts to be truly world-class in this all-important area.

In the current year, we will continue to prepare for the transition to a post-NDA environment. As part of that process, we are drawing up detailed baseline plans, work breakdown structures and near-term work programmes for our future customer. We are confident of meeting the challenge of the new competitive marketplace when it arrives.

Government Services continued to improve upon its already good health and safety performance, reducing its Days Away Case Rate from 0.44 to 0.36 per 200,000 hours worked.

0.36

Site remediation

The site remediation team formulates strategies and plans covering all remediation activities on the Sellafield and Drigg sites. It focuses on ways of accelerating remediation work on nuclear waste, most of which predates BNFL's formation in 1971, with the aim of hazard reduction and liabilities discharge. The team engages with BNFL ALFA, the Government's Liabilities Management Unit (LMU), regulators, customers and other stakeholders on the future plans for the Sellafield site.

During the course of the year, the team was fully engaged with the LMU in the development of national arrangements for baseline planning. It also developed accelerated proposals for the early retrieval of wastes from legacy ponds and silos at Sellafield.

In 2003–2004, Site Remediation will deliver the detailed baseline plans and work programmes to the national format developed by the LMU. Effective strategies for delivering accelerated hazard reduction will be completed. In conjunction with regulators, we will develop the principles of interim safe storage of retrieved legacy wastes into an effective framework for making safe, early progress.

BNFL Environmental Services

At BNFL Environmental Services, we received a major vote of confidence in January 2003, when the Ministry of Defence announced that our joint venture contract to manage and operate the Atomic Weapons Establishment (AWE) at Aldermaston and Burghfield had been extended to 25 years. This contract is widely seen as a proven model for the delivery of demanding services to Government. The extended contract could have a turnover value of up to £5.3 billion over its lifetime for the joint venture.

Business review: Government Services Business Group

The AWE contract was first awarded for 10 years in December 1999. Since then, we have established a highly successful track record, hitting all customer milestones and receiving highly satisfactory reports from safety and environmental regulators. In 2002, the joint venture was awarded the Sir George Earle Trophy by RoSPA. This is RoSPA's highest honour for occupational health and safety standards. AWE plc is also one of only two companies, the other being Toyota, to have won their respective sector awards for three consecutive years.

BNFL Environmental Services improved its underlying performance last year, but overall performance was affected by the need to make £175 million additional provisions against US contracts. Our operating profit, before the impact of provisions was £25 million and profit before tax and exceptional items was £52 million. Underlying profits rose across all parts of our business driven by improved operational performance and excellent results from AWE and our US joint venture, Westinghouse Government Services, whose results were boosted by the sale of a non-core business. The provisions were made against our two major US projects, the East Tennessee Technology Park (ETTP) and the Advanced Mixed Waste Treatment Project (AMWTP) in Idaho. Both were fixed price contracts taken out in 1996–1997.

At AMWTP, we completed construction at the end of December, fulfilling our promise to the US Department of Energy, our customer, to meet a challenging contractual milestone which we achieved with an outstanding safety record. Unfortunately this resulted in a costs overrun during the later stages of the construction phase for which a provision has been taken. In the case of ETTP, work on two of the three buildings is substantially complete, the whole project is scheduled for completion in late 2004.

We made good progress last year at Berkeley, Trawsfynydd and Hunterston A in the UK and at Big Rock Point in the US, maintaining BNFL Environmental Services' reputation at the leading-edge of power station decommissioning.

Our operations at the Savannah River Site in the US have also produced another year of excellent results, as has our consistently successful US joint venture, Westinghouse Government Services, whose operations include the overall 'manage and operate' contract for the Savannah River Site.

The international market for nuclear environmental services continues to evolve and grow. By bringing together knowledge and experience from across the group, and through careful selection of partners, we have been successful in growing new business. In Europe, our key wins in the past year included pre-decommissioning project management roles at the Kozloduy and Leningrad nuclear power stations in Bulgaria and Russia respectively. We have also won additional contracts in the US that position us well for future growth in the world's largest clean-up market.

Our safety performance was again excellent. In addition to the award made to our AWE joint venture, mentioned above, our Berkeley, Capenhurst, Trawsfynydd and Windscale Advanced Gas-cooled Reactor (WAGR) projects received Gold or Gold Medal Awards from RoSPA. Trawsfynydd and Hunterston A also won Health at Work Awards and Hunterston A received a regional Award from the Health and Safety Executive for its work on stress management during the European Week of Safety and Health in 2002.

Our focus for the year ahead is to bring together the knowledge and expertise from the group's international businesses to deliver radical solutions to our customers.

- Lawrie Haynes joined our organisation as Head of Government Services Business Group.
- We demonstrated outstanding performance in both our expanded Vitrification plant and our Thorp plant.
- Our joint venture contract at Aldermaston and Burghfield was extended to 25 years.
- Four of our Magnox power stations achieved their best electricity output in 10 years.

Going forward, we see attractive opportunities, both near and long-term, in our core markets. With our widely recognised technical capabilities and experience in the UK, US and Europe, we can become a leading international business specialising in nuclear environmental services.

Magnox Generation

Magnox also performed well against its BNFL ALFA targets and, as a result, earned a fee of £31 million. The highlight of 2002 was the rise in electricity output achieved by our four youngest power stations, Dungeness A, Sizewell A, Oldbury and Wylfa. This was their best performance in the last 10 years and resulted in total production rising to 17.6 TWh, an increase of 4% over the previous year. This was despite the cessation of generation at Bradwell in March 2002.

At the end of the year, Calder Hall power station ceased operation after almost 47 years of electricity generation. It now awaits defuelling and eventual decommissioning. The opening of Calder Hall in 1956 put Britain at the forefront of nuclear technology and was rapidly followed by the opening of a sister station, Chapelcross. At full power, the two stations produced sufficient electricity to meet the needs of 200,000 homes in Britain. We announced in October that Chapelcross would cease generation no later than March 2005. This compares with an original planned closure date of 2008. Our decision to close both stations earlier than originally planned was driven by continuing low prices in the wholesale electricity market, which have undermined the economic viability of both stations.

The safety and environmental performance of our Magnox fleet of power stations continues to be excellent, with continued improvement across the vast majority of the fleet. Sizewell A power station has, for example,

experienced no lost-time accidents for over three years. Also noteworthy is the success of Wylfa in securing a level 9 status out of a maximum level 10 on the International Environmental Rating System (IERS) scale. The site now joins Sizewell A in having achieved this standard of excellence in the environmental field. We are also pleased to report that BNFL's Reactor Services Organisation (RSO) has secured the prestigious ISO 9001:2000 standard for quality management systems.

Magnox Generation's excellent health and safety performance was also recognised by a number of RoSPA Awards. Sizewell A, Hinkley Point A and the Littlebrook facility received Gold Medal Awards, while Bradwell, Calder Hall, Chapelcross, Oldbury, Maentwrog and Wylfa power stations received Gold Awards.

Our target for the current year is again to demonstrate our capability to manage the Magnox power stations. We are confident that, by demonstrating our capability and competence in managing and operating our fleet of generating and defuelling stations, we will be able to establish BNFL as a major supplier to the NDA once it is operational.

200,000

At full power, our Calder Hall and Chapelcross power stations produced sufficient energy to meet the needs of 200,000 homes in Britain.

BNFL ALFA review

Our aim is to drive change and raise BNFL's commercial focus by being a demanding and challenging customer to the Government Services Business Group.

On 1 April 2002, BNFL ALFA acquired responsibility for all the BNFL assets, liabilities and funding that we expect to pass to the NDA on 1 April 2005. These included Sellafield, the Magnox power stations and Capenhurst, together with the associated decommissioning and waste management liabilities and the Nuclear Liabilities Investment Portfolio. BNFL ALFA will cease to exist once the NDA commences operations.

Under the leadership of David Bonser, the role of BNFL ALFA is to operate an internal market within BNFL that ensures the Government Services Group (GSG) is ready to compete for contracts to manage and operate the assets once they have passed to the NDA (see page 6). Its aim is to drive change in BNFL by acting as both coach and challenging customer to the GSG businesses. In close discussion with the Department of Trade and Industry's Liabilities Management Unit, BNFL ALFA is helping BNFL to understand the future requirements of the NDA and perform according to the demands that are likely to be placed upon it.

At the start of the financial year, BNFL ALFA placed internal contracts with GSG for the management and operation of the assets. Modelled on best practice in the US and UK, BNFL ALFA contracts are fee-based. They incorporate incentives for exceptional performance, opportunities to share cost savings and penalties for lapses in areas such as safety and environmental performance.

BNFL ALFA sales turnover of £1,373 million includes income from electricity generation, Thorp operations and other commercial activities on the sites where GSG operates on behalf of BNFL ALFA, for which fees are paid. The cost of running the GSG sites, including the discharge of liabilities and normal provision charges, resulted in an operating loss before exceptionals for BNFL ALFA of £366 million.

Review of contract performance

Sellafield Management and Operations Services (SM&OS)

SM&OS' performance last year against the BNFL ALFA contract targets was good with 51 out of 54 targets achieved at the competent level or higher. Highlights included zero environmental breaches, lower injury rates, record Vitrification performance and rapid progress on key legacy clean-up projects such as the B41 silo. As a result, fees earned from BNFL ALFA were ahead of target.

This was overshadowed by the tragic fatality of an employee of one of our contractors at Sellafield (see page 15).

Magnox Generation

Magnox performed extremely well against the BNFL ALFA contract generating an output from the fleet of 17.6 TWh, which was more than 2 TWh higher than the 20-year

average for the remaining Magnox stations. In addition, the Calder Hall station was closed on schedule on 31 March 2003, following almost 47 years of operation.

In response to the BNFL ALFA contract, Magnox is now placing increasing emphasis on the defuelling of the closed reactors, in particular at Hinkley Point A and Bradwell, and on preparatory work for defuelling and decommissioning at the remaining stations as they approach the end of their lives.

Magnox also maintained its excellent safety and environmental management records (ISRS and IERS) and, as a result, earned fees from BNFL ALFA which were significantly ahead of target.

BNFL Environmental Services

BNFL Environmental Services' contract with BNFL ALFA principally involved the decommissioning of reactor sites. Significant progress was made across the three reactor sites at Berkeley, Hunterston A and Trawsfynydd. The range of work delivered included the removal of reactor structures, such as the cooling water outlet at Berkeley, and the retrieval of intermediate-level waste, such as resins at Trawsfynydd. Progress with the decommissioning and demolition activities at Capenhurst was ahead of plan for the year. This, together with its performance on the reactor decommissioning sites, enabled BNFL Environmental Services to exceed its contract targets. This was achieved in tandem with an improved safety performance. At Hunterston A, the safety performance was exceptional with both the Total Recordable Incidence Rate and the Days Away Case Rate at zero.

Preparing for 2005

BNFL ALFA has set the targets for 2003–2004 and contracts are in place. These contracts represent a step change in sophistication and incorporate the considerable lessons learned last year. The targets are tougher and focus both on the areas we expect the NDA will want us to tackle and the requirements of BNFL's utility customers. As well as safely performing the tasks and meeting the targets, BNFL ALFA will be closely monitoring GSG's ability to keep to agreed 'scope, schedule and cost'. We will look for exemplary performance in safety, plant operations and decommissioning activities.

In the relatively short period that remains before the establishment of the NDA, BNFL ALFA will support the transformation of BNFL from owner-operator to contractor. We will do this by being increasingly challenging, setting high standards and expectations and demanding exceptional performance from the GSG businesses. At the same time, we will work with GSG and the Department of Trade and Industry (DTI) to help deliver the transition to the NDA.

Our commercial and social responsibilities

conducting our business with care

Our goal is to be respected by all our stakeholders and the general public at large for the responsible way in which we carry out our business.

Environment, health, safety and quality

Nothing is more important to us than the protection of the environment and the health and safety of our workforce, contractors and the public. Excellence in these areas is integral to our business and essential to our commercial success. We implement a number of strategic plans throughout BNFL, drawing on priorities such as those identified in our new environment, health and safety policy, that are aimed at achieving a continual improvement in performance.

Our goal is to be trusted and respected by all our stakeholders and the public at large. To this end, we have continued a major programme of stakeholder dialogue, convened by the Environment Council.

Safety performance

The tragic accident leading to the death of one of our contractors working at the Sellafield site emphasised the importance of good safety management in our contracting arrangements. The incident continues to be subject to Health and Safety Executive (HSE) investigations and a full report will be published.

Without delay, we conducted an investigation into the circumstances surrounding the event. This resulted in the implementation of recommendations for improvement of specific and generic Sellafield site safety management arrangements. Immediate issues arising from this event were communicated throughout BNFL at all levels.

Despite this incident, the likelihood of being injured while working for the company has fallen over the year. This is demonstrated by our Total Recordable Incident Rate for employees and agency workers, which fell to 0.87 per 200,000 hours worked, compared with 0.92 the previous year. Our Days Away Case Rate of 0.38 significantly surpassed our performance objective of 0.44, although it was a minor increase on last year's rate of 0.37.

Our nuclear safety performance also improved. The number of events categorised as 'anomalies' on the International Nuclear Event Scale (the lowest level of incident) fell to 11. This is a dramatic fall from the 26 anomalies or above recorded in the previous year and there have been no events at higher levels on the seven point scale.

Regrettably, in the UK, our Direct Rail Service subsidiary was prosecuted for an event which resulted in the injury

of one of its agency workers in 2001. We received five statutory notices from our regulators in the UK. And in the US, we unfortunately received four notices of violation during the year, which were all severity level 4 (lowest level) and all of which were corrected to the satisfaction of the regulator. Although this is an improvement on the previous year, we are committed to working towards our ultimate goal of zero enforcement actions.

We maintained our stringent controls over the amount of radiation to which our workers are exposed. As in previous years, all of our employees received less than the relevant national regulatory limits. In 2002–2003, our average employee dose was 1.01 mSv – just under half the annual average dose to the UK population from all sources of radioactivity.

Our good safety performance was, as in previous years, recognised by a number of awards. In the UK, we won 17 awards from the RoSPA for good health and safety performance; two health at work awards; two awards for our work in support of the European Week of Safety and Health and an award for working in partnership with workers to improve construction safety. In the US, we won seven safety awards from the National Safety Council; seven pollution prevention awards from the Department of Energy and received four nominations for the White House 'Closing the Circle' awards.

We believe that employee involvement and a strong safety culture are key to a continuous improvement in safety performance and we continue to develop our behavioural safety programme, involving the participation of workers and trade union representatives, internationally.

Health performance

No group of workers is so closely studied for determining a linkage between radiation and adverse health outcomes. It was therefore reassuring to note that, in 2002, the UK Government's independent advisory body, the Committee on Medical Aspects of Radiation in the Environment (COMARE), found no evidence of a causal link between workers' exposure to radiation and cancer in their children.

Absence through sickness among UK employees increased slightly over last year but remains below levels since record keeping began in 1996–1997 and, at 7.06 days per employee, is lower than the Confederation of British Industry average for a company of more than 5,000 employees.

Our commercial and social responsibilities

As part of our occupational health strategic plan, work continued, in partnership with our staff and unions, on combating stress. This work focused on the development of improved measures to prevent stress. Over the next three years we also plan to develop simple tools to manage and monitor the potential risks that stress presents to our employees. Our aim is to develop a culture where issues of pressure and stress can be openly discussed.

Environmental performance

BNFL is subject to a wide range of environmental requirements. These relate not just to discharges to the environment but also to the performance of our plant, management systems and our own extensive environmental monitoring. This gives rise to the potential for non-compliance if excellence is not continuously maintained. In the UK, we succeeded in reducing the number of environmental non-compliances from 14 to two, none of which had a significant adverse impact on the environment. This represents a major improvement in our environmental performance, but we will continue to strive towards a zero target.

Our new environment, health and safety policy strengthens our commitment to sustainability. To support our goal we published a set of eight sustainability principles for our global business and have been piloting a range of indicators based on these principles in the UK during the year. More detailed information is contained in our Corporate Social Responsibility Report.

Our sustainability principles also link into our commitment to restoring the environment by reducing the hazard from accumulated radioactive waste stocks and proactively managing areas of contaminated land. All of our UK nuclear sites and our Västervik facility in Sweden have retained certification to the ISO 14001 international standard. We have also obtained new Radioactive Substances Act authorisations for 10 of our Magnox sites, marking a successful conclusion to the application we made in January 1998.

