

**Sellafield Limited**

**(formerly British Nuclear Group Sellafield Limited)**

**Directors' report and financial statements**

**Registered number 1002607**

**31 March 2007**

**TUESDAY**



**A08      "A3Q8HSAU"      450**  
**21/08/2007**  
**COMPANIES HOUSE**

**DIRECTORS**

M D Parker (Chairman)  
B Snelson (Managing Director)  
J F Edwards  
A J Shuttleworth  
D J Mason  
J M Seddon  
P R Lutwyche  
A H Price

**SECRETARY**

A J Shuttleworth

**AUDITORS**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

**BANKERS**

National Westminster Bank plc  
P O Box 305  
Spring Gardens  
Manchester  
M60 2DB

**REGISTERED OFFICE**

1100 Daresbury Park  
Daresbury  
Warrington  
Cheshire  
WA4 4GB

## Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2007

### Results and dividends

Loss before interest and taxation was £10 million (2006 profit £183 million) In 2007 the Company earned fees totalling £56 million under the Management & Operations (M&O) contracts with the Nuclear Decommissioning Authority (NDA) (2006 £44 million) This represented 89% of the available fee pool as a result of the Company's performance against the NDA's performance-based indicators (PBI's) (2006 86%)

Under the Energy Act 2004 specified assets and liabilities of the Company were transferred to the NDA and other British Nuclear Fuels plc group companies during 2006 These transfers resulted in an exceptional profit on disposal in 2006 of £197 million

The loss for the year, after taxation, amounted to £17 million (2006 £129 million)

No dividend is proposed (2006 £nil)

### Principal activities and review of the business

Prior to 31 March 2005, the principal activity of the Company was to provide nuclear clean-up, decommissioning and environmental services together with nuclear facility management and operations to the government.

From 1 April 2005, the Energy Act 2004 created the NDA to secure the operation, decommissioning and clean up of designated nuclear sites The principal role of the Company is to operate nuclear sites under site licence and operation contracts with the NDA This includes nuclear facility management and operations, and managing the customer interface between the company and utilities, both in the UK and overseas, that send used fuel to Sellafield for recycling The Company also provides sea transport services, primarily to bring spent fuel to the reprocessing plants and to return mixed oxide fuel ('MOX') fuel to customers

All costs incurred by the Company in the performance of the M&O contracts are reimbursed by the NDA, provided that they are not in excess of the Annual Site Funding Limit or otherwise specifically disallowable under the contract The Company puts in place advance agreements with the NDA to obtain pre-approval of certain items of expenditure, to ensure that the expenditure is allowable under the terms of the M&O contracts

### Future Developments

In October 2006 the Secretary of State for Trade and Industry approved a joint proposal regarding the future strategy for British Nuclear Fuels plc (BNFL) which was presented separately to the BNFL and NDA Boards respectively Both the BNFL and NDA Boards agreed that the priority at Sellafield was to support the creation of a competitive nuclear clean-up market in the UK and in particular to prepare the site for competition as safely and quickly as possible During the year, the NDA has started a full competition process for the Sellafield M&O contract It is anticipated that the new contract will be awarded in mid-2008, with the successful bidder taking over the Sellafield M&O contract in early 2009 The BNFL Board has decided that British Nuclear Group Limited will not bid for the new Sellafield contract As a result, once the Sellafield contract is competed, the ownership of the Company will be transferred to the successful entity

The new Sellafield M&O contract will cover the Sellafield, Calder Hall, Windscale and Capenhurst sites respectively As a result, with effect from 1 April 2008, the working capital of the Windscale nuclear site will be transferred to the company from the United Kingdom Atomic Energy Authority

During the year, the NDA has also started a full competition process for the Low Level Waste Repository (LLWR) M&O contract It is anticipated that an announcement on the contract award will be made in October 2007, with the successful bidder taking over the contract in early 2008 A new company has been created to operate the LLWR M&O contract, LLW Repository Limited (LLWR Limited)