Quality

BNFL's quality policy is to enhance customer satisfaction through continuous improvement, operational excellence and the delivery of quality products and services. We have developed three company-wide goals that focus on the important issues for our businesses:

Goal 1: Strengthen focus on customers and delivery.

Goal 2: Achieve excellence in operations, services and project performance through continual improvement.

Goal 3: Develop effective and simple management systems.

Each business has incorporated these goals into its business plans.

A major revision of BNFL's management framework, values, business principles and policies was completed last year. This creates a framework that is consistent with modern quality management practice and provides the balance of governance and flexibility BNFL needs for the future. We will be reviewing our business principles regularly as we develop our approach to corporate social responsibility and sustainability.

Significant progress was made in migration to ISO 9001: 2000 by all businesses last year. The remaining areas will complete the transition in 2003. We are also reviewing whether areas not previously covered by ISO certification should be included. We introduced an independent programme for verification of implementation of our quality policy during the year.

our CSR journey

We have produced our first Corporate Social Responsibility Report which looks at our values, business principles and management framework, all of which govern the way we conduct our business see www.bnfl.com

Research and technology (R&T)

As a technology-based company, an important asset of BNFL is its knowledge-base. This is embodied not just in our extensive library of documents, but in the calibre, skills and experience of our people. As we move forward into a new era, this pool of knowledge and expertise will become increasingly important. The international nature of the Group allows us to learn from experience and will be a key feature in providing our customers with the innovative and valuable services they expect.

BNFL strongly believes the UK and the rest of the world will become increasingly dependent on nuclear generation as a CO₂-free source of energy, and we are preparing for this future by investing in our people, in the University Research Alliances (URA) and in new technology developments.

We have a long-term vision for nuclear power, with involvement in a number of projects for advanced nuclear reactors. The BNFL Group owns the AP1000 Reactor design – the most advanced Light Water Reactor system ready for deployment now. Also, we retain a presence in leading international reactor development projects such as the South African led Pebble Bed Modular Reactor (PBMR) project, the IRIS (International Reactor Innovative and Secure) project, part funded through the US Department of Energy INERI programme, and the US-led Generation IV programme to investigate future reactors. The importance of this international collaboration in developing projects cannot be ignored, as often it is the pooling of resources which goes a long way towards a successful outcome. Our collaborations with Japanese and French nuclear agencies have progressed well over the past year, with both exchange of personnel and joint work being carried out. In addition, collaboration is ongoing with Australia on developing new products for a variety of nuclear wastes.

The BNFL Group's R&T resource has continued to support the provision of added value solutions to our customers worldwide, in addition to supporting our internal need to improve continued plant operation. In the UK in particular, a major success this year was the replacement of electrical conductors in the Vitrification plant, allowing for continued

operation. The project set a number of technical challenges, and R&T played a key role in the team that manufactured and tested various solutions, which enabled the successful completion of the project. The innovative solution received full regulator approval. R&T also contributed to a range of inspection activities that have been carried out in the Thorp and Magnox reprocessing plants. These inspections have involved the use of specially developed inspection cameras and equipment, and have reduced outage times, while maintaining operational and licence requirements.

We continue to focus on the reduction of liabilities, and studies on the characterisation and processing of historical uranium contaminated residues, have enabled in excess of £1 million worth of uranium to be recycled. In addition, several million pounds worth of liabilities have been reduced. These processes have been applied to multiple sites and BNFL's R&T function has been recognised by the UK's regulator, NII, as a 'centre of excellence'.

A very important R&T development has been the Waste Characterisation Index. This is a methodology to demonstrate the benefits of systematic and progressive conversion of materials to passively safe forms, thus reducing the potential for harm, which is in line with Government policy and the aims of the NDA in discharging nuclear liabilities safely and cost-effectively.

Recognising the need to maintain the nuclear skills base for the future, we continue to work closely with academia. BNFL's University Research Alliances (URAs) continue to flourish, and in the past year we have set up a further centre at UMIST to join those already running at Leeds, Sheffield and Manchester. In the past four years, these centres have significantly increased the number of academics working in nuclear related subjects. In January 2003, a conference was held at Sellafield bringing together the technical communities from both BNFL and our URAs, which attracted over 250 attendees, a large percentage of whom were under the age of 35, a very clear demonstration of BNFL's investment in helping to shape the future.

- We have completed a major revision of BNFL's management framework, values, business principles and policies.
- By the end of 2003, all our businesses aim to be accredited to ISO 9001: 2001.
- We have set up a fourth University Research Alliance with UMIST in Manchester.
- We maintain our commitment to international collaboration in the field of R&T.

Our commercial and social responsibilities

Human resources

At BNFL, we have long recognised that our performance depends on our people. It is their unique combination of high-quality leadership, scientific, technical and engineering skills that sets our business apart and our expertise in these areas continues to be recognised internationally.

However, to be able to compete effectively in a commercial environment, we need to supplement these skills and work effectively with our supply chain partners. We will continue to work to attract, motivate and retain high-quality talent in all our major markets.

Employer of choice

Our aim is to make BNFL the employer of choice for scientific and engineering graduates in Europe and the US. We are proud of our status as a 'Times Top 100 graduate employer', which recognises our long-term commitment to graduate recruitment and our high retention rate of graduate recruits.

In 2002, we recruited over 160 largely scientific and engineering graduates in the UK and US, offering them high-quality professional and managerial development and fulfilling international careers. These graduates provide the backbone of our future technical and leadership roles.

Developing our talent

In addition to our extensive graduate recruitment programme, we also continue to improve our technical and management capability through local, national and international recruitment at all levels. We share our knowledge and experience across BNFL by supporting international assignments for leadership and professional roles. We remain committed to investing in and providing an extensive range of development opportunities at all levels and at all of our sites to improve the technical and leadership skills of individuals as well as teams.

Rewarding performance

Our various career pathways and performance management processes enable us to provide stimulating careers and reward achievement for both technical and leadership talent. Our salary levels remain competitive in all our major markets, ensuring that we retain and motivate our talent. We work closely with our unions to maximise the potential of all our employees.

BNFL in the community

It is the quality of a company's community involvement that defines its sense of responsibility and decency. For BNFL, community involvement is an integral part of our business. We are committed to working in partnership with the communities in which we operate to improve their health and vibrancy. We recognise that need always outstrips efforts to meet; that more can always be done. But we strive to make a difference to whichever aspect of community life we engage in.

Education

We actively support the teaching of science, technology and engineering and are one of the leading companies providing sponsored teaching materials produced for teachers by teachers. Examples include the suite of CD-ROMs developed for the teaching of A-level/GCSE Chemistry and Physics. Also, through our 'BNFL in the Classroom' initiative, we offer free talks and workshops to primary schools. More than 3,000 children benefited from these talks last year.

We sponsor the UK national competition 'Science Challenge', which is organised by the Association of Science Education for all 9–13 year olds. Last year, over 15,000 children took part in the competition.

In the US, BNFL Inc. has been a major sponsor of Newspapers in Education for several years and began sponsoring the Annual BNFL Teacher of the Year contest

160

In 2002, we recruited over 160 graduates in the UK and the US. These graduates provide the backbone of our future technical and leadership roles.

last year. The event makes a special effort to honour teachers who make an impact in their students' lives. High School students write essays describing why their teacher should be named Teacher of the Year.

We have also embraced the UK Government's specialist schools status initiative. Last year alone, we committed our support to 10 schools around our sites, in their efforts to achieve specialist status in their chosen subject areas.

Community investment

In the area of community investment, we provide active support to projects aimed at tackling the difficult issues facing society today:

We have provided support to the UK national charity Weston Spirit by sponsoring short personal development courses for excluded young people. The courses take an holistic approach to learning that fosters confidence, self-esteem and empowerment.

In partnership with the local authority in Warrington, we have supported a new arts centre that works with socially excluded young people aged 14–16, using arts-based activities to engage them in learning through alternative methods.

We have donated IT equipment to Community Action, Furness in Cumbria to offer learning and skills opportunities to disadvantaged young people and other marginalised sectors of the community. And we have supported the Deafway residence in Preston to install smoke detection and fire alarm systems.

Employee involvement

At BNFL, we believe that employee volunteering is one of the most powerful expressions of community involvement. We support all those members of our workforce who offer their time, concern and commitment to helping others.

Last year, over 150 graduates from our businesses across the world took time out from the company-organised 'graduate learning week' to get involved in a variety of community projects. They helped transform school playgrounds by painting murals, converting waste grounds and creating a sensory garden.

In the US, Westinghouse employees celebrated National Engineers Week by participating with students at one of their adopt-a-school partners.

The BNFL Community Service Award recognises BNFL employees who contribute outstanding personal service to their local community. Last year's winner (2002), Ian McDowell, has provided over 27 years of continuous service to the Royal National Lifeboat Institution. The 2003 Award was won by Liz Deacon for her dedicated work with the homeless division of SSAFA Forces Help.

Economic regeneration

We participate actively in projects aimed at increasing the prosperity of regions in which our operations are sited.

In partnership with the local authorities, we helped to establish the West Cumbria Development Fund, which aims to create and sustain jobs in the West Cumbria area. The fund's flagship project is the Westlakes Science and Technology Park, which to date has helped set up 29 companies employing over 700 people.

We have also provided seed corn funding for seven companies through BNFL Enterprise. This is a wholly owned subsidiary of BNFL with a £2.25 million investment fund to help start-up technology companies.

- We are recognised as a 'Times Top 100 graduate employer'.
- We continue to support international assignments for leadership and professional roles in order to share expertise across the Group.
- We continue to encourage employee involvement in our local communities.
- We continue to support the teaching of science, technology and engineering by providing sponsored reading material.

Financial review

establishing a stable framework

Good progress has been made to 'get in shape' for the NDA. However, it will not be until the NDA is established in 2005 that the influence of the existing liabilities structure will be removed from our accounts.

Overview

It is now just over 18 months since the Secretary of State announced the UK Government's intention to establish the NDA which will take responsibility for public sector nuclear liabilities. As I explained in my review last year, this will remove a large part of the nuclear liabilities and associated assets from our balance sheet, together with the substantial volatility inherent in nuclear liabilities. This will leave the business in a more normal commercial and performance driven environment.

Good progress has been made over this year. Government has recently published the draft Nuclear Sites and Radioactive Substances Bill and we have reorganised our UK operations to align structurally, commercially and financially with the future NDA organisation; this can be seen in note 2 of the accounts with the separation of BNFL ALFA. However, it will not be until the NDA is established in 2005 that the burden of the existing liabilities structure will be removed from our accounts.

The underlying operational performance of the Group has again been good with significant progress being made against a large number of operating targets. Nevertheless, our operational loss (before exceptional items) is worse than last year, mainly because of substantially lower electricity prices than 2002, planned maintenance shutdowns in Thorp, increased staffing at Sellafield following the NII's team inspection and the impact of the increased National Insurance rates on our nuclear provisions.

Exceptional charges before taxation amount to £827 million and are set out in note 3 to the accounts. The main items are as follows:

(i) The results have been affected by the difficulties experienced by British Energy (BE). It was in BNFL's commercial interest to support the plan for BE's solvent restructuring. The resulting contract renegotiation triggered an impairment review which has had a major impact on our Springfields site where a number of asset carrying values and provisions were reassessed causing a £230 million accounting charge.

(ii) I mentioned in my review last year that following the Historic Waste Management (HWM) Strategy Review, a separate exercise on the costs of station decommissioning had begun but that it was too early to anticipate its results.

A year on, updated decommissioning plans have been completed and approved for the care and maintenance preparation phases for two stations, Hinkley Point A and Bradwell, resulting in cost increases of £415 million. As future plans are completed and agreed it is likely that further similar charges will be incurred. A programme has been agreed for the completion of this exercise which covers the remaining nine sites over the next three years. In 2000, when we announced that Hinkley Point A was not going to be brought back to service, we took a £151 million exceptional charge. This was partly as a result of the advancement of closure costs and partly increased cost of defuelling.

(iii) It is disappointing to have to report further exceptional charges on legacy fixed price contracts in one of our US subsidiaries, BNFL Inc. The Advanced Mixed Waste Treatment Project at Idaho has experienced cost overruns in the construction phase and following a comprehensive re-baselining at the East Tennessee Technology Park fixed price contract, the estimated costs to complete have increased. These account for a £175 million exceptional charge.

The Group's balance sheet continues to have a net asset deficit and will continue to do so until the NDA is created and the balance sheet restructuring can take place. The accounts are again prepared on the going concern basis. In doing this, we place reliance on the Secretary of State's statement in 2001 regarding the creation of the NDA together with the subsequent actions taken by Government. These include the preparation of the draft Bill which underlines the Government's commitment to address the issue of our net asset deficit.

British Energy

The last financial year has seen significant difficulties at BE who are BNFL's largest single customer. On 5 September 2002, BE announced that it had initiated discussions with the UK Government with a view to seeking immediate financial support to enable a longer term restructuring to take place. The Government provided them with a short-term loan facility, discussions were initiated between BE and BNFL and payments were temporarily halted. At the same time, BE entered into discussion with certain of its other major creditors.

BE announced its restructuring proposals on 28 November 2002. On the same date, BNFL entered into a non-legally

binding Heads of Terms with BE in relation to fuel cycle matters which have subsequently been developed into full contracts. These contracts will amend the previous agreements and now provide for lifetime AGR fuel and spent fuel services supply to BE and incorporate a mechanism to share the risk associated with wholesale electricity prices.

In the Secretary of State's statement to the House of Commons on 29 November 2002, she announced Government's commitment to contribute significantly to BE's historic nuclear fuel liabilities which we currently manage. BNFL recognises that there are still a number of hurdles to overcome to fully effect the restructuring, including state aid approval from the European Commission. Consequently there is still significant uncertainty surrounding whether the restructuring will proceed and when it might complete. Throughout these difficult times, BNFL has been responsive to customer needs and continued to provide an unbroken service to BE and other customers.

The new arrangements do not come without some pain to BNFL and this is reflected in the exceptional accounting charge we have taken at Springfields. However, BNFL believes that without making concessions to BE, they would not have been able to pursue their plan for a solvent restructuring and this would have been potentially a much worse outcome for BNFL.

Financial performance

Group turnover of £2,219 million is marginally below last year. At the operating level, before exceptional items a loss of £190 million was incurred.

This year the Group had a net financing charge of £134 million compared with the net financing gain of £50 million last year. This is due to losses in the mark to market adjustments on the investments held by our Captive Insurance Companies (£74 million), increases in the top-up of nuclear liabilities as a result of the HWM strategy change last year and higher levels of inflation at this year end compared with 2002.

After an improved contribution from joint ventures and associated undertakings, the Group generated a loss before tax and exceptional items of £261 million (2002: profit of £22 million).

The total pre tax loss after recognition of the exceptional items amounts to £1,088 million (2002: £2,328 million). After accounting for taxation credits of £223 million and minority interests the Group incurred an overall loss of £865 million (2002: £2,090 million).

During the year, £469 million was spent on liabilities discharge of which £400 million was funded from the

Nuclear Liabilities Investment Portfolio (NLIP) with the agreement of our shareholder, the remainder being funded from operational cash flows and cash reserves.

The reported cash flow is a positive £109 million compared with a cash outflow of £162 million last year. This is mainly due to payments to and from the NLIP which are treated as cash outflows and inflows in the reported cash flow figure. A more comparable cash measure would be to adjust for these NLIP movements which leaves an outflow of £145 million (2002: cash inflow of £17 million). Constraining these cash flows has been an achievement given the reduced income from electricity generation and the shortfall in BE payments in the latter part of the year.

Business Group performance

The business has been reorganised to reflect the proposed NDA structure. Importantly this year, the assets and liabilities which we believe will transfer to the NDA have been moved into a new division, BNFL ALFA. We fully recognise that there may well be changes to the split we have established as the NDA structure evolves and indeed the contractual and fee arrangements will almost certainly change as the NDA negotiates with its site operators. Despite this, as demonstrated in the segmental analysis in note 2 of the accounts, we are now able to manage the business according to the commercial model set out in 2001. Contractual arrangements have been put in place so that the management and operations (M&O) businesses at Sellafield, Capenhurst and the Magnox sites operate and earn fees for meeting a series of operational and cost performance targets. We believe this is a significant step forward.

We have not restated the prior year's segmental analysis in note 2 in line with the new structure. It was considered that to restate the numbers when the business did not actually operate in that way last year could be misleading. BNFL's commercial business is organised into two business groups, Nuclear Utilities Group and Government Services Group. Nuclear Utilities includes the activities of Westinghouse in reactor design and services and fuel manufacture; the commercial management of spent fuel services, transport and our investment in Urenco. Government Services Group covers the clean-up activities of BNFL Environmental Services in Europe and the US and the M&O activities at Sellafield, Capenhurst and the Magnox sites as well as our interest in a US joint venture with Washington Group International and the consortium which runs AWE at Aldermaston.

Within the reorganised business, the Nuclear Utilities Group, dominated by Westinghouse, will be cash positive from next year, Government Services, with the exception of BNFL Inc., is characterised by low working capital M&O contracts and BNFL Inc. should start to contribute positive

Financial review

cash flow in 2006. Accordingly post NDA, with liabilities discharge work put on a normal commercial footing, the business could be expected to have a more conventional cash flow profile which reflects more directly the operational and commercial performance of the business in the year.

Capital and research and technology expenditure

The Group continues to maintain a high level of capital investment, £447 million this year. As in previous years, spend continues to exceed depreciation. The largest individual projects in this year's capital expenditure are the Idaho project in the US and the new Technology Centre at Sellafield. Given that most of the Group's capital projects take several years to construct and commission, the Group at any one time has a high level of 'assets in course of construction'. At 31 March 2003, this stands at £1.6 billion and largely relates to plants to be used in the discharge of liabilities.

Research & technology spend in the year was £109 million of which £42 million was funded directly by external customers, leaving a Group-funded investment of £67 million. Over 80% of the total spend on R&T is driven by business group demands. The expenditure mainly covers process and product development and improving and supporting existing operations. A key component is the maintenance and development of essential skills needed as the foundation for future growth.

Treasury

The financial resources of the Group at 31 March 2003 comprise:

	2003 £m	2002 £m
Nuclear Liabilities Investment Portfolio	3,843	4,023
Investments and short-term deposits	1,822	1,800
Cash at bank and in hand (net of overdraft)	69	42
	5,734	5,865
Secretary of State's Undertaking	5,159	4,784
	10,893	10,649

At the balance sheet reconstruction date it is clear that the NLIP and Secretary of State's Undertaking will follow the liabilities into the NDA, the apportionment of other investments and cash has yet to be determined.

The Group remains relatively debt-free with total loans of £51 million (2002: £135 million). The main loan funding relates to the US operations of the Nuclear Utilities Group where Westinghouse has a credit facility of US\$340 million with a consortium of 10 lending banks. At 31 March 2003 US\$32 million of this facility was drawn as cash. Westinghouse also has a US\$50 million receivables facility of which US\$48 million was drawn at 31 March 2003.

Apart from the Captive Insurance Companies which hold equities, the investment policy for the rest of the Group is to hold funds in gilts and bank deposits, money funds and cash funds which are less vulnerable to market valuations. This keeps the Group's investment risk at a low level. From a liquidity perspective, the Group's investment policy is fairly straightforward and similarly cautious, except for the NLIP it is largely centred around short to medium-term deposits in the money market. Whilst the Captive Insurance Companies investment policy is to hold equities and fixed income investments through managed funds, the policy is designed to maintain risk within a defined limit; this has been achieved over the last year despite the unusual and very difficult equity market conditions we have experienced.

Currently, profits are susceptible to the rate of inflation because returns from investments to support nuclear liabilities (NLIP and the Secretary of State's Undertaking) fail to match the required revalorisation of the nuclear liabilities provision which represents Retail Price Index (RPI) plus reversal of a year's discounting (2.5%). This will remain the case until the restructuring takes place when inflation exposure will become a more usual case of matching inflationary cost increases to sales growth or increases in productivity.

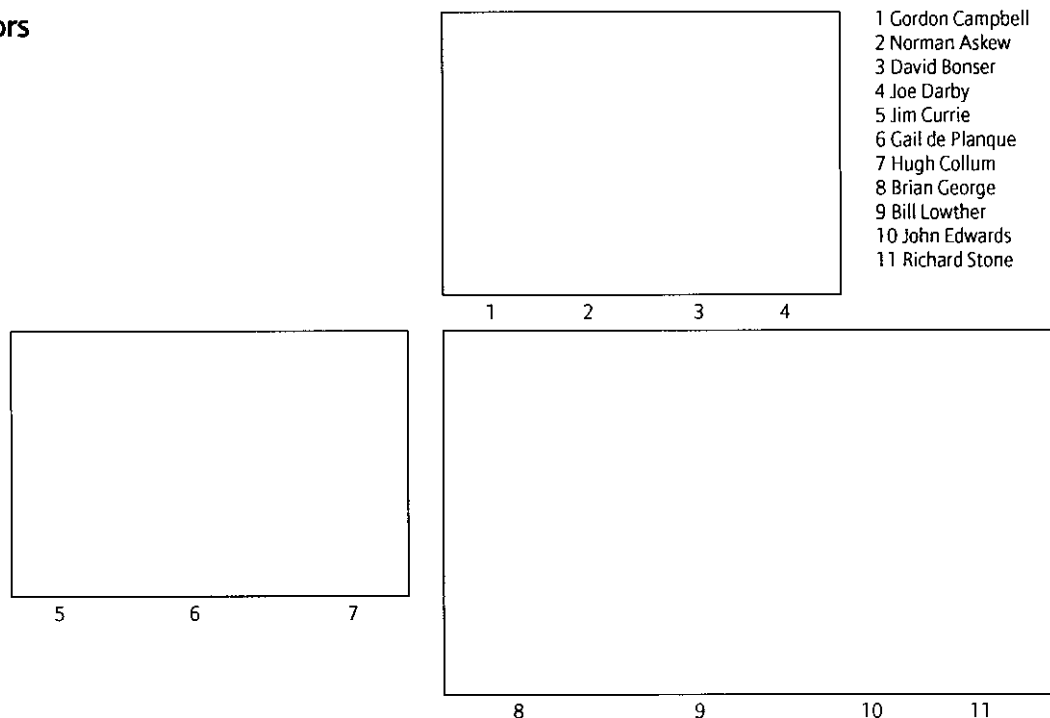
Summary

Good progress has been made to 'get in shape' for the NDA. Some sound underlying financial and operating results have been badly affected by exceptional circumstances – the BE situation, unsustainably low electricity prices, weak equity markets, higher inflation and higher National Insurance than the previous year and further increases in nuclear liability costs. Whilst we have been disappointed at the further losses at BNFL Inc. projects in the US, we are now focused on the successful completion of those contracts. We continue to look forward with optimism to a post NDA Group performing well with a good level of profitability, a stronger balance sheet and much reduced net asset exposure.



John Edwards Group Finance Director

Board of Directors



Hugh Collum (62)

Chairman Appointed to the Board on 21 July 1999 and became Chairman on 1 October 1999. He was formerly 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.

Norman Askew (60)

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 and in February 2003, was appointed as Deputy Chairman of Kidde plc.

David Bonser (54)

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.

Gordon Campbell (56)

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.

Jim Currie (62)

Non-Executive Director Joined the Board in November 2002. A highly experienced international civil servant, he spent many years working in Brussels and Washington. He was formerly Director General at the European Commission with responsibility for the EU's Environmental Policy and previously Director General for Customs and Indirect Taxation. He is also a Director of The Royal Bank of Scotland plc and International Adviser to Eversheds.

Joe Darby (54)

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.

Dr Gail de Planque (58)

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.

John Edwards (54)

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.

Brian George CBE (67)

Non-Executive Director Joined the Board on 12 March 2001. He is a former Executive Director of Nuclear Electric plc and NNC Limited. He has worked for General Electric Company as Chief Executive of GEC Marine Limited, Vickers Shipbuilding and Engineering Limited and Yarrow Shipbuilders Limited.

Bill Lowther CBE (63)

Non-Executive Director Joined the Board on 1 August 2000. He was Director-General of Surface Specialties plc (UCB Films plc) until his retirement in 2002 when he was appointed as Non-Executive Chairman. Since 1998 he has been a member of the North West Business Leadership Team. He is Chairman of the Cumbria Strategic Partnership and Deputy Chairman of Securrency Pty. Ltd.

Richard Stone (60)

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 2003

1 The directors of British Nuclear Fuels plc present to the shareholders their thirty-second Annual Report together with the audited accounts for the year ended 31 March 2003.

Review of the year

2 Group results

The Group loss for the year, after taxation and minority interests amounted to £865 million (2002: loss of £2,090 million), made up of a loss on ordinary activities before taxation and exceptional items of £261 million (2002: profit of £22 million), exceptional charges of £827 million (2002: net charge of £2,350 million) and a tax credit of £223 million (2002: tax credit £240 million). Further information on the Group's results is contained in the Financial review on pages 20 to 22.

3 Dividend

No dividend is proposed (2002: nil).

4 Activities

The main activities of the Group comprise:

- Nuclear Utilities Business Group: provides advanced reactor design, nuclear plant services, fuel manufacture, spent fuel recycling, engineering and transport services to nuclear utility companies worldwide;
- Government Services Business Group: provides nuclear clean-up, decommissioning and environmental services, together with nuclear facility management and operations to governments and the commercial nuclear industry worldwide;
- Assets, Liabilities and Financing Agency (BNFL ALFA): holds the assets and liabilities that are expected to pass to the NDA and acts as the internal customer for the management and operations business in Government Services; and
- Corporate: mainly comprises research and technology and head office facilities. The captive insurance subsidiaries held by the Group are also within this business area.

The Annual Report and Accounts for the year ended 31 March 2002 explained the new organisational structure for the Group which has been in place from 1 April 2002. The activities of the Group are now organised to reflect the two main customer groups and the proposed changes to the management of civil nuclear liabilities within the UK, as outlined in the Ministerial Statement made by the Secretary of State for Trade and Industry in the House of Commons on 28 November 2001.

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 reviews and Financial review appearing on pages 2 to 22.

5 Research and development

The Group has a significant research and development programme. During the year, the Group spent a total of £109 million on research and development, £67 million (2002: £54 million) were costs charged against profits, and £42 million (2002: £59 million) was charged to customers.

6 Personnel

The average number of people employed by the Group during the year was 22,971 (2002: 22,248). At 31 March 2003 the total number of people employed by the Group was 23,195 (2002: 22,826). 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 people 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 people 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 D Bonser

Mr J Edwards

Mr C Loughlin – resigned 31 May 2002

Non-Executive Directors:

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

Committees:

(1) Environment, 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 in the company's register of directors as a Shadow Director of the company within the meaning of section 741 of the Companies Act 1985.

References made to the shareholder throughout this report are to 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, except for the Shadow Director, who holds 32,668,243 (2002: 32,668,243) ordinary £1 shares.

9 Contributions for political or charitable purposes

The Group has not made any political donations in the year (2002: £109,000 in the United States of America). The Group has the policy of allowing employees who are local councillors in the UK paid leave to attend to their duties in that capacity. Charitable contributions during the year amounted to £3.2 million (2002: £4.2 million), in support of the Group's community involvement and economic regeneration initiatives. These contributions include £2.2 million (2002: £2.8 million) to support West Cumbrian economic regeneration initiatives.

10 Policy on the payment of suppliers

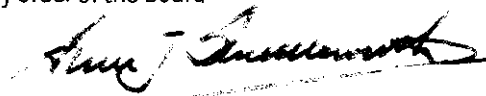
The company has continued its commitment to the Prompt Payers Code of Practice drawn up by the Confederation of British Industry (CBI), with rigorous monitoring of payment performance. The company has two main payment terms, net monthly and 35 days. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. After taking account of

genuine queries, some 80% (2002: 81%) of invoices submitted against these terms were paid on time. The average age of invoices outstanding at 31 March 2003 was 23 days (2002: 25 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
25 June 2003

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 seven Non-Executive Directors. Gordon Campbell was appointed as the Senior Non-Executive Director with effect from 29 May 2003. 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.

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 the 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 reviews both the internal audit programme, which it approves and considers the major findings arising from it and also 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 recommendations on directors' remuneration are made to and approved by the shareholder. The Remuneration report is on pages 28 to 30.

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, are 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 achieve 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 for the whole of the financial year.

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 twice a year and receives regular reports on any major issues or changes in risks, and
- 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;
- Members of the Board now consider that the appointment of a senior Non-Executive Director would enhance the manner in which they currently discharge their duties. With effect from 29 May 2003, Gordon Campbell was appointed as the Senior Non-Executive Director, and
- 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 continued to have a net asset deficit. At the balance sheet date the deficit was £2,690 million (2002: £1,843 million), principally as a result of the impact of the Historic Waste Management Strategy introduced in 2002. 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 nuclear liabilities, which 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. The Government has confirmed its commitment to implement the proposals set out in the statement and has recently published the draft Nuclear Sites and Radioactive Substances Bill.

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

Remuneration report

In line with best practice the Board will be submitting this Report on directors' remuneration for the financial year ended 31 March 2003 to the shareholder at the forthcoming Annual General Meeting.

Remuneration Committee

The following directors, all of whom are independent Non-Executive Directors, were members of the Remuneration Committee during the year ended 31 March 2003.

Gordon Campbell (Chairman)
Jim Currie
Joe Darby
Cail de Planque

The members of the Remuneration Committee have no financial interest in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

The Remuneration Committee during the period received advice from Towers Perrin and Mercer Human Resource Consulting Limited (who were appointed by the company on behalf of the Remuneration Committee).

The Remuneration Committee generally meets three times a year, making recommendations to the shareholder on the terms and conditions, including annual remuneration and bonus awards for the Executive Directors. (The Chairman and the Chief Executive normally attend these meetings.)

Policy on remuneration of Executive Directors

The remuneration policy for Executive Directors is to offer a competitive remuneration package which will attract and retain the highest calibre of executive and to ensure that individual rewards and incentives are directly aligned with individual business performance, the performance of the Group and the interests of the shareholder. In order to ensure this approach is competitive, a group of UK and international companies has been selected, and our remuneration components are carefully compared against this group. The company's policy is to match median levels of this group.

The remuneration arrangements, which meet the provisions of Schedule A to the Combined Code, include basic salary and benefits, performance related bonus and pensions.

The main elements are:

i. Basic salary and benefits

The level of basic salary and benefits is determined by the Remuneration Committee and approved by the shareholder, taking into account the performance of the individual with advice from independent sources on the rates of salary and benefits for similar positions in a comparator group of companies. Individual salaries of Executive Directors are reviewed annually by the Remuneration Committee. Benefits normally include the provision of a car, fuel and private healthcare.

ii. Performance related bonus

The performance related bonus targets are agreed at the beginning of each year by the Remuneration Committee and approved by the shareholder. Annual performance bonuses, which have a maximum of 40% of basic salary, are earned for the achievement of a balance of individual targets and targets linked to the Group's performance in safety, profit before tax and cash flows. The shareholder approves the amount of bonus payable to each Executive Director after considering the achievements against targets and after recommendation from the Remuneration Committee.

iii. Pensions

David Bonser is and Chris Loughlin was, during the year, active members of the Combined Pension Scheme of the UKAEA which pays an annual pension of one-eightieth plus three-eightieths lump sum of final pensionable pay for each year of service. No employer contributions have been made to this scheme during the year.

Pension contributions for Norman Askew and John Edwards were made to their personal defined contribution pension schemes.

Service agreements

The company's policy in relation to the duration of contracts with directors is that Executive Directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement date. The notice period under the service contracts of Executive Directors will not normally exceed 12 months. There are no predetermined special provisions for Executive and Non-Executive Directors with regard to compensation for loss of office. Cases of early termination are considered by the Remuneration Committee and the shareholder, who determine the level of compensation payments.

Information regarding Executive Directors' service contracts is summarised in the table below.

Name	Date of current contract	Normal retirement age	Notice period from company	Notice period from executive
David Bonser	30 September 1999	60	6 months	3 months
John Edwards	1 July 2000	60	12 months	3 months

Norman Askew will retire from the company on 31 July 2003.