LLWR Limited has not yet traded It is anticipated that during mid-2007 certain assets, rights and liabilities, and in particular, working capital relating to LLWR will be transferred from the Company to LLWR Limited through a nuclear transfer scheme under the Energy Act 2004 LLWR Limited is a subsidiary of British Nuclear Group Limited Once the competition process for the LLWR M&O contract is complete, the ownership of LLWR Limited will be transferred to the successful bidder

## **Directors' report (*continued*)**

### **Research and development**

All research and development costs relate to the Site Licence Company and are directly recoverable from the NDA, as explained in accounting policy note 11

### **Policy and practice on payment of creditors**

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. Copies of the Code are available from CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. Over the year 90% (2006 76%) of invoices submitted against the standard payment terms of 30 days net monthly were paid on time.

### **Directors and directors' interests**

The directors who held office during the year were as follows

Mr B Snelson

Mr JM Seddon

Mr DJ Mason

Mr M D Parker (appointed 15 February 2007)

Mr J F Edwards (appointed 15 February 2007)

Mr AJ Shuttleworth (appointed 15 February 2007)

Mr AH Price (appointed 15 February 2007)

Mr PR Lutwyche (appointed 15 February 2007)

Mr LJ Haynes (resigned 31 March 2007)

Mr BT Tenner (resigned 19 December 2006)

Mr DR Bonser (resigned 1 July 2006)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

## **Directors' report (*continued*)**

### **Directors' and officers' liability insurance**

The Company maintains directors' and officers' liability insurance covering the defence costs of civil legal proceedings and the damages resulting from the unsuccessful defence of such proceedings except, in each case, to the extent that a Director or Officer acted fraudulently or dishonestly

### **Employees**

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.

Employee involvement in the performance of the Company is encouraged through various bonus and remuneration schemes.

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 an employee becomes disabled, every effort is made to ensure their continued employment.

### **Political and charitable contributions**

The Company made no political contributions during the year (2006: £nil). Donations to UK charities amounted to £2.6 million (2006: £2.9 million), which includes £1.7 million (2006: £2.0 million) to support West Cumbrian economic regeneration initiatives. The payments have been made under contract from the NDA.

### **Principal risks and uncertainties**

As discussed in notes 1n and 21, the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. The Company 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 BNFL Board.

Under the industry model, the Company does not have major working capital requirements because the vast majority of expenditure at the UK sites where the Company is the M&O contractor is funded by the NDA under defined contract terms. The Company's financial performance is driven by the performance against the NDA's performance-based indicators (PBI's), which form the basis of fees earned under the M&O contracts.

In the unlikely event that the NDA was no longer able to provide the funding for the Company to continue its waste management and decommissioning activities in compliance with the site licence conditions, the NDA would be required to purchase the Company for a nominal sum, thus reinforcing the NDA's responsibility for the underlying liabilities.

### **Events since the balance sheet date**

On 29 June 2007, the company changed its name to Sellafield Limited.

### **Disclosure of information to auditors**

In accordance with Section 234A of the Companies Act 1985, each of the above directors (excluding those who have resigned during the financial year)

- is not aware of any relevant audit information of which the Company's auditors are unaware, and
- has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## **Directors' report** *(continued)*

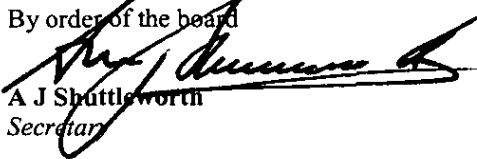
### **Elective resolutions**

The Company has elected to dispense with the holding of Annual General Meetings pursuant to Section 366A of the Companies Act 1985

The Company has elected to dispense with the annual appointment of Auditors pursuant to Section 386 of the Companies Act 1985

The Company has elected to dispense with the laying of accounts and reports in its general meeting pursuant to Section 252 of the Companies Act 1985

By order of the board

  
A J Shuttleworth  
Secretary

1100 Daresbury Park  
Warrington  
WA4 4GB

16 JUL 2007

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SELLAFIELD LIMITED

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the Statement of Total Recognised Gains and Losses and the related notes 1 to 21. These financial statements have been prepared under 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
London