Chairman and Non-Executive Directors

The original date of appointment as a director of the company and the scheduled date of termination of current appointment period are as follows:

	Date first appointed	Date of termination
Hugh Collum	21 July 1999	30 September 2004*
Gordon Campbell	1 August 2000	30 June 2006*
Jim Currie	1 November 2002	31 March 2005*
Joe Darby	23 January 2002	31 March 2005
Brian George	12 March 2001	31 March 2004
Bill Lowther	1 August 2000	30 June 2006*
Gail de Planque	23 November 2000	31 March 2004
Richard Stone	1 January 2001	31 March 2004

*Subject to re-election at the 2003 Annual General Meeting.

None of the Non-Executive Directors have service agreements. With the exception of Hugh Collum, each Non-Executive Director's Letter of Appointment provides for an initial period of three years. Letters of Appointment do not provide for a notice period. Non-Executive Directors do not normally serve longer than two consecutive periods of three years, such reappointment is subject to the approval of the shareholder.

Hugh Collum, the Chairman, is currently into his second term of office. His Letter of Appointment provides for a period of two years ending on 30 September 2004 and is terminable by the company at six months' notice.

The company's Articles of Association do not require the Executive and Non-Executive Directors to retire by rotation.

Directors' remuneration

	Basic salary and fees		Annual bonus		Benefits		Total	
	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £
Chairman								
Hugh Collum	157,500	150,000	—	—	24,178	21,268	181,678	171,268
Executive Directors								
Norman Askew	375,950	365,000	121,432	136,510	7,082	7,500	504,464	509,010
David Bonser	198,790	193,000	67,986	71,796	16,671	14,356	283,447	279,152
John Edwards	273,980	266,000	88,222	94,962	17,345	13,381	379,547	374,343
Chris Loughlin	32,167	193,000	—	71,410	2,764	13,746	34,931	278,156
Non-Executive Directors								
Gordon Campbell	27,500	25,000	—	—	—	—	27,500	25,000
Jim Currie (appointed 1 November 2002)	10,416	—	—	—	—	—	10,416	—
Joe Darby	25,000	4,722	—	—	—	—	25,000	4,722
Brian George	27,500	29,700	—	—	—	—	27,500	29,700
Bill Lowther	22,500	22,500	—	—	—	—	22,500	22,500
Gail de Planque	25,000	22,972	—	—	—	—	25,000	22,972
Richard Stone	27,500	25,000	—	—	—	—	27,500	25,000
							1,549,483	1,741,823

Benefits include non cash benefits comprising the provision of a company car and private healthcare.

In addition to the amounts included in the table above, on leaving the company on 31 May 2002 Chris Loughlin received £122,109 compensation for loss of office. As a member of the Combined Pension Scheme of the UKAEA, in accordance with their agreed terms for members retiring before the normal age, he also received the standard lump sum of £167,503 and a pension payable immediately of £63,878 per annum. In line with the standard rules of the Scheme, the company will fund the early payment of these benefits until the member reaches normal retirement age. The aggregate value of his compensation and pension is £1,041,031.

The lump sum benefit already accrued by virtue of his employment at 31 March 2002 was £142,161, this had increased by £807 excluding inflation (£1,210 in total) to £143,371 at 31 May 2002. The pension benefit accrued by virtue of his employment at 31 March 2002 was £47,387, by 31 May 2002 this had increased by £269 excluding inflation (£403 in total). The transfer value of accrued benefits at 31 May 2002 was £742,623, an increase of £4,884 (net of personal contributions) from the start of the financial year.

Remuneration report

The remuneration of the Non-Executive Directors takes the form of fees which are approved by the shareholder. The current fee of each Non-Executive Director is £20,000 per annum. In addition, each Non-Executive Director receives an additional £5,000 per annum if they serve as a 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. The Non-Executive Directors are reimbursed reasonable travel expenses. As a Non-Executive Director of BNFL Inc., a wholly owned subsidiary of the company, Gail de Planque receives an annual fee of \$36,028 (2002: \$52,276). This is in addition to the fees she receives as a Non-Executive Director of the company included in the table on directors' remuneration.

Including the value of the compensation and pension paid to Chris Loughlin and the subsidiary emoluments of Gail de Planque, the total of all directors' remuneration is £2,613,306 (2002: £1,778,533).

Pension entitlements

Pension contributions of £34,020 (2002: £33,390) for Norman Askew, and £27,398 (2002: £26,600) for John Edwards were made to their personal defined contribution pension schemes.

Details of the pension benefits for David Bonser are as follows:

Accrued pension benefits				Accumulated lump sum			
2003 £	2002 £	Increase £	Increase excluding inflation £	2003 £	2002 £	Increase £	Increase excluding inflation £
85,915	81,001	4,914	3,538	257,746	243,003	14,743	10,614

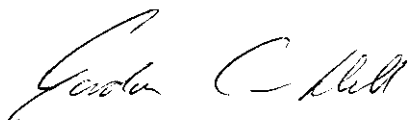
The transfer value of his accrued pension benefits at 31 March 2003 was £1,451,801 (2002: £1,367,471), an increase of £74,390 (net of personal contributions). This transfer value represents a potential liability of the pension scheme and is not a sum paid or payable to him.

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 areas of their individual expertise.

	£
G G Butler	65,534
L N Chamberlain	6,226
J Rimington	5,025
W L Wilkinson	38,255

On behalf of the Board



G Campbell Chairman of the Remuneration Committee
25 June 2003

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, and
- 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 2003 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 37. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

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 Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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, Background to nuclear liabilities 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 company'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 24a. 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 2003 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

25 June 2003

Ernst & Young ^{UP}

Consolidated profit and loss account

For the year ended 31 March

	Note	2003			2002		
		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		2,412	—	2,412	2,502	—	2,502
Less: share attributable to joint ventures		(193)	—	(193)	(241)	—	(241)
Group turnover	2	2,219	—	2,219	2,261	—	2,261
Operating costs and expenses before revision of previous year's nuclear liabilities	3	(2,409)	(418)	(2,827)	(2,329)	(445)	(2,774)
Revision of previous year's nuclear liabilities	3	—	(415)	(415)	—	(1,935)	(1,935)
Operating loss		(190)	(833)	(1,023)	(68)	(2,380)	(2,448)
Operating profit – joint ventures		26	—	26	13	—	13
— associated undertakings		37	—	37	27	—	27
Profit on sale of fixed assets	5	—	6	6	—	30	30
Loss before investment income, interest and taxation		(127)	(827)	(954)	(28)	(2,350)	(2,378)
Investment income	6	683	—	683	430	—	430
Interest payable and similar charges	7	(817)	—	(817)	(380)	—	(380)
(Loss)/profit on ordinary activities before taxation		(261)	(827)	(1,088)	22	(2,350)	(2,328)
Tax on (loss)/profit on ordinary activities	8	152	71	223	(9)	249	240
(Loss)/profit on ordinary activities after taxation		(109)	(756)	(865)	13	(2,101)	(2,088)
Profit attributable to minority interests				—			(2)
Loss for the financial year				(865)			(2,090)
Dividends	9			—			—
Loss transferred to reserves				(865)			(2,090)

Consolidated statement of total recognised gains and losses

For the year ended 31 March

	2003 £m	2002 £m
Loss for the financial year	(865)	(2,090)
Currency translation differences	18	(8)
Total gains and losses recognised since last Annual Report and Accounts	(847)	(2,098)

Consolidated balance sheet

As at 31 March

	Note	2003		2002	
		£m	£m	£m	£m
Fixed assets					
Intangible assets	10		768		877
Tangible assets	11		7,487		7,570
Investments:	12				
Joint ventures:					
Share of gross assets		702		726	
Share of gross liabilities		(669)		(676)	
		33		50	
Associated undertakings		99		122	
Nuclear Liabilities Investment Portfolio		3,843		4,023	
Other		3		20	
			3,978		4,215
			12,233		12,662
Current assets					
Stocks	13	464		376	
Debtors:					
Amounts falling due within one year	14	812		1,204	
Amounts falling due after more than one year:					
Customer recoverable relating to nuclear liabilities	15	4,735		4,356	
Secretary of State's Undertaking	16	5,159		4,784	
Other debtors		241		278	
Investments and short-term deposits	17	1,822		1,800	
Cash at bank and in hand		72		50	
		13,305		12,848	
Creditors: amounts falling due within one year	18	(2,193)		(1,760)	
Net current assets			11,112		11,088
Total assets less current liabilities			23,345		23,750
Creditors: amounts falling due after more than one year	19	(4,000)		(4,430)	
Provisions for liabilities and charges	23	(22,035)		(21,163)	
			(26,035)		(25,593)
Net liabilities			(2,690)		(1,843)
Capital and reserves					
Called up share capital	28	33		33	
Profit and loss account	29	(2,727)		(1,880)	
Shareholders' funds			(2,694)		(1,847)
Minority interests			4		4
			(2,690)		(1,843)

Hugh R Collum Chairman
25 June 2003

Norman Askew Chief Executive
25 June 2003

John Edwards Group Finance Director
25 June 2003



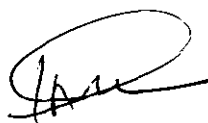


Company balance sheet

As at 31 March

		2003		2002	
	Note	£m	£m	£m	£m
Fixed assets					
Tangible assets	11	8,306		8,233	
Investments	12	5,009		4,951	
		<u>13,315</u>		<u>13,184</u>	
Current assets					
Stocks	13	82		70	
Debtors:					
Amounts falling due within one year	14	2,704		2,699	
Amounts falling due after more than one year:					
Customer recoverable relating to nuclear liabilities	15	9,022		8,673	
Other debtors		235		253	
Investments and short-term deposits	17	1,146		1,075	
Cash at bank and in hand		3		2	
		<u>13,192</u>		<u>12,772</u>	
Creditors: amounts falling due within one year	18	(4,373)		(4,016)	
Net current assets		<u>8,819</u>		<u>8,756</u>	
Total assets less current liabilities		<u>22,134</u>		<u>21,940</u>	
Creditors: amounts falling due after more than one year	19	(5,382)		(6,092)	
Provisions for liabilities and charges	23	(16,444)		(15,524)	
		<u>(21,826)</u>		<u>(21,616)</u>	
Net assets		<u>308</u>		<u>324</u>	
Capital and reserves					
Called up share capital	28	33		33	
Profit and loss account	29	275		291	
Shareholders' funds		<u>308</u>		<u>324</u>	

Hugh R Collum Chairman
25 June 2003



Norman Askew Chief Executive
25 June 2003



John Edwards Group Finance Director
25 June 2003



Consolidated cash flow statement

For the year ended 31 March

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	32	15	122
Dividends from joint ventures and associated undertakings			
Dividends from joint ventures		35	19
Dividends from associated undertakings		8	8
Dividends from joint ventures and associated undertakings		43	27
Returns on investment and servicing of finance			
Interest received		309	172
Interest paid		(18)	(18)
Income from other investments		17	—
Bank charges		(2)	(3)
Returns on investment and servicing of finance		306	151
Taxation			
UK corporation tax received/(paid)		17	(5)
Overseas tax paid		(7)	(4)
Taxation		10	(9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(471)	(524)
Proceeds from disposal of tangible fixed assets		8	10
Cash received from/(invested in) Nuclear Liabilities Investment Portfolio*		254	(179)
Capital expenditure and financial investment		(209)	(693)
Acquisitions and disposals			
Acquisitions of subsidiary undertakings		(1)	(22)
Net cash acquired with subsidiary undertakings		3	2
New loans to joint ventures		—	(6)
Loans repaid by associated undertakings		39	—
Loans repaid by joint ventures		—	2
Acquisitions and disposals		41	(24)
Net cash inflow/(outflow) before use of liquid resources and financing		206	(426)
Management of liquid resources			
Net (realisation)/purchase of short-term investments		(23)	168
Financing			
Repayment of loans		(73)	(1)
New loans		—	97
Finance lease repayments		(1)	—
Increase/(decrease) in cash in year		109	(162)

*In 2003, funds from the Nuclear Liabilities Investment Portfolio funds were used to contribute to expenditure on discharging liabilities.

Notes to the accounts

1 Accounting policies

a Accounting convention

These 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, together with the subsequent actions taken by Government which include the publication of the draft Nuclear Sites and Radioactive Substances Bill.

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 has continued to be implemented in the year in accordance with the Standard. This 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 34 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 associated undertakings. In the consolidated accounts, associated undertakings 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, associated undertaking 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, other than goodwill, (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. Licences are capitalised and amortised on a straight-line basis over their useful economic life of 12 years.

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 of the New Electricity Trading Arrangements.

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 27).

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 24). 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, in accordance with FRS 12, 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 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 to Nuclear Liabilities' on pages 68 to 70 and in note 24, 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.

- **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.

Notes to the accounts

1 Accounting policies continued

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. Assets in the course of construction are stated at cost and are not depreciated until commissioned. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that a provision for impairment is required, or if estimated remaining useful economic lives exceed 50 years. Accumulated depreciation includes any additional charges made where necessary to reflect impairments in value.

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 19.

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 (notes 3, 18 and 19).

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 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 as a constant percentage of the carrying value in order to bring the gilts to face value by the 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.

The carrying values of investments are reviewed for impairment if events or changes in circumstances indicate that a provision for impairment is required.

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). 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 1p).

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 34). The schemes are funded by contributions, partly from the employees and partly from the Group, to separately administered funds.

For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. In respect of the Electricity Supply Scheme and the Group Pension Scheme, the company operates defined benefit pension schemes which require contributions to be made to separately administered funds. 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 contributions to each of 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.

The disclosures as required by FRS 17 'Retirement Benefits' are detailed in note 34.

m Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date, with 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, and
- 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 26).

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 29).

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, depending on the nature of the contract. 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 regular basis.

Loss making contracts are provided for.

p Captive insurance subsidiaries

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. Full provision is made for all claims incurred, but not settled at the balance sheet date, on the basis of the most up-to-date information (note 27).

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.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

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

	Nuclear Utilities £m	Government Services £m	Corporate £m	Subtotal £m	BNFL ALFA £m	Total £m
2003						
Turnover						
Total sales	1,219	1,483	198	2,900	1,373	4,273
Inter-segment sales	(126)	(1,434)	(186)	(1,746)	(308)	(2,054)
Sales to third parties	1,093	49	12	1,154	1,065	2,219
Operating (loss)/profit						
Operating (loss)/profit before exceptional items	85	152	(61)	176	(366)	(190)
Exceptional items (note 3)	(243)	(175)	—	(418)	(415)	(833)
Total	(158)	(23)	(61)	(242)	(781)	(1,023)
Share of operating profit – associated undertakings and joint ventures	36	27	—	63	—	63
Profit/(loss) on sale of fixed assets (exceptional items)	—	—	(2)	(2)	8	6
Net investment income/(interest payable)	(80)	(1)	76	(5)	(129)	(134)
(Loss)/profit before tax						
Operations before exceptional items	41	178	15	234	(495)	(261)
Exceptional items (note 3)	(243)	(175)	(2)	(420)	(407)	(827)
Total	(202)	3	13	(186)	(902)	(1,088)

A major internal reorganisation of the Group took place with effect from 1 April 2002 which included the introduction of new internal trading arrangements. Where business groups carry out work for BNFL ALFA they are now remunerated based on their achievement against performance targets and BNFL ALFA's turnover reflects revenue generated from third parties. As these trading arrangements did not exist in the year ended 31 March 2002 it is not possible to provide restated comparative segmental analysis in respect of the profit and loss account. The comparatives below, therefore, are based on the Group's previous management structure. To provide some comparability, the 2003 operating loss before exceptional items has also been analysed based on the Group's previous management structure (see table below). All other segmental information, including that relating to segmental analysis of net assets, has been restated based on the revised structure.

	Fuel manufacture and reactor services £m	Magnox generation £m	Spent fuel and engineering £m	Environmental services £m	Total £m
2003					
Operating (loss)/profit before exceptional items	71	(159)	(109)	7	(190)
2002					
Turnover					
Total sales	1,153	396	996	259	2,804
Inter-segment sales	(83)	(16)	(381)	(63)	(543)
Sales to third parties	1,070	380	615	196	2,261
Operating (loss)/profit					
Operating (loss)/profit before exceptional items	59	(160)	19	14	(68)
Exceptional items (note 3)	—	(375)	(1,935)	(70)	(2,380)
Total	59	(535)	(1,916)	(56)	(2,448)
Share of operating profit – associated undertakings and joint ventures	27	—	—	13	40
Profit on sale of fixed assets	1	13	15	1	30
Net investment income/(interest payable)	(8)	45	13	—	50
(Loss)/profit 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)

	Nuclear Utilities £m	Government Services £m	Corporate £m	Subtotal £m	BNFL ALFA £m	Total £m
2003						
Tangible assets	504	333	62	899	6,588	7,487
Intangible assets	768	—	—	768	—	768
Investments	106	24	5	135	3,843	3,978
Total fixed assets	1,378	357	67	1,802	10,431	12,233
Customer recoverable relating to nuclear liabilities	7	—	—	7	4,938	4,945
Secretary of State's Undertaking	—	—	—	—	5,159	5,159
Other net current assets/(liabilities)	(470)	(57)	2,248	1,721	(713)	1,008
Net current assets/(liabilities)	(463)	(57)	2,248	1,728	9,384	11,112
Nuclear provisions	(385)	—	(17)	(402)	(20,334)	(20,736)
Other provisions	(459)	(312)	(267)	(1,038)	(261)	(1,299)
Other long-term liabilities	(479)	(24)	264	(239)	(3,761)	(4,000)
Total long-term liabilities	(1,323)	(336)	(20)	(1,679)	(24,356)	(26,035)
Internal funding	29	258	(287)	—	—	—
Net assets/(liabilities)	(379)	222	2,008	1,851	(4,541)	(2,690)
2002 (restated)						
Tangible assets	688	312	75	1,075	6,495	7,570
Intangible assets	877	1	(1)	877	—	877
Investments	130	15	47	192	4,023	4,215
Total fixed assets	1,695	328	121	2,144	10,518	12,662
Customer recoverable relating to nuclear liabilities	10	—	—	10	4,714	4,724
Secretary of State's Undertaking	—	—	—	—	4,784	4,784
Other net current assets/(liabilities)	(808)	241	2,075	1,508	72	1,580
Net current assets/(liabilities)	(798)	241	2,075	1,518	9,570	11,088
Nuclear provisions	(384)	—	(2)	(386)	(19,290)	(19,676)
Other provisions	(527)	(272)	(453)	(1,252)	(235)	(1,487)
Other long-term liabilities	(160)	(21)	32	(149)	(4,281)	(4,430)
Total long-term liabilities	(1,071)	(293)	(423)	(1,787)	(23,806)	(25,593)
Internal funding	—	—	—	—	—	—
Net assets/(liabilities)	(174)	276	1,773	1,875	(3,718)	(1,843)

The 2002 comparatives have been restated based on the new management responsibilities within the organisational structure implemented on 1 April 2002. The opening balances were transferred as appropriate to the new segments based on management responsibility. 2002 comparatives have also been restated to reflect net assets/(liabilities) rather than shareholders' funds.

Notes to the accounts

2 Segmental information continued

b Geographical segmental 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 net assets owned by companies located in each geographic area.

	EU (excl. UK) £m	Europe Other £m	Japan and Far East £m	North and South America £m	Total (excl. UK) £m	UK £m	Total £m
2003							
Turnover by destination							
Sales to third parties	252	53	422	671	1,398	821	2,219
Turnover by origin							
Total sales	192	6	3	747	948	1,296	2,244
Inter-segment sales	—	—	(3)	(10)	(13)	(12)	(25)
Sales to third parties	192	6	—	737	935	1,284	2,219
Profit/(loss) before tax by origin							
Operations before exceptional items	27	2	—	59	88	(349)	(261)
Exceptional items	—	—	—	(188)	(188)	(639)	(827)
Total	27	2	—	(129)	(100)	(988)	(1,088)
Net assets/(liabilities)	201	—	—	789	990	(3,680)	(2,690)
2002							
Turnover by destination							
Sales to third parties	213	46	426	744	1,429	832	2,261
Turnover by origin							
Total sales	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)
Net assets/(liabilities)	101	3	—	918	1,022	(2,865)	(1,843)

2002 comparatives have been restated this year to reflect net assets/(liabilities) by geographical segment rather than shareholders' funds.

3 Net operating costs and expenses

	2003			2002		
	Total before exceptional items £m	Exceptional items £m	Total £m	Total before exceptional items £m	Exceptional items £m	Total £m
Employee costs (note 4)	987	—	987	939	—	939
Nuclear provisions charge	21	—	21	139	76	215
Non nuclear provisions charge	93	251	344	76	70	146
Depreciation — on capitalised decommissioning costs	115	—	115	18	87	105
— provisions for impairment	81	167	248	—	209	209
— other depreciation	363	—	363	369	—	369
Amortisation of goodwill	48	—	48	50	—	50
Raw materials and consumables	508	—	508	472	—	472
Research and development charges not directly recoverable from customers	67	—	67	54	—	54
Other income and operating charges	208	—	208	284	—	284
Changes in stocks of finished goods and work in progress	—	—	—	18	3	21
Own work capitalised	(67)	—	(67)	(75)	—	(75)
Own work on nuclear fuel stock	(14)	—	(14)	(14)	—	(14)
Regional development grants released	(1)	—	(1)	(1)	—	(1)
Total operating costs and expenses before revision of previous year's nuclear liabilities	2,409	418	2,827	2,329	445	2,774
Revision of previous year's nuclear liabilities	—	415	415	—	1,935	1,935
	2,409	833	3,242	2,329	2,380	4,709

Auditors' remuneration

Included in other income and operating charges are the following fees relating to the Group's Auditors Ernst & Young LLP:

	Group		Parent	
	2003 £000	2002 £000	2003 £000	2002 £000
Annual audit fees	1,502	1,397	410	335

Other fees paid to Ernst & Young LLP by the Group in the year were £993,000 (2002: £2,498,000). The spend this year was as follows:

	£000
Other assurance (interim, pension audits)	296
Tax advice	234
Other non-audit fees	463
Total non-audit fees	993

It is the Group's policy to engage Ernst & Young LLP on assignments where their expertise and experience with the Group are important or where they win work on a competitive basis.

Notes to the accounts

3 Net operating costs and expenses continued

Exceptional items

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

	2003 £m	2002 £m
Magnox station decommissioning provisions	(415)	—
Springfields impairment and provisions	(230)	—
Restructuring provisions	(13)	—
Contract losses in US	(175)	(70)
Impact of revised Magnox Lifetime Strategy	—	(375)
Historic Waste Management Strategy	—	(1,935)
Decrease in operating profit	(833)	(2,380)
Profit on sale of fixed assets (note 5)	6	30
Decrease in profit before tax	(827)	(2,350)

Following the review of the Historic Waste Management Strategy last year, a separate exercise to review the station decommissioning costs has commenced. During the 2003 financial year, new baseline decommissioning plans have been completed for the care and maintenance preparation phase for the Hinkley and Bradwell stations. These have resulted in an exceptional charge of £415 million to cover the anticipated future cost increases. The completion of this exercise for the remaining nine sites is scheduled to be completed over the next three years. Although there are likely to be further charges in the future, the uncertainties inherent in the calculations mean that it would be inappropriate to anticipate any further charges for each station until the plan for that station has been revised.

On 5 September 2002, our major customer British Energy, announced that it had initiated discussions with Her Majesty's Government, with a view to seeking immediate financial support to enable a longer term restructuring to take place. British Energy subsequently announced its restructuring proposals on 28 November 2002. On the same date BNFL entered into Heads of Terms with British Energy which were subsequently developed into full contracts. These revised arrangements triggered an impairment review, which has had a major impact at our Springfields site, resulting in a reduction in the carrying value of assets of £167 million, based on a discount rate of 8%, and a reassessment of various provisions with an increased charge of £63 million.

In respect of the proposed financial restructuring of British Energy, one impact of which has been the asset impairment described above, the Board continues to monitor the situation. British Energy has made clear in its own announcements that if the requirements set out in its restructuring proposals are not met and the restructuring is therefore not implemented, it may have to seek insolvency proceedings, in which event distributions to unsecured creditors such as the Group may represent only a small fraction of the total unsecured liabilities. The Board continues to plan on the basis that British Energy will be successful.

A rebaselining of BNFL Inc's East Tennessee Technology Park contract has increased the Group's expected costs to completion, and the Advanced Mixed Waste Treatment Project contract in Idaho has experienced substantial cost overruns in the construction phase. As a result, a £175 million exceptional charge has been reported on these fixed price contracts.

4 Employee information

	2003	2002 restated
a The average number of employees was:		
Nuclear Utilities	8,545	8,318
Government Services	13,129	12,616
Corporate	1,273	1,314
BNFL ALFA	24	—
	22,971	22,248

The headcount analysis for last year has been restated as a result of the internal reorganisation in the year, as outlined in note 2a.

	£m	£m
b Employee costs:		
Wages and salaries	834	796
Social security costs	67	64
Other pension costs (note 34)	35	29
Other employee costs (early retirement etc)	51	50
	987	939

The figures given above include Parent company Executive Directors. Further details of directors' emoluments are set out in the Remuneration Report on pages 28 to 30.

5 Profit on sale of fixed assets

	2003 £m	2002 £m
Tangible fixed assets	(5)	—
Fixed asset investments	11	30
	6	30

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 £2 million (2002: £9 million).

6 Investment and interest income

	2003 £m	2002 £m
Nuclear Liabilities Investment Portfolio:		
Amortisation of premium/discount	13	10
Indexation of gilts	61	19
Investment income	142	134
Secretary of State's Undertaking	375	253
	591	416
Current asset investments	88	85
Realised exchange gains	43	—
Loans to joint ventures	1	3
Loans to associated undertakings	—	3
	723	507
Financing income from long-term contract advance payments reclassified to turnover	(40)	(77)
	683	430

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. Over time 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

	2003 £m	2002 £m
Revalorisation:		
Nuclear provisions	693	347
Non nuclear provisions	23	23
	716	370
Interest on loans	19	11
Unrealised losses on investments held by captive insurance companies	74	—
Realised exchange gains	—	(10)
Bank charges	2	3
	811	374
Group interest payable and similar charges	6	6
Share of associated undertakings' interest	—	—
	817	380

Notes to the accounts

8 Tax on profit/(loss) on ordinary activities

a Analysis of tax credit in the year

	2003			2002		
	Total before exceptional items £m	Exceptional items £m	Total £m	Total before exceptional items £m	Exceptional items £m	Total £m
UK corporation tax in respect of parent and subsidiaries:						
Advance corporation tax written off	—	—	—	25	—	25
Adjustment in respect of prior years	(43)	—	(43)	(3)	—	(3)
	(43)	—	(43)	22	—	22
Joint ventures' taxation	8	—	8	1	—	1
Associated undertakings' taxation	15	—	15	9	—	9
	(20)	—	(20)	32	—	32
Overseas taxation	7	—	7	4	—	4
Total current taxation	(13)	—	(13)	36	—	36
Deferred tax in respect of parent and subsidiaries (current year)	(139)	(71)	(210)	(27)	(249)	(276)
Tax (credit)/charge	(152)	(71)	(223)	9	(249)	(240)

b Factors affecting tax credit for the year

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of UK corporation tax of 30%. The differences are reconciled below:

	2003 £m	2002 £m
Loss on ordinary activities before taxation	(1,088)	(2,328)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(326)	(698)
Effects of:		
Expenses not deductible for tax purposes	24	21
Capital allowances in excess of depreciation	121	186
Losses arising not relievable against current tax	—	210
Other timing differences	138	296
Adjustments in respect of prior years	(43)	(3)
Associated undertakings and joint venture taxation	5	—
Overseas taxation	68	24
Current tax (credit)/charge for period (note 8a)	(13)	36

9 Dividends

No dividends were paid or proposed in the year (2002: 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 2002	1,001	3	1,004
Exchange adjustments	(70)	—	(70)
Cost at 31 March 2003	931	3	934
Amortisation at 1 April 2002	125	2	127
Exchange adjustments	(9)	—	(9)
Charge for the year	47	1	48
Amortisation at 31 March 2003	163	3	166
Net book value at 31 March 2003	768	—	768
Net book value at 31 March 2002	876	1	877

The goodwill above arose on the acquisition of ABB's commercial nuclear power business on 28 April 2000 and the acquisition of Westinghouse Electric Company LLC on 22 March 1999.

11 Fixed assets – tangible assets

a Group

	Land and buildings		Plant and machinery		Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
	Long leasehold £m	Freehold £m	Capitalised decommissioning costs (note 1f) £m	Other £m			
Cost at 1 April 2002	7	3,567	3,132	4,417	152	1,602	12,877
Exchange adjustments	–	(6)	(2)	(17)	(1)	(25)	(51)
Additions	–	1	491	20	10	416	938
Disposals	(2)	(9)	(281)	(65)	(3)	(3)	(363)
Assets in course of construction commissioned	–	38	–	193	12	(243)	–
Cost at 31 March 2003	5	3,591	3,340	4,548	170	1,747	13,401
Depreciation at 1 April 2002	1	1,529	953	2,651	117	56	5,307
Exchange adjustments	–	(1)	–	(6)	–	(1)	(8)
Impairment of assets	–	6	14	156	8	64	248
Charge for the year	2	143	115	201	17	–	478
Disposals	(2)	(6)	(42)	(60)	(1)	–	(111)
Depreciation at 31 March 2003	1	1,671	1,040	2,942	141	119	5,914
Net book value at 31 March 2003	4	1,920	2,300	1,606	29	1,628	7,487
Net book value at 31 March 2002	6	2,038	2,179	1,766	35	1,546	7,570

Included within the capitalised decommissioning costs is £2,128 million, which relates to amounts recoverable from customers (note 15) (2002: £1,979 million). The remaining £172 million is Group funded (2002: £200 million).

As described in the 2002 Annual Report and Accounts the Magnox stations held by the Group are fully impaired.

b Parent

	Plant and machinery					
	Freehold land and buildings £m	Capitalised decommissioning costs (note 1f) £m	Other £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost at 1 April 2002	3,394	4,046	3,737	109	1,284	12,570
Exchange adjustments	1	—	1	—	—	2
Additions	1	627	16	8	198	850
Disposals	(7)	(229)	(54)	(11)	(4)	(305)
Assets in course of construction commissioned	30	—	163	2	(195)	—
Cost at 31 March 2003	3,419	4,444	3,863	108	1,283	13,117
Depreciation at 1 April 2002	1,456	575	2,217	85	4	4,337
Exchange adjustments	—	—	1	(1)	—	—
Impairment of assets	4	14	158	2	10	188
Charge for the year	139	49	153	15	—	356
Disposals	(6)	—	(53)	(11)	—	(70)
Depreciation at 31 March 2003	1,593	638	2,476	90	14	4,811
Net book value at 31 March 2003	1,826	3,806	1,387	18	1,269	8,306
Net book value at 31 March 2002	1,938	3,471	1,520	24	1,280	8,233

Freehold land, amounting to £5 million (2002: £6 million) for the Group and £5 million (2002: £5 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

a Summary

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Subsidiary undertakings (note 12b)	–	–	1,136	897
Joint ventures (note 12c)	33	50	2	2
Associated undertakings (note 12d)	99	122	–	–
Trade investments (note 12e)	3	20	2	2
Nuclear Liabilities Investment Portfolio (note 12f)	3,843	4,023	3,869	4,050
	3,978	4,215	5,009	4,951

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

b Subsidiary undertakings

	Shares £m	Loans £m	Total cost £m	Amounts provided £m	Net book value £m
At 1 April 2002	843	79	922	(25)	897
Exchange movements	–	(2)	(2)	1	(1)
Additions	244	–	244	–	244
Repayments	–	(4)	(4)	–	(4)
At 31 March 2003	1,087	73	1,160	(24)	1,136

The additions relate primarily 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 2002	4	54	90	148	1	65	66
Exchange adjustments	–	(6)	–	(6)	–	–	–
Disposals	(2)	(24)	(2)	(28)	–	(2)	(2)
Share of retained profit and reserves	11	–	–	11	–	–	–
Cost at 31 March 2003	13	24	88	125	1	63	64
Amounts provided/amortised at 1 April 2002	–	9	89	98	–	64	64
Provisions released	–	(4)	(2)	(6)	–	(2)	(2)
Amounts provided/amortised at 31 March 2003	–	5	87	92	–	62	62
Net book value at 31 March 2003	13	19	1	33	1	1	2
Net book value at 31 March 2002	4	45	1	50	1	1	2

The principal joint ventures are Westinghouse Government Environmental Services Company LLC, Westinghouse Government Services Company LLC, United Kingdom Nirex Limited and AWE Management Limited.