*16 July 2007*

**Profit and loss account**  
**for the 12 months ended 31 March 2007**

|                                                                        | Note | 2007        | 2006<br>Continuing<br>operations | 2006<br>Discontinued<br>operations | 2006<br>Total |
|------------------------------------------------------------------------|------|-------------|----------------------------------|------------------------------------|---------------|
|                                                                        |      | £M          | £M                               | £M                                 | £M            |
| Gross revenue including Site Licence Company costs under management    |      | 1,192       | 1,105                            | -                                  | 1,105         |
| Less Site Licence Company costs under management                       |      | (1,136)     | (1,061)                          | -                                  | (1,061)       |
| <b>Gross turnover</b>                                                  |      | <b>56</b>   | <b>44</b>                        | <b>-</b>                           | <b>44</b>     |
| Operating costs and expenses (excluding exceptional items)             | 2    | (42)        | (44)                             | (14)                               | (58)          |
| Exceptional costs included within operating costs and expenses         | 2    | (24)        | -                                | -                                  | -             |
| Operating costs and expenses                                           | 2    | (66)        | (44)                             | (14)                               | (58)          |
| <b>Operating loss</b>                                                  |      | <b>(10)</b> | <b>-</b>                         | <b>(14)</b>                        | <b>(14)</b>   |
| <b>Exceptional items</b>                                               |      |             |                                  |                                    |               |
| Profit on disposal                                                     | 5    | -           | -                                | 197                                | 197           |
| <b>(Loss) / profit before investment income, interest and taxation</b> |      | <b>(10)</b> | <b>-</b>                         | <b>183</b>                         | <b>183</b>    |
| Investment income and interest receivable                              | 6    | -           | -                                | 168                                | 168           |
| Interest payable and similar charges                                   | 7    | -           | -                                | (442)                              | (442)         |
| <b>Loss on ordinary activities before taxation</b>                     |      | <b>(10)</b> | <b>-</b>                         | <b>(91)</b>                        | <b>(91)</b>   |
| Tax on loss on ordinary activities                                     | 8    | (7)         | -                                | (38)                               | (38)          |
| <b>Loss for the financial year</b>                                     |      | <b>(17)</b> | <b>-</b>                         | <b>(129)</b>                       | <b>(129)</b>  |
| <b>Loss transferred to reserves</b>                                    | 15   | <b>(17)</b> | <b>-</b>                         | <b>(129)</b>                       | <b>(129)</b>  |

In 2006, the operations that transferred as part of the restructuring under the Energy Act 2004 are disclosed as discontinued operations (see note 5). In 2006 the results of the discontinued operations include movements on provisions that remained with the Company during the period of the European Commission's State Aid review of the restructuring.

Continuing operations in 2007 and 2006 include the fees earned from the NDA on the work undertaken by the Site Licence Company.

All of the Company's operations in 2007 are continuing.

**Statement of total recognised gains and losses**

|                                                                                           | 2007     | 2006         |
|-------------------------------------------------------------------------------------------|----------|--------------|
|                                                                                           | £M       | £M           |
| Loss for the financial year                                                               | (17)     | (129)        |
| Total gains and losses recognised in the financial year                                   | (17)     | (129)        |
| Capital contribution to facilitate sectionalisation of BNFL Group Pension Scheme (note 2) | 24       | -            |
| Tax charge in respect of the capital contribution                                         | (7)      | -            |
| <b>Total gains and losses recognised since the last Annual Report and Accounts</b>        | <b>-</b> | <b>(129)</b> |