Loans of £87 million for the Group and £62 million for the Parent (2002: £89 million and £64 million respectively) have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate-level nuclear waste repository. Full provision has been made against these loans.

d Associated undertakings

	Group		
	Share of net assets £m	Loans and advances £m	Total £m
Cost and net book value at 1 April 2002	83	39	122
Loan repayments	—	(39)	(39)
Exchange adjustments	8	—	8
Share of retained profit and reserves	8	—	8
Cost and net book value at 31 March 2003	99	—	99

The principal associated undertaking is Urenco Limited.

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 2002	28	(8)	20	9	(7)	2
Disposals	(15)	—	(15)	—	—	—
Exchange adjustments	(2)	—	(2)	—	—	—
Balance at 31 March 2003	11	(8)	3	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 2002	2,248	1,775	4,023	2,275	1,775	4,050
Additions	346	85	431	346	85	431
Disposals	(320)	(365)	(685)	(320)	(365)	(685)
Amortisation of premium/discount	13	—	13	12	—	12
Indexation of gilts	61	—	61	61	—	61
Balance at 31 March 2003	2,348	1,495	3,843	2,374	1,495	3,869

The Nuclear Liabilities Investment Portfolio (NLIP) represents funds earmarked for the costs associated with the discharge of nuclear liabilities. 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 fund is thus invested in a combination of index-linked gilts and a managed portfolio, invested through fund managers.

i. Gilts investment portfolio

The Group has invested £2,039 million of the portfolio in index-linked gilts and £309 million in conventional gilts, which are intended to be held until redemption. The index-linked gilts have an average maturity of 10.16 years and returned 2.04% p.a. after tax and inflation this year. 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 risks associated with this instrument; firstly the taxation legislation may change; and secondly, given the longest maturity is up to 2024, but the nuclear liabilities go out to 2150, there will be a significant degree of refinancing risk if the Government does not issue longer-maturing index-linked gilts in due course.

ii. Managed portfolio

£1,495 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

12 Fixed assets – investments continued

The NLIP contains listed and unlisted investments as follows:

	Group				Parent			
	Market value £m	2003 Book value £m	Market value £m	2002 Book value £m	Market value £m	2003 Book value £m	Market value £m	2002 Book value £m
Listed investments	4,059	3,824	3,844	3,696	4,059	3,850	3,844	3,723
Unlisted investments	19	19	327	327	19	19	327	327
Total	4,078	3,843	4,171	4,023	4,078	3,869	4,171	4,050

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 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.

The movements in the NLIP can be further analysed as follows:

	Group Total £m
Balance at 1 April 2002	4,023
Profit on sale of investments	11
Investment income	135
Amortisation of premium/discount	13
Indexation of gilts	61
Total liabilities discharged	(469)
Less liabilities funded by operations	69
Balance at 31 March 2003	3,843

13 Stocks

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Nuclear fuel	22	21	5	8
Raw materials and consumables	350	233	40	45
Work in progress	74	106	34	14
Finished goods	18	16	3	3
	464	376	82	70

Work in progress in the Group is stated after deducting progress payments of £3 million (2002: £2 million).

In the Parent company, work in progress is stated after deducting progress payments of £nil (2002: £2 million).

14 Debtors falling due within one year

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	264	301	140	63
Recoverable on long-term contracts	81	233	—	—
VAT	33	8	21	14
Corporation tax	11	47	11	41
Prepayments and accrued income	187	231	89	96
Other debtors	17	8	12	20
Owed by Group undertakings	—	—	1,794	1,785
Owed by associated undertakings	9	8	—	—
Customer recoverable relating to nuclear liabilities (note 15)	210	368	637	680
	812	1,204	2,704	2,699

At the end of the year, there were 77 loans amounting to £639,000 outstanding with employees of the Group (2002: 80 loans amounting to £631,000). All of these loans were in the Parent company (2002: 79 loans amounting to £610,000).

15 Customer recoverable relating to nuclear liabilities

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:

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Customer recoverable relating to nuclear liabilities:				
Included in fixed assets (note 11 and note 1f)	2,128	1,979	3,679	3,319
Included in debtors due after more than one year	4,735	4,356	9,022	8,673
Included in debtors due within one year (note 14)	210	368	637	680
	7,073	6,703	13,338	12,672

The movements in amounts recoverable during the year were as follows:

	Decommissioning fixed assets £m	Decommissioning debtor £m	Waste management debtor £m	Reprocessing debtor £m	Total debtors £m	Total recoverable £m
Group						
Balance at 1 April 2002	1,979	65	4,659	—	4,724	6,703
Revalorisation*	117	4	197	—	201	318
Increase in the year	61	8	222	—	230	291
Amounts recovered	(29)	—	(210)	—	(210)	(239)
Balance at 31 March 2003	2,128	77	4,868	—	4,945	7,073
Parent						
Balance at 1 April 2002	3,319	155	8,328	870	9,353	12,672
Revalorisation*	190	9	366	46	421	611
Increase/(decrease) in the year	199	(3)	103	(5)	95	294
Amounts recovered	(29)	—	(210)	—	(210)	(239)
Balance at 31 March 2003	3,679	161	8,587	911	9,659	13,338

*Revalorisation is explained in note 6.

16 Secretary of State's Undertaking (due after more than one year)

	Group	
	2003 £m	2002 £m
Balance at 1 April 2002	4,784	4,531
Interest accrued during the year	375	253
Balance at 31 March 2003	5,159	4,784

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:

a 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.

b 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 in relation to (a) above was due on 1 April 2003. Given the progress being made to implement the proposals on the restructuring of UK civil nuclear liabilities set out in the Ministerial statement made in the House of Commons on 28 November 2001, a deferral of this review has been agreed.

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	
	2003 £m	2002 £m	2003 £m	2002 £m
Gilt investments – Medium-term maturity	112	108	112	108
– Short-term maturity	123	122	123	122
Managed investments	548	587	–	–
Short-term deposits	1,039	983	911	845
	1,822	1,800	1,146	1,075

Gilt investments – medium-term maturity

The Group has invested £112 million in index-linked gilts, which are intended to be held until redemption. These funds are earmarked to cover the costs of the nuclear liabilities associated with the fuel manufacturing business area. These have an average maturity of 19.45 years and returned 2.75% p.a. after tax and inflation in 2002–2003. The advantages and risks of this type of instrument are discussed in the NLIP note 12f.

Gilt investments – short-term maturity

The Group has invested £123 million in conventional gilts. These are due to mature in December 2003.

Managed investments

Managed investments of £548 million in the Group represent funds held by captive insurance subsidiaries. These are invested through various fund managers who operate portfolios which include a combination of equity investments, fixed income instruments and bank deposits. There has been a significant decline in the value of the funds in the year as a result of the general decline in the market value of equities. The funds held in the captive insurance companies are reported at market value.

Short-term deposits

These consist of mainly bank deposits and other fixed and call deposits. Liquidity is managed by preparing short and medium-term cash flow forecasts against which the maturity of bank deposits is timed. These are supported by a level of funds invested in certificates of deposit and a money fund to cover unforeseen requirements.

Current asset investments and short-term deposits include listed and unlisted investments as follows:

	Group				Parent			
	Market value £m	2003 Book value £m	Market value £m	2002 Book value £m	Market value £m	2003 Book value £m	Market value £m	2002 Book value £m
Listed investments:								
Carried at market value	548	548	585	585	–	–	–	–
Carried at cost	258	235	249	230	258	235	249	230
Total listed investments	806	783	834	815	258	235	249	230
Unlisted investments	1,039	1,039	985	985	911	911	845	845
Total	1,845	1,822	1,819	1,800	1,169	1,146	1,094	1,075

The historic cost of the listed investments carried at market value was £616 million (2002: £579 million).

Unlisted investments are bank deposits and other fixed and call deposits.

18 Creditors: amounts falling due within one year

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Loans (note 20)	30	135	—	—
Bank overdraft	3	8	185	52
Payments received on account (note 21)	1,548	909	1,722	899
Obligations under finance leases and hire purchase contracts	3	3	—	—
Trade creditors	176	175	62	53
VAT	41	15	28	12
Corporation tax	43	105	4	36
Other taxes and social security	15	16	10	6
Accruals and deferred income	325	356	142	124
Other creditors	9	38	3	—
Owed to Group undertakings	—	—	2,217	2,834
	2,193	1,760	4,373	4,016

Accruals and deferred income include £1 million of capital grants (note 1h) (2002: £nil).

19 Creditors: amounts falling due after more than one year

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Loans (note 20)	21	—	—	—
Payments received on account (note 21)	3,375	3,893	4,793	5,560
Obligations under finance leases and hire purchase contracts	—	1	—	—
Accruals and deferred income	587	532	587	532
Other	17	4	2	—
	4,000	4,430	5,382	6,092

Accruals and deferred income include £9 million of capital grants (note 1h) (2002: £11 million) and £578 million depreciation matching accrual (note 1h) (2002: £521 million).

20 Loans

	Group	
	2003 £m	2002 £m
Repayable:		
In one year or less, or on demand	30	135
In more than two years but not more than five years	21	—
	51	135

Loans are secured by Parent company guarantees.

Notes to the accounts

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, and thus payments on account will be released to the profit and loss account, when the services are expected to be provided as follows:

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
In one year or less	1,548	909	1,722	899
In more than one year but not more than two years	611	611	946	954
In more than two years but not more than five years	1,650	1,682	2,930	2,850
In more than five years	1,114	1,600	917	1,756
	4,923	4,802	6,515	6,459

22 Undrawn committed borrowing facilities

The Group has undrawn committed borrowing facilities of £83 million which expire within two to five years (2002: £63 million within one year).

23 Provisions for liabilities and charges

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Nuclear provisions (note 24)	20,736	19,676	15,575	14,823
Deferred tax (note 26)	210	420	—	89
Other provisions (note 27)	1,089	1,067	869	612
	22,035	21,163	16,444	15,524

24 Nuclear provisions**a Summary of the movements in nuclear provisions**

	Decommissioning £m	Waste management £m	Reprocessing £m	Total £m
Group				
Balance at 1 April 2002	7,580	10,907	1,189	19,676
Exchange adjustments	(12)	—	—	(12)
Revalorisation	442	507	62	1,011
Increase in the year	248	510	74	832
Amounts recovered from third parties to discharge nuclear provisions	(29)	(210)	—	(239)
Discharge of Group-funded liabilities	(145)	(245)	(142)	(532)
Balance at 31 March 2003	8,084	11,469	1,183	20,736
Parent				
Balance at 1 April 2002	4,502	9,248	1,073	14,823
Revalorisation	257	412	55	724
Increase/(decrease) in the year	265	157	(72)	350
Amounts recovered from third parties to discharge nuclear provisions	(29)	(210)	—	(239)
Discharge of parent-funded liabilities	(24)	(30)	(29)	(83)
Balance at 31 March 2003	4,971	9,577	1,027	15,575

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. Provisions are also 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, much of the dismantling and demolition work will not occur for a considerable time. Similarly, 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, which are calculated using the practical experience and extensive knowledge that already exists.

In respect of historic wastes, specifically those arising from the early military and civil nuclear programmes, following extensive work over a number of years, the Board approved a substantially revised retrieval and processing strategy in the financial year ending 31 March 2002. 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 those amounts remain the best available estimate at the present time. As indicated in note 3, the station decommissioning costs are under review, which is likely to result in increased costs in the future.

The estimates on which all the provisions are based are themselves reliant upon 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 nature of the obligations however mean that fundamental uncertainties remain regarding the measurement of the liabilities and the timing of the cash flows. Until the new structure announced by Her Majesty's 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 68 to 70.

b The movements in the nuclear provisions note can be further analysed as follows:

	Fixed assets- Group funded* £m	Fixed assets recoverable under commercial agreement (note 15) £m	Debtors (note 15) £m	Profit and loss account (notes 3 and 7) £m	Total (note 24a) £m
Group					
Revalorisation	—	117	201	693	1,011
Increase in the year	105	61	230	436	832
Amounts recovered from third parties to discharge nuclear provisions	—	(29)	(210)	—	(239)
Discharge of Group-funded liabilities	(8)	—	—	(524)	(532)
Parent					
Revalorisation	—	190	421	113	724
Increase in the year	38	199	95	18	350
Amounts recovered from third parties to discharge nuclear provisions	—	(29)	(210)	—	(239)
Discharge of Group-funded liabilities	—	—	—	(83)	(83)

*The Group-funded fixed assets column above represents provisions for capitalised decommissioning costs which are to be funded by the Group and are not recoverable under commercial agreements. Capitalised decommissioning costs are analysed in note 11.

The increase in provisions charged to the profit and loss account in the year of £436 million represent £415 million of exceptional charges relating to the revision of previous year's nuclear liabilities and £21 million of normal provisions charge (see note 3).

Notes to the accounts

24 Nuclear provisions continued

c Split of the Group provisions between those funded by the Group and those recoverable under commercial agreements

	Recoverable under commercial agreement (note 15) £m	Group- funded £m	Total provisions £m
Decommissioning	2,205	5,879	8,084
Waste management	4,868	6,601	11,469
Reprocessing of fuel	—	1,183	1,183
At 31 March 2003	7,073	13,663	20,736
At 31 March 2002	6,703	12,973	19,676

d Funding of long-term nuclear provisions

The following table shows the cash element of the Group-funded provision and the percentage covered by funds held by BNFL as at the balance sheet date.

	2003 £m	2002 £m
Group-funded provisions	13,663	12,973
Non-cash (see below)	(941)	(974)
Future cash expenditure in respect of existing liabilities	12,722	11,999
Nuclear Liabilities Investment Portfolio market value (note 36)	4,078	4,171
Secretary of State's Undertaking in relation to the liabilities of Magnox Electric plc	5,159	4,784
Funds earmarked for liabilities	9,237	8,955
Level of percentage funding	73%	75%

The non-cash adjustment represents depreciation on certain historic capital expenditure, included in waste management and reprocessing provisions, which will be charged against provisions over the remaining operating life of those assets. A further £1,252 million (2002: £1,034 million) is recoverable under commercial agreement.

25 Nuclear liabilities

a Total future cash expenditure

The following table shows the current estimate of total lifetime future cash expenditure and the proportion funded by BNFL. The provisions as disclosed in the balance sheet are discounted at 2.5% per annum. The table below indicates both the discounted and undiscounted future cash expenditure.

	Total future cash expenditure		Group-funded future cash expenditure	
	Undiscounted £m	Discounted £m	Undiscounted £m	Discounted £m
Decommissioning	18,910	8,148	14,343	5,961
Waste management	19,508	10,282	11,923	6,063
Reprocessing of fuel	2,847	2,303	1,599	1,348
At 31 March 2003	41,265	20,733	27,865	13,372
At 31 March 2002	40,520	20,028	27,190	12,783

b Reconciliation of Group-funded provision to Group-funded future cash expenditure

	2003 £m	2002 £m
Group-funded provisions (note 24c)	13,663	12,973
Non-cash (note 24d)	(941)	(974)
Future activities for which no provision is required (see below)	650	784
Group-funded future cash expenditure	13,372	12,783

Future activities for which no provision is required relates to liabilities expenditure which is not yet provided as the recognition criteria under FRS 12 has not yet been met.

c Movements in future cash expenditure

The following table shows the current estimate of total lifetime future cash expenditure and the proportion funded by BNFL. The provisions as disclosed in the balance sheet are discounted at 2.5% per annum. The table below indicates both the discounted and undiscounted future cash expenditure.

	Total future cash expenditure		Group-funded future cash expenditure	
	Undiscounted £m	Discounted £m	Undiscounted £m	Discounted £m
Balance at 1 April 2002	40,520	20,028	27,190	12,783
Revalorisation	1,376	1,158	925	739
Discharged in year	(788)	(788)	(469)	(469)
Other changes	157	335	219	319
Balance at 31 March 2003	41,265	20,733	27,865	13,372

d Projected profile of future cash expenditure

The cash spend profile over the next 150 years is as shown below:

Years	Liabilities discharged	Cash expenditure (£bn)
2003 to 2012	Construction and operation of waste management facilities, together with some reprocessing and decommissioning	12
2013 to 2063	Decommissioning the Group's nuclear facilities and waste management activities including waste disposal	15
2064 to 2150	Final stages of decommissioning the Group's nuclear facilities, together with costs associated with the construction and operation of a deep waste repository	14
		41

26 Deferred tax

Deferred tax has been provided as follows:

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Capital allowances in advance of depreciation	500	630	486	615
Other timing differences	(290)	(210)	(486)	(526)
	210	420	—	89

The movement in the year relates to a current year deferred tax credit to the profit and loss account of £210 million (Parent company: £89 million). Other timing differences are principally nuclear provisions.

Notes to the accounts

27 Other provisions

Other provisions can be analysed as follows:

	Contract settlements (a) £m	Other contract provisions (b) £m	Restructuring costs (c) £m	Warranty provisions (d) £m	Other provisions (e) £m	Total £m
Group						
Balance at 1 April 2002	296	388	145	35	203	1,067
Exchange adjustments	(33)	(12)	(3)	(4)	19	(33)
Revalorisation	7	10	6	—	—	23
Reclassifications	—	49	84	—	(127)	6
Charge in the year	1	227	104	1	11	344
Released in the year	(23)	(28)	(2)	—	(6)	(59)
Expenditure in the year	(56)	(129)	(56)	(6)	(12)	(259)
Balance at 31 March 2003	192	505	278	26	88	1,089
Parent						
Balance at 1 April 2002	—	231	110	—	271	612
Revalorisation	—	9	6	—	—	15
Reclassifications	—	2	1	—	(3)	—
Charge in the year	—	37	90	—	172	299
Released in the year	—	(2)	(2)	—	(3)	(7)
Expenditure in the year	—	(24)	(22)	—	(4)	(50)
Balance at 31 March 2003	—	253	183	—	433	869

a Contract settlements

The Nuclear Utilities Business Group has existing obligations in respect of steam generator and uranium supply contract settlements of £192 million (2002: £296 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 2003, 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 14 years, with the majority of expenditures occurring over the next seven 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 Nuclear Utilities Business Group provide equipment and fuel supplies, of which five remain open as at 31 March 2003. The supply of equipment is essentially complete and the fuel supplies extend through 2013.

b Other contract provisions

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

c Restructuring costs

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 provisions

Other provisions in the Group include insurance provisions of £31 million (2002: £16 million) and various miscellaneous provisions of £57 million (2002: £187 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. As a result of a review in the year, some provisions previously classified as 'other' have been reclassified to more appropriate categories.

Other provisions in the Parent company reflect net liabilities of certain subsidiaries where investments have already been provided against.

28 Called up share capital

	2003 £m	2002 £m
Authorised		
43,000,000 ordinary shares of £1 each	43	43
Allotted, called-up and fully-paid		
32,668,244 ordinary shares of £1 each	33	33

29 Reserves

	Group Profit and loss account £m	Parent Profit and loss account £m
Balance at 1 April 2002	(1,880)	291
Currency translation differences	18	—
Loss for the financial year	(865)	(16)
Balance at 31 March 2003	(2,727)	275

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

Currency translation differences represent the exposure on foreign currency net assets held by the Group, arising as a result of movements in exchange rates in the year.

30 Reconciliation of movements in shareholders' funds

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Loss for the financial year	(865)	(2,090)	(16)	(32)
Currency translation differences	18	(8)	—	—
	(847)	(2,098)	(16)	(32)
Opening shareholders' funds	(1,847)	251	324	356
Closing shareholders' funds	(2,694)	(1,847)	308	324

Cumulative goodwill written off to reserves in respect of acquisitions before 1 April 1998 amounts to £119 million (2002: £119 million). This goodwill had been eliminated as a matter of accounting policy prior to the adoption of FRS 10, which requires goodwill acquired as the result of acquisitions to be capitalised on the balance sheet. This will be charged in the profit and loss account if and when the businesses to which it relates are disposed of.

Notes to the accounts

31 Financial commitments

	Group		Parent	
	2003 £m	2002 £m	2003 £m	2002 £m
Capital commitments contracted for but not provided for	159	100	151	81

Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Expiry date:				
In one year or less	8	1	11	2
In more than one year but not more than two years	8	1	10	—
In more than two years but not more than five years	19	—	30	—
In more than five years	18	—	28	—
	53	2	79	2

The operating leases mainly relate to Head Office facilities in the US.

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

	2003 £m	2002 £m
Operating loss	(1,023)	(2,448)
Depreciation/amortisation/impairment charges	774	1,112
Nuclear provisions charge	436	1,733
Nuclear provisions release	(524)	(408)
Non nuclear provisions charge	344	146
Non nuclear provisions release	(318)	(310)
Decrease/(increase) in debtors	198	(15)
Increase in creditors	71	56
Increase in stock and work in progress	(94)	(15)
Increase in advance payments	156	265
Grants released	(1)	(1)
Investment provisions	(4)	7
Net cash inflow from operating activities	15	122

33a Reconciliation of net cash flow to net movement in net debt

	2003 £m	2002 £m
Increase/(decrease) in cash in the year	109	(162)
Net funds acquired with subsidiaries	—	16
Unrealised losses in investments held by captive insurance subsidiaries	(74)	—
Amortisation, indexation and revaluation of other current asset investments	1	(5)
Exchange adjustments	1	—
Repayment of loans and finance leases/(new loans)	74	(96)
Net realisation/(purchase) of short-term investments	23	(168)
Movement in net funds in the period	134	(415)
Opening net funds	1,703	2,118
Closing net funds	1,837	1,703

33b Analysis of changes in net funds

	At 1 April 2002 £m	Cash flow £m	Non-cash movements £m	At 31 March 2003 £m
Cash at bank and in hand	50	21	1	72
Cash in short-term deposits	233	83	—	316
Overdrafts (note 18)	(8)	5	—	(3)
Loans due after one year (note 20)	—	—	(21)	(21)
Loans due within one year (note 20)	(135)	73	32	(30)
Finance leases	(4)	1	—	(3)
Current asset investments	1,567	23	(84)	1,506
	1,703	206	(72)	1,837

Non-cash movements consist primarily of £74 million of unrealised losses on investments held by the captive insurance subsidiaries (note 7). The remaining £2 million relates to amortisation, indexation and revaluation on the current asset investments held and exchange gains/losses.

34 Pensions and other post-retirement benefits

a Contributions

The majority of the employees of the Group are covered by four pension schemes which provide defined benefits to members. The Group's contributions to these pension schemes are as follows:

	2003 £m	2002 £m
The Combined Pension Scheme	—	—
BNFL Group Pension Scheme	6	3
Westinghouse Electric Company Pension Plan	19	17
Electricity Supply Pension Scheme	10	9
	35	29

b The Combined Pension Scheme

The Combined Pension Scheme (CPS) was set up as a statutory body with effect from 1 July 1997 as a result of merging the previous UKAEA Principal Non-Industrial Superannuation Scheme (PNISS) and the UKAEA Industrial Superannuation Scheme (ISS) and is managed by the UKAEA. It is a multi-employer scheme which provides defined benefits to its members. In common with other public sector schemes the CPS does not have many of the attributes of normal pension schemes. Any surplus of contributions made in excess of benefits paid out in any year is surrendered to the Consolidated Fund and any liabilities are met from the Consolidated Fund via the annual Parliamentary vote. Government does not maintain a separate fund and the scheme valuation is based on a theoretical calculation as to how a typical UK pension scheme would have invested the historical surplus of contributions over payments. There is no actual fund.

The most recent triennial actuarial valuation of the scheme took place as at 31 March 2000. The entry age method was used and the main long-term assumptions made were as follows:

Notional investment yield (net of pay increase)	2.0% per annum
Notional investment yield (net of price inflation)	3.5% per annum

As a result of the valuation, the market value of the notional investments was £2,436 million with a level of notional funding of 130%.

As a result of the notional surplus, the pension scheme managers have indicated that there will be a contribution holiday from 1 April 1998 to 31 March 2023 (the average remaining service life of current members). Thereafter the contribution rate will revert to a regular rate of 13.6%.

The nature of the scheme, supported as it is by the Government's Consolidated Fund and a theoretical portfolio of assets, has required the Group to consider carefully the most appropriate treatment to meet the requirements of FRS 17 and present a true and fair view. Having taken advice, the Group considers that FRS 17 requires the scheme to be accounted for as defined benefit in nature, despite some of its unique features.

Notes to the accounts

34 Pensions and other post-retirement benefits continued**c The BNFL Group Pension Scheme**

The BNFL Group Pension Scheme is a funded scheme. Contributions are paid into investment funds operated by the Clerical Medical Investment Group.

The first triennial valuation of the scheme took place as at 31 March 2001. The projected unit credit method was used and the main long-term assumptions made were as follows:

	Past service %	Future service %
Investment return	5.6	6.5
Salary increase	3.8	4.0
Pensions increase	2.3	2.5

The market value of the scheme's assets was £93 million with a 109% level of funding. The subsidiaries contribute to the scheme at rates recommended by the scheme's professionally qualified actuaries. These rates range from 7.5% to 9.0% depending on the subsidiary concerned.

d Westinghouse Electric Company Pension Plan

Westinghouse Electric Company employees are provided with certain pension and post-retirement benefits through funded schemes. The post-retirement benefits include medical, dental and life insurance benefits. As part of the acquisition of the Westinghouse Electric Company business, there is agreement to provide similar benefits, subject to the previous owner retaining pension liability related to accrued benefits in respect of employees and former employees for service prior to the date of completion of the acquisition. Westinghouse Electric Company is therefore only liable for benefits accruing to employees after 22 March 1999.

The most recent actuarial valuation of the scheme took place on 31 December 2002. The unit credit cost method was used and the main long-term assumptions made were as follows:

Discount rate	7.00% per annum
Expected long-term rate of return on assets	8.75% per annum
Salary increase rate	3.50% per annum

The market value of the scheme's assets at 31 December 2002, based on the actuarial valuation at that date, was £77 million with a 66% level of funding.

e The Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme (ESPS) is a funded scheme and Magnox Electric plc employees are covered by the Magnox Electric Group part of the scheme.

The most recent triennial actuarial valuation of the scheme took place on 31 March 2001. The projected unit method was used and the main long-term assumptions made were as follows:

Investment return	6.3% per annum (pre-retirement), 5.3% (post-retirement)
Salary increase	3.3% per annum
Pensions increase	2.5% per annum
Inflation adjustment	2.3% per annum

The market value of the scheme's assets at 31 March 2001, based on the actuarial valuation at that date, was £1,305 million with a 113.7% level of funding.

The surplus was to be used as follows:

- to improve members' benefits with effect from 1 April 2002;
- to reduce company contributions to zero between 1 April 2002 and 31 March 2003, followed by a reduced level of contribution from 1 April 2003;
- to meet the costs of any additional years of service for members of the scheme up to an agreed level;
- deficiency costs for early pension payments for redundancies paid up to an agreed level, and
- employees and members reserves to be carried forward for potential use after 31 March 2003 and a general reserve to be carried forward as a contingency.

In light of the fall in the value of assets held by the scheme since the last valuation, the company and trustees have reviewed, and will continue to review on an ongoing basis, the application of any remaining surplus. Full contributions have been reinstated, effective from 1 April 2003.

f FRS 17 valuations

i. The valuations for each of the schemes have been updated on a basis consistent with FRS 17. The major financial assumptions used are:

	CPS		BNFL Group Pension Scheme		Westinghouse Electric Company		ESPS	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Rate of increase in salaries	4.9	5.0	4.0	4.2	2.8	2.5	3.6	3.8
Rate of increase in pensions	3.4	1.1	2.5	2.7	1.2	1.0	2.7	2.9
Inflation assumption	3.4	3.5	2.5	2.7	2.6	2.7	2.6	2.8
Discount rate	7.0	3.5	5.4	6.0	6.6	6.9	5.4	6.0

ii. The fair value of the assets and liabilities for each of the schemes are as follows:

	CPS		BNFL Group Pension Scheme		Westinghouse Electric Company		ESPS	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Equities	1,342	1,827	56	77	54	74	660	860
Bonds	301	609	24	18	23	31	242	295
Property	—	—	—	—	—	—	91	94
Other	—	—	—	—	—	—	4	16
Total market value of assets	1,643	2,436	80	95	77	105	997	1,265
Present value of scheme liabilities	(1,554)	(1,882)	(120)	(96)	(166)	(126)	(1,249)	(1,180)
Net surplus/(deficit)	89	554	(40)	(1)	(89)	(21)	(252)	85
Deferred tax	—	—	—	—	—	—	—	(25)
Restriction on surplus/(deficit)	(89)	(554)	—	—	—	—	—	—
Net pension asset/(liability)	—	—	(40)	(1)	(89)	(21)	(252)	60

In the case of the CPS, the assets and any surplus or deficit are notional only. Due to the notional nature of the assets supporting the scheme and the fact that the Group has no rights to the surplus other than as allowed by the scheme managers, the Group does not consider that on full implementation of FRS 17 it would be prudent or appropriate to recognise any surplus on the balance sheet. The surplus of £89 million as disclosed above for the CPS has therefore been restricted in accordance with the requirements of FRS 17.

iii. The expected rates of return for each of the schemes are:

	CPS		BNFL Group Pension Scheme		Westinghouse Electric Company		ESPS	
	2003 %	2002 %	2003 %	2002 %	2003 %	2002 %	2003 %	2002 %
Equities	7.0	7.0	7.0	7.5	8.8	12.1	7.6	7.7
Bonds	4.5	2.5	4.5	5.0	7.3	7.1	4.8	5.7
Property	—	—	—	—	—	—	6.6	6.2
Other	—	—	4.5	5.0	—	2.3	3.8	3.7

Notes to the accounts

34 Pensions and other post-retirement benefits continued

iv. The movements in the surplus/(deficit) in the year are as follows:

	CPS £m	BNFL Group Pension Scheme £m	Westinghouse Electric Company £m	ESPS £m	Total excl CPS £m
Surplus/(deficit) in scheme at 1 April 2002	554	(1)	(21)	85	63
Adjustment to prior year*	174	—	(41)	—	(41)
Adjusted surplus/(deficit) in scheme at 1 April 2002	728	(1)	(62)	85	22
Current service cost	(56)	(5)	(19)	(16)	(40)
Contributions	16	4	12	2	18
Past service costs	—	(1)	(1)	(9)	(11)
Expected return on pension scheme assets	117	7	8	18	33
Interest on pension scheme liabilities	(77)	(6)	(7)	—	(13)
Actuarial gains/(losses):					
Actual return less expected return on pension scheme assets	(639)	(29)	(10)	(307)	(346)
Experience gains and losses arising on the scheme liabilities	—	—	—	47	47
Changes in assumptions underlying the present value of the scheme liabilities	—	(9)	(10)	(72)	(91)
Surplus/(deficit) in scheme at 31 March 2003	89	(40)	(89)	(252)	(381)

* Government Actuaries Department have reported an adjustment to last year's surplus in the Combined Pension Scheme. Last year's reported surplus was based on the latest information available at the time which was a valuation as at 31 March 2000. The adjustment above therefore reflects the valuation increase to 31 March 2002.