## Balance sheet

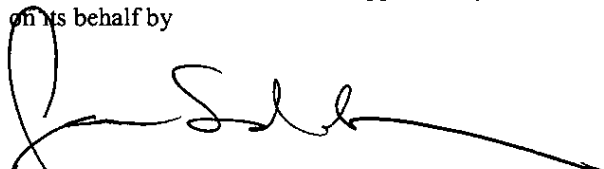
At 31 March 2007

|                                                                                         | Note | £M    | 2007<br>£M | £M    | 2006<br>£M |
|-----------------------------------------------------------------------------------------|------|-------|------------|-------|------------|
| <b>Fixed assets</b>                                                                     |      |       |            |       |            |
| Investments                                                                             | 9    |       | -          |       | -          |
| <b>Current assets</b>                                                                   |      |       |            |       |            |
| Debtors Amounts falling due within one year                                             | 10   | 254   |            | 239   |            |
| Creditors Amounts falling due within one year                                           | 11   | (230) |            | (239) |            |
| <b>Net current assets</b>                                                               |      |       | 24         |       | -          |
| <b>Total assets less current liabilities and net assets excluding pension liability</b> |      |       | 24         |       | -          |
| <b>Pension liability</b>                                                                | 18   |       | (24)       |       | -          |
| <b>Net assets</b>                                                                       |      |       | -          |       | -          |
| <b>Capital and reserves</b>                                                             |      |       |            |       |            |
| Called up share capital                                                                 | 13   |       | 33         |       | 33         |
| Profit and loss account                                                                 | 14   |       | (33)       |       | (33)       |
| <b>Shareholders' funds</b>                                                              | 15   |       | -          |       | -          |

These financial statements were approved by the board of directors on  
 on its behalf by

16 JUL 2007

and were signed



Jon Seddon  
 Director

## Notes

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

#### *a Accounting convention*

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, and under the historical cost accounting rules

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of British Nuclear Group Ltd, the Company's voting rights are controlled within the group headed by British Nuclear Fuels plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of British Nuclear Fuels plc, within which this Company is included, can be obtained from the address given in note 20.

#### *b Fixed assets and depreciation*

The Company does not own any fixed assets. Under the Energy Act 2004, all assets previously owned by the Company were transferred on 1 April 2005, with the majority being transferred to the NDA. The Company utilises the NDA's assets as provided for within the Management and Operations (M&O) contracts between the NDA and the Company.

#### *c Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction (or, if hedged forward, at the rate of exchange under the related forward currency contract). Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *d Turnover*

Turnover, which is stated net of value added tax, represents the net fees earned on the M&O contracts between the Company and the NDA.

#### *e Long term contracts*

Obligations under long term contracts were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004, together with any associated contract loss provisions.

#### *f Government grants*

Capital based government grants were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004.

#### *g Leases*

Assets acquired under finance leases were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 together with the obligations under finance leases.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease, and are recoverable from the NDA under the terms of the M&O contracts.

## **Notes (continued)**

### **1 Accounting policies**

#### ***h Post-retirement benefits***

The Company provides pension schemes for the benefit of all of its employees. The schemes are funded by contributions partly from the employees and partly from the Company. These payments are made to separately administered funds for the BNFL Group and the Electricity Supply pension schemes. The Combined Pension Scheme is accounted for as a defined contribution scheme, contributions are paid to and benefits are paid by Her Majesty's Government via the Consolidated Fund.

The contributions to each of these schemes are based on independent actuarial valuations designed to secure the benefits as set out in the rules.

For those schemes with separately administered funds the assets are measured using market values whilst the liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

During the year the Company has accounted for all pension schemes on a defined contribution basis. On 31 March 2007, the BNFL Group Pension Scheme was sectionalised. The pension deficit identified in respect of the Company has been recognised on the balance sheet at 31 March 2007 and will be accounted for on a defined benefit basis from this date.

The Company is unable to identify its share of the underlying assets and liabilities of the Electricity Supply Pension Scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period and are directly recoverable from the NDA under the terms of the M&O contracts.

#### ***i Research and development expenditure***

The research and development costs in both 2007 and 2006 are directly recoverable from the NDA.

#### ***j Stocks***

Stocks and work in progress were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004. Raw material and consumable costs in 2007 and 2006 are directly recoverable from the NDA under the terms of the M&O contracts for the various sites operated by the Company.

#### ***k Nuclear liabilities***

The Company's accounts historically included provisions for the Company'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 reactors. Following the restructuring under the Energy Act 2004, the nuclear assets and liabilities on the Company's sites transferred to the NDA which now has full financial responsibility for discharging the nuclear liabilities on these sites.

Nuclear provisions were 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 included a revalorisation charge which reflected the need to remove one year's discount from provisions made in prior years and the restatement of these provisions to current price levels.

## Notes (continued)

### 1 Accounting Policies (continued)

#### 1 Fixed asset investments

Fixed assets investments comprise investments in and loans to subsidiaries, associated undertakings and joint ventures. The carrying values of investments are reviewed for impairment if events or changes in circumstance indicate that a provision for impairment is required.

The Nuclear Liabilities Investment Portfolio was maintained as a long-term fund which was earmarked to meet long-term nuclear liabilities as they fell due. Given the nature and purpose of this fund, it was classified in fixed asset investments. The fund comprised a portfolio of Government gilt-edged securities (gilts) and other investments and a managed portfolio of gilts and other investments. Following the European Commission's approval of State Aid the Company has transferred the Nuclear Liabilities Investments Portfolio funds to Her Majesty's Government.

#### m Taxation

The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by 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 difference 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 the replacement assets.
- Provision is made for the taxation 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.

#### n Derivatives and commodity contracts

The Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. These are accounted for as hedges, with gains and losses being recognised when the hedged transaction takes place.

### 2 Net operating costs and expenses

During the years ended 31 March 2007 and 2006 the Company managed sites funded by the NDA as a Site Licence Company.

|                                                                                                           | 2007      | Continuing | Discontinued | Total     |
|-----------------------------------------------------------------------------------------------------------|-----------|------------|--------------|-----------|
|                                                                                                           | £M        | 2006       | 2006         | 2006      |
|                                                                                                           |           | £M         | £M           | £M        |
| <b>Other operating costs</b>                                                                              |           |            |              |           |
| Management fee paid to British Nuclear Group Limited                                                      | 56        | 44         | -            | 44        |
| Nuclear provisions charge                                                                                 | -         | -          | 14           | 14        |
| Bonus paid to employees                                                                                   | 9         | -          | -            | -         |
| <b>Other operating income</b>                                                                             |           |            |              |           |
| Reimbursement from British Nuclear Group Limited for bonus paid to employees                              | (9)       | -          | -            | -         |
| Reimbursement of taxation charge from British Nuclear Group Limited                                       | (14)      | -          | -            | -         |
| <b>Operating costs and expenses (excluding exceptional items)</b>                                         | <b>42</b> | <b>44</b>  | <b>14</b>    | <b>58</b> |
| <b>Exceptional items</b> Pension deficit transferred on sectionalisation of the BNFL Group Pension Scheme | <b>24</b> | -          | -            | -         |
|                                                                                                           | <b>66</b> | <b>44</b>  | <b>14</b>    | <b>58</b> |

## Notes (continued)

### 2 Net operating costs and expenses (continued)

#### Auditors' remuneration

|                                                                       | 2007<br>£000 | 2006<br>£000 |
|-----------------------------------------------------------------------|--------------|--------------|
| Audit                                                                 | 191          | 261          |
| Other services - fees receivable by the auditors and their associates | 38           | 20           |
|                                                                       | <u>229</u>   | <u>281</u>   |

Under the M&O contracts, the above audit fees have been reimbursed by the NDA

#### Exceptional item: Pension deficit

On 31 March 2007, the BNFL Group Pension Scheme was sectionalised and the FRS 17 assets and liabilities have been split between the various sections

A pension deficit of £23,670,000 has been identified in respect of Sellafield Limited and in accordance with FRS 17 this has been recognised as a pension liability on the balance sheet. This is included within operating costs and expenses in the profit and loss account.

It is anticipated that from 1 April 2008, the NDA will become the principal employer to the BNFL Group Pension Scheme. British Nuclear Fuels plc is committed to fully funding the pension scheme to FRS 17 levels at this date. As a result, a capital contribution equal to the pension deficit at 31 March 2007 has been made by British Nuclear Fuels plc amounting to £23,670,000 which has been recognised within debtors.

#### Geographic Segment Analysis

In both 2007 and 2006, all turnover relates to the operation of M&O contracts in the UK.

## Notes (continued)

### 3 Remuneration of directors

|                                  | 2007<br>£000 | 2006<br>£000 |
|----------------------------------|--------------|--------------|
| Directors' emoluments            | 615          | 407          |
| Amounts receivable under bonuses | 581          | 215          |
| Pension contributions            | 64           | 15           |
|                                  | <u>1,260</u> | <u>637</u>   |

Under the M&O contracts the above directors' costs are reimbursed by the NDA, and are not included within operating costs and expenses in note 2. LJ Haynes and BT Tenner were employees of the parent company, British Nuclear Group Limited, and their remuneration is disclosed in the financial statements of that company. MD Parker, JF Edwards, AJ Shuttleworth and DR Bonser are employees of British Nuclear Fuels plc, and their remuneration is met by, and disclosed in the financial statements of that company. The above details include no remuneration in respect of Messrs Parker, Edwards, Shuttleworth, Haynes, Tenner and Bonser.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £581,000 (2006 £303,000) and the Company made pension contributions of £30,000 (2006 £nil).

|                                                                             | Number of directors |          |
|-----------------------------------------------------------------------------|---------------------|----------|
|                                                                             | 2007                | 2006     |
| Retirement benefits are accruing to the following number of directors under |                     |          |
| Defined benefit schemes                                                     | <u>5</u>            | <u>3</u> |

### Pensions

In both 2007 and 2006 the highest paid director is an active member 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. Employer contributions of £30,000 have been made to this scheme during the year (2006 £nil). Details of the pension benefits for the highest paid director are as follows:

|                          | 2007<br>£ | 2006<br>£ |
|--------------------------|-----------|-----------|
| Accrued pension benefits | 64,744    | 57,544    |
| Accumulated lump sum     | 194,232   | 172,633   |
| Transfer value           | 1,148,047 | 1,006,545 |

The transfer value represents a potential liability of the pension scheme and is not a sum paid or payable to the highest paid director.

## Notes (continued)

### 4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows

|                             | Number of employees |       |
|-----------------------------|---------------------|-------|
|                             | 2007                | 2006  |
| Average number of employees | 8,803               | 8,584 |

The aggregate payroll costs of these persons were as follows

|                       | 2007<br>£M | 2006<br>£M |
|-----------------------|------------|------------|
| Wages and salaries    | 344        | 328        |
| Social security costs | 30         | 26         |
| Other pension costs   | 53         | 11         |
|                       | 427        | 365        |

The above employee costs include Directors' costs (see note 3). Under the M&O contracts the above employee costs are reimbursed by the NDA, and are not included within the operating costs and expenses within note 2.

### 5 Profit on disposal

|                                                                  | 2007<br>£M | 2006<br>£M |
|------------------------------------------------------------------|------------|------------|
| Restructuring under the Energy Act 2004 and related transactions | -          | 3,312      |
| Internal loans written off                                       | -          | 831        |
| De-recognition of Nuclear Liabilities Investment Portfolio       | -          | (3,946)    |
|                                                                  | -          | 197        |

### Restructuring under the Energy Act 2004

On 1<sup>st</sup> April 2005, certain assets and liabilities of the Company were transferred to the NDA, the Secretary of State for Trade and Industry, and other BNFL companies by means of transfer schemes under the Energy Act 2004. The nuclear sites and relevant installations on these nuclear sites owned by the Company were designated and transferred to the NDA and the Company now operates these sites under site M&O contracts with the NDA.

The intention was that the NDA would take full financial responsibility for the decommissioning and clean-up of the designated nuclear sites and relevant installations transferred. However, the European Commission instigated a formal State Aid investigation in respect of the creation and funding of the NDA. Transitional arrangements were therefore put in place until the State Aid investigation was completed. These ensured that no new resources were made available to the NDA and no advantage conferred on the Company during the transitional period.

The European Commission subsequently approved the establishment of the NDA. On 31<sup>st</sup> March 2006 the agreement, under section 21(9) of the Energy Act 2004, limiting the NDA's financial responsibilities for funding the Site Licence Companies was cancelled and the Secretary of State's undertaking was terminated. The nuclear provisions for which the NDA took full financial responsibility are reflected in the accounts of the NDA and are no longer recognised by the Company.

## Notes (continued)

### 5 Profit on disposal (continued)

Assets transferred under the Energy Act 2004 included tangible fixed assets, the Nuclear Liabilities Investment Portfolio, customer recoverables relating to nuclear liabilities, cash and current asset investments. Liabilities for which the NDA now takes responsibility include payments in advance, nuclear provisions, and other provisions. Internal loan waivers totalling £831 million were also made as a result of the BNFL Group reorganisation.

In 2006, transfers of assets and liabilities under the Energy Act 2004, and related transactions, were either charged or credited to the profit and loss account as an exceptional item.

### 6 Investment income and interest receivable

|                                                 | 2007<br>£M | 2006<br>£M |
|-------------------------------------------------|------------|------------|
| <b>Nuclear Liabilities Investment Portfolio</b> |            |            |
| Amortisation of premium/discount                | -          | (3)        |
| Indexation of gilts                             | -          | 37         |
| Investment income                               | -          | 130        |
|                                                 | <hr/>      | <hr/>      |
| Total investment income                         | -          | 164        |
| Indexation of gilts                             | -          | 4          |
|                                                 | <hr/>      | <hr/>      |
|                                                 | -          | 168        |
|                                                 | <hr/>      | <hr/>      |

### 7 Interest payable and similar charges

|                                   | 2007<br>£M | 2006<br>£M |
|-----------------------------------|------------|------------|
| Revaluation on nuclear provisions | -          | 436        |
| Revaluation on other provisions   | -          | 6          |
|                                   | <hr/>      | <hr/>      |
|                                   | -          | 442        |
|                                   | <hr/>      | <hr/>      |

## Notes (continued)

### 8 Taxation

#### *Analysis of charge in period*

|                                         | 2007<br>£M | 2006<br>£M |
|-----------------------------------------|------------|------------|
| <i>UK corporation tax</i>               |            |            |
| Current tax on income for the period    | (4)        | 38         |
| Tax on exceptional items                | -          | -          |
| Adjustments in respect of prior periods | 11         | -          |
|                                         | <hr/>      | <hr/>      |
| Total current tax and total tax         | 7          | 38         |
|                                         | <hr/>      | <hr/>      |

#### *Factors affecting the tax charge for the current period*

The current tax charge for the period is £10 million greater (2006 £65 million) than the standard rate of corporation tax in the UK (30%, 2006 30%). The differences are explained below

|                                                          | 2007<br>£M | 2006<br>£M |
|----------------------------------------------------------|------------|------------|
| <i>Current tax reconciliation</i>                        |            |            |
| Loss on ordinary activities before tax                   | (10)       | (91)       |
|                                                          | <hr/>      | <hr/>      |
| Current tax at 30% (2006 30%)                            | (3)        | (27)       |
| <i>Effects of</i>                                        |            |            |
| Items not chargeable/(deductible) for taxation purposes  | (1)        | 65         |
| Adjustments to tax charge in respect of previous periods | 11         | -          |
|                                                          | <hr/>      | <hr/>      |
| Total current tax charge (see above)                     | 7          | 38         |
|                                                          | <hr/>      | <hr/>      |

In 2006, there was no corporation taxation effect arising from the profit on the fundamental re-organisation under the Energy Act 2004

## Notes (continued)

### 9 Fixed asset investments

|                                   | 2007<br>£M | 2006<br>£M |
|-----------------------------------|------------|------------|
| Subsidiary undertakings (note 9a) | -          | -          |

#### a) Subsidiary undertakings

|                          | Shares at cost<br>£M | Amount<br>provided<br>£M | Total<br>£M |
|--------------------------|----------------------|--------------------------|-------------|
| At beginning of year     | 105                  | (105)                    | -           |
| Disposal during the year | (32)                 | 32                       | -           |
| At end of year           | 73                   | (73)                     | -           |

From 1 April 2005 the Company no longer receives the economic benefit or associated risk from the investments in subsidiary undertakings. Consequently, the investments have been 100% impaired as any returns and proceeds from disposing of the investments will be remitted to the NDA.

On 1 October 2006 the Company sold 49% of the shares of International Nuclear Services Limited ('INS Limited') (formerly International Nuclear Fuels Limited) to the NDA for £1, giving rise to a profit on disposal of £1.

The companies in which the Company's shareholding at the year end is more than 20% are as follows:

|                                                                                       | Country of<br>incorporation | Principal<br>activity | Class and<br>percentage<br>of shares<br>held |
|---------------------------------------------------------------------------------------|-----------------------------|-----------------------|----------------------------------------------|
| <b>Subsidiary undertakings</b>                                                        |                             |                       |                                              |
| International Nuclear Services Limited (formerly International Nuclear Fuels Limited) | UK                          | Intermediary company  | Ordinary, 51%                                |
| Pacific Nuclear Transport Limited *                                                   | UK                          | Transportation        | Ordinary, 31.9%                              |
| Seabird KK *                                                                          | Japan                       | Non-trading           | Ordinary, 31.9%                              |
| International Nuclear Services SA                                                     | France                      | Administration        | Ordinary, 100%                               |
| International Nuclear Services Japan KK                                               | Japan                       | Administration        | Ordinary, 100%                               |
| Fellside Heat and Power Limited                                                       | UK                          | Non-trading           | Ordinary, 100%                               |

\* Held indirectly through International Nuclear Services Limited

## Notes (continued)

### 10 Debtors

|                                                                              | 2007<br>£M | 2006<br>£M |
|------------------------------------------------------------------------------|------------|------------|
| Site Licence Company's fees and working capital recoverable from the NDA     | 217        | 237        |
| Parent undertaking's commitment to meet the pension deficit (notes 2 and 18) | 24         | -          |
| Amounts owed by Group undertakings                                           | 13         | -          |
| Other debtors                                                                | -          | 2          |
|                                                                              | <u>254</u> | <u>239</u> |

### 11 Creditors: amounts falling due within one year

|                                          | 2007<br>£M | 2006<br>£M |
|------------------------------------------|------------|------------|
| Trade creditors                          | 24         | 34         |
| Amounts owed to Parent undertaking       | 26         | 15         |
| Amounts owed to other group undertakings | 17         | 11         |
| Other taxes and social security costs    | 22         | 46         |
| Accruals and deferred income             | 134        | 130        |
| Other creditors                          | 7          | 3          |
|                                          | <u>230</u> | <u>239</u> |

### 12 Deferred tax

The Company has no recognised or unrecognised deferred tax liabilities at 31 March 2007 (2006 £nil)

### 13 Called up share capital

|                                           | 2007<br>£M | 2006<br>£M |
|-------------------------------------------|------------|------------|
| <b>Authorised</b>                         |            |            |
| 43,000,000 Ordinary shares of £1 each     | 43         | 43         |
| <b>Allotted, called up and fully paid</b> |            |            |
| 32,668,244 Ordinary shares of £1 each     | 33         | 33         |

## Notes (continued)

### 14 Reserves

|                                                                                      | Profit<br>and loss<br>account<br>£M |
|--------------------------------------------------------------------------------------|-------------------------------------|
| At beginning of year                                                                 | (33)                                |
| Loss for the financial year                                                          | (17)                                |
| Capital contribution to facilitate sectionalisation of the BNFL Group Pension Scheme | 24                                  |
| Tax charge in respect of the capital contribution                                    | (7)                                 |
|                                                                                      | <hr/>                               |
| At end of year                                                                       | (33)                                |
|                                                                                      | <hr/>                               |

### 15 Reconciliation of movements in shareholders' funds

|                                                                                                               | 2007<br>£M | 2006<br>£M |
|---------------------------------------------------------------------------------------------------------------|------------|------------|
| Loss for the financial year                                                                                   | (17)       | (129)      |
| Capital contribution by British Nuclear Fuels plc to facilitate sectionalisation of BNFL Group Pension Scheme | 24         | -          |
| Tax charge