In addition to a funded scheme, the Westinghouse business operates two unfunded pension schemes. In calculating the deficit at 31 March 2002 relating to these schemes, certain related assets were included. Following a review it has been decided that the more appropriate treatment is to exclude these assets from the above disclosures reflecting the unfunded nature of the schemes.

g Impact on the Group's primary statements

If the assets and liabilities of the BNFL Group Scheme, the Magnox Electric Group part of the ESPS and the Westinghouse Electric Company Pension Plan had been recognised in the Group's financial statements, the Group would have additional net liabilities of £381 million (2002: £38 million reduction in net liabilities). The impact on the profit and loss account would have been:

	2003 £m
Analysis of the amount that would have been charged to operating profit	
Current service cost	40
Past service cost	11
Total operating charge	51
Analysis of amount that would have been credited to other finance income	
Expected return on pension scheme assets	33
Interest on pension scheme liabilities	(13)
Net return	20

The impact on the statement of total recognised gains and losses (STRGL) would have been:

	2003 £m
Analysis of amount that would have been recognised in STRGL	
Actual return less expected return on pension scheme assets	(346)
Experience gains and losses arising on the scheme liabilities	47
Changes in assumptions underlying the present value of the scheme liabilities	(91)
Actuarial loss that would have been recognised in STRGL	(390)

h History of experience gains and losses

	2003
Actual return less expected return on pension scheme assets (£ million)	(346)
Percentage of scheme assets	(12)%
Experience gains and losses arising on the scheme liabilities (£ million)	47
Percentage of the present value of scheme liabilities	2%
Total amount recognised in STRGL (£ million)	(390)
Percentage of the present value of scheme liabilities	(13)%

35 Contingent liabilities

a At 31 March 2003, the Parent company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the directors, no material losses are expected to arise:

- i. Guarantees, indemnities and charges have been given to banks, insurance companies and other organisations in respect of credit and foreign exchange facilities of £517 million in respect of overseas subsidiaries.
- ii. Letters of support have been provided to certain subsidiaries, in particular Magnox Electric plc, in order for them to continue operating safely and to meet their liabilities as they fall due for the foreseeable future. The net liabilities of Magnox Electric plc, as disclosed in its accounts, amount to approximately £3.5 billion.
- iii. The Group and its subsidiaries have entered into various guarantees in respect of contract performance, working capital facilities, technical services and plant maintenance, in the ordinary course of business.
- iv. £81 million funds are held within charge over deposit accounts (CODAs). These represent funds provided by customers which are held in accounts controlled and owned by the Group, but over which the customer has a legal charge until the associated work has been completed.
- v. Bank pooling guarantees in respect of the Parent company and certain UK subsidiaries.

b In addition on 21 March 1994, four residents of Dundalk, Ireland commenced proceedings in the High Court of Dublin against Ireland and the Attorney General and BNFL. The UK Secretary of State for the Environment was also served with the proceedings as a Notice Party. The first part of the plaintiffs' claim relates to regulatory matters, specifically to allegations that EEC Directives have not been fully complied with by BNFL. The second part is a tort claim in which damages are sought for alleged assault, nuisance, trespass, wrongful acts and unlawful interference with the plaintiffs' constitutional right of bodily integrity, which it is claimed have arisen as a result of discharges from Sellafield. BNFL is committed to vigorously defend the action. As the proceedings are still at an early stage it remains difficult to estimate the financial effects of the conducting of the case or its outcome.

c As described in note 24, fundamental uncertainties remain regarding the measurement of nuclear liabilities and the timing of the cash flow. 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.

36 Derivatives and other financial instruments

As explained on page 39 note 1(o) the Group uses derivatives and other financial instruments in managing the risk associated with its business. With the exception of commodity contracts in respect of electricity trading (dealt with in note 36d below), the Group does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board. The following numerical analysis gives an indication of the significance of these instruments to the Group.

a Fair value of derivatives and other financial instruments

Set out below is a comparison of the book values and fair values of the Group's derivatives and other financial instruments (excluding short-term debtors and creditors). Fair values have been based on published market prices (for listed instruments) or estimates made from discounted cash flow analysis (for unlisted instruments). The fair value of the net financial assets and derivatives is £258 million (2002: £173 million) in excess of book value. Certain other assets and liabilities held by the Group, most notably the Secretary of State's Undertaking, have not been assigned a fair value as the instruments are not readily traded or because their book value approximates to their fair value.

	Book values		Fair values	
	2003 £m	2002 £m	2003 £m	2002 £m
Financial assets:				
Nuclear Liabilities Investment Portfolio (note 12f)	3,843	4,023	4,078	4,171
Gilt investments (note 17)	235	230	258	249
Managed investments (note 17)	548	587	548	587
Short-term deposits (note 17)	1,039	983	1,039	983
Loans and advances to associated undertakings and joint ventures (notes 12 and 14)	10	48	10	48
Debtors falling due after more than one year	241	278	241	278
Trade investments (note 12e)	3	20	3	20
Cash	72	50	72	50
	5,991	6,219	6,249	6,386
Financial liabilities:				
Overdraft (note 18)	(3)	(8)	(3)	(8)
Loans (note 20)	(51)	(135)	(51)	(135)
Obligations under finance leases (notes 18 and 19)	(3)	(4)	(3)	(4)
Other creditors (note 19)	(17)	(4)	(17)	(4)
Derivatives:				
Forward foreign currency contracts (see 36b(ii) below)	—	—	—	6
	(74)	(151)	(74)	(145)
Net financial assets and derivatives	5,917	6,068	6,175	6,241

Notes to the accounts

36 Derivatives and other financial instruments continued

b i. Currency exposures

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

Functional currency of operation	Net foreign currency monetary assets/(liabilities)			
	US Dollar £m	Euro £m	Other £m	Total £m
Sterling	37	(4)	21	54
US Dollar	—	—	14	14
At 31 March 2003	37	(4)	35	68
Sterling	38	(7)	16	47
US Dollar	—	—	2	2
At 31 March 2002	38	(7)	18	49

ii. Hedges

Board policy is that all significant firm foreign exchange transaction exposures should be hedged. This is done by forward contracts or, where appropriate, by matching of receipts and payments in the same currency, or a combination of the two. Where their guidelines permit, the investment managers of the captive insurance companies may invest in non-sterling instruments; this is controlled by limiting the amount of such investments which may be left unhedged to a percentage of the total portfolio. At 31 March 2003, the captives held no significant unhedged exposures.

The Group had gains of £16 million and losses of £16 million on foreign currency hedges as at 31 March 2003 (2002: gains of £21 million and losses of £27 million). £11 million of the unrecognised gains and £11 million of the unrecognised losses as at 31 March 2003 are expected to be recognised within one year. Of the £21 million gains unrecognised as at 31 March 2002, £8 million were recognised during the financial year ending 31 March 2003; of the £27 million losses unrecognised as at 31 March 2002, £16 million were recognised during the current financial year.

c Interest rate risk

The tables below summarise the interest rate profile of the Group's financial instruments (excluding short-term debtors and creditors) after taking into account the effect of any interest rate or currency derivatives used to manage the risk associated with these instruments. Financial assets and liabilities are as analysed in note 36a.

i. Financial assets

	Floating rate £m	Fixed rate £m	Non interest bearing £m	Total £m	Fixed rate instruments	
					Weighted average interest rate %	Weighted average period to maturity Years
Currency:						
Sterling	4,491	886	503	5,880	4.5	2.7
US Dollar	101	—	—	101	—	—
Other	10	—	—	10	—	—
Total assets at 31 March 2003	4,602	886	503	5,991	4.5	2.7
Sterling	4,368	957	703	6,028	5.2	3.0
US Dollar	147	17	25	189	7.0	1.5
Other	1	—	1	2	—	—
Total assets at 31 March 2002	4,516	974	729	6,219	5.2	2.9

Financial assets bearing no interest can be analysed as follows:

	2003 £m	2002 £m
Nuclear Liabilities Investment Portfolio	21	21
Investments and short-term deposits	228	390
Debtors falling due after more than one year	241	260
Advances to associated undertakings and joint ventures	10	47
Trade investments and cash	3	11
	503	729

Debtors due in more than one year have a weighted average period to maturity of 1.5 years (2002: 2.5 years).

ii. Financial liabilities

	Floating rate £m	Fixed rate £m	Non interest bearing £m	Total £m	Fixed rate instruments	
					Weighted average interest rate %	Weighted average period to maturity Years
Currency:						
Sterling	4	—	16	20	—	—
US Dollar	52	2	—	54	7.7	3.0
Other	—	—	—	—	—	—
Total liabilities at 31 March 2003	56	2	16	74	7.7	3.0
Sterling	7	1	4	12	8.0	2.6
US Dollar	105	33	—	138	6.1	1.1
Other	1	—	—	1	—	—
Total liabilities at 31 March 2002	113	34	4	151	6.2	1.2

Included within financial liabilities bearing no interest are other creditors due after one year of £16 million (2002: £4 million), which have a weighted average period to maturity of 7.1 years (2002: 2.2 years).

Floating rate assets and liabilities, which include bank loans and deposits, borrowings and index-linked bonds, have interest rates which vary in accordance with market rates over periods ranging from three days to a year. Coupons on the index-linked gilts are reset every six months in line with inflation. The interest rate characteristics of the Secretary of State's Undertaking are explained in note 16.

d Commodity contracts

Under the electricity trading arrangements effective from 27 March 2001, a small number of low value contracts are entered into, in order to take trading positions in the market. The Group estimates the fair value of these instruments at 31 March 2003 to be Enil (2002: Enil). The estimate is based on a comparison between the contracted price (specified at the date of the deal) and the price for a similar contract at the year end (based on available market data). All of these instruments will expire in the course of the next financial year.

37 Related party transactions and controlling party

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

	Undertakings under common control £m	Joint ventures £m	Associated undertakings £m
2003			
Turnover	223	3	6
Purchases	5	12	4
Trading amounts due from related parties at 31 March	71	—	—
2002			
Turnover	105	8	2
Purchases	17	22	28
Trading amounts due from related parties at 31 March	46	—	1

The ultimate controlling party of the company is considered by the directors to be Her Majesty's Government. Undertakings under common control of the Government are the Ministry of Defence and the UK Atomic Energy Authority. For further details regarding equity and loan transactions with associated undertakings and joint ventures refer to note 12.

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 the NDA 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 reusable 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 make 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, how waste can be retrieved from the original storage facilities and then treated for long-term storage/disposal, or 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 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 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 24 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 highlighted significant uncertainty as to the quantities and composition of these wastes. The Board used the best available knowledge to estimate the related liabilities but, pending several more years' work, it is not 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.

Another key area of uncertainty relates to the Group's reactor decommissioning liabilities. An exercise commenced last year to review these on a station by station basis focusing initially on the care and maintenance preparations phase of decommissioning. Revised baseline decommissioning plans for two stations have so far been completed and approved by the Board. As disclosed in note 3 to the accounts, these have shown significant increases in costs. There is an ongoing programme to complete revised plans for the remaining stations over the next three years. Due to the nature of the decommissioning work required and the different designs of station in use, the Board considers that completion of these detailed plans is necessary before the impact on the Group's decommissioning liabilities can be ascertained with the degree of certainty required for financial reporting purposes. Accordingly the impact will be recorded in the accounts as each station decommissioning plan is updated and approved.

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 safety, hazard reduction and cost reasons, decommissioning plans aim to achieve the best balance between deferring dismantling tasks to allow radioactivity to reduce, whilst 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 accounting provisions required today for future decommissioning and waste management costs. Changes in the assumed timescale could increase or 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, 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 reduced or 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 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, we continue to make provision for maintaining safe and secure storage facilities for at least 100 years by which time it is assumed that a repository will be available and disposal will be under way.

Background to nuclear liabilities

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 these 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 these 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.

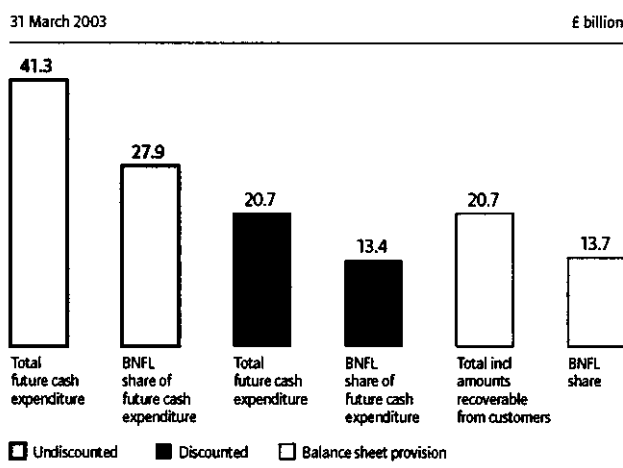
Discounting

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. This is known as revalorisation. 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 in the chart below.

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 reflected in 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.



Principal subsidiary and associated undertakings and joint ventures

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

Subsidiary undertakings

Magnox Electric plc

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

Westinghouse Electric Company LLC

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

BNFL Inc.

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

BNFL (UK) Limited

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

International Nuclear Fuels Limited (INFL)

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

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

BNFL Uranium Asset Management Company Limited

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

Direct Rail Services Limited

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

Deva Manufacturing Services Limited

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

Fellside Heat and Power Limited

It is wholly owned by BNFL and its purpose is to produce electricity through combined heat and power.

Hinton Insurance Limited

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

Rutherford Indemnity Limited

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

Electricity Producers Insurance Company Limited

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

Electricity Producers Insurance Company (Bermuda) Limited
Incorporated in Bermuda. It is wholly owned by BNFL and its purpose is to act as an insurer.

BNFL Investments US Limited

It is wholly owned by BNFL and its purpose is as a holding company for BNFL's interests in the US.

BNFL Properties Limited

It is wholly owned by BNFL and its purpose is to purchase and lease UK commercial property.

Associated undertakings

Urenco Limited

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

Joint ventures

Westinghouse Government Environmental Services Company LLC

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

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

Westinghouse Government Services Company LLC

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

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

United Kingdom Nirex Limited

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

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

AWE Management Limited

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

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

Financial statistics

	2003	2002	2001	2000	1999 Restated	1998 Restated
	£m	£m	£m	£m	£m	£m
Results						
Group turnover	2,219	2,261	2,146	2,064	1,565	1,341
Loss before investment income, interest and taxation	(954)	(2,378)	(103)	(359)	125	32
Net financing (charges)/income	(134)	50	37	22	93	128
(Loss)/profit on ordinary activities before taxation	(1,088)	(2,328)	(66)	(337)	218	160
(Loss)/profit for the financial year	(865)	(2,090)	(46)	(262)	132	91
(Loss transferred to reserves)/retained profit for the financial year	(865)	(2,090)	(46)	(262)	67	38
Assets employed						
Fixed assets	12,233	12,662	12,168	11,407	10,713	7,438
Net current assets	11,112	11,088	10,629	10,687	10,065	12,004
Creditors: amounts falling due after more than one year	(4,000)	(4,430)	(4,575)	(4,244)	(3,947)	(3,615)
Provisions for liabilities and charges	(22,035)	(21,163)	(17,969)	(17,538)	(16,253)	(15,306)
Net (liabilities)/assets	(2,690)	(1,843)	253	312	578	521
Financed by						
Share capital	33	33	33	33	33	33
Profit and loss account	(2,727)	(1,880)	218	277	543	486
Shareholders' funds	(2,694)	(1,847)	251	310	576	519
Minority interests	4	4	2	2	2	2
	(2,690)	(1,843)	253	312	578	521

Note:

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

Glossary

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

AMWTP Advanced Mixed Waste Treatment Project.

AP1000 New generation of Advanced Pressurised Water Reactors (PWR) designed by Westinghouse.

AWE Atomic Weapons Establishment.

BWR Boiling Water Reactor.

CO₂ Carbon dioxide, the main greenhouse gas emitted into the atmosphere.

COMARE Committee on Medical Aspects of Radiation in the Environment.

DRS Direct Rail Services (a BNFL subsidiary company).

ETTP East Tennessee Technology Park.

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

IERS International Environmental Rating System.

IRIS International Reactor Innovative Secure project.

LMU Liabilities Management Unit.

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

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

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

NDA Nuclear Decommissioning Authority.

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

NLIP Nuclear Liabilities Investment Portfolio.

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

OXERA Oxford Economic Research Associates.

Oxide fuel Fuel used in Pressurised Water Reactors.

PBMR Pebble Bed Modular Reactor. A new type of reactor currently being developed by a group of companies led by the South African utility company Eskom and involving BNFL.

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

Remediation To return a site to an appropriate environmental standard.

RoSPA Royal Society for the Prevention of Accidents.

SMP Sellafield MOX Plant – plant designed to make MOX fuel.

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

TRIR Total Recordable Incidence Rate.

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

UKAEA United Kingdom Atomic Energy Authority.

URA University Research Alliance.

an invitation

We care about what you think.

Please write with your views and comments to info@bnfl.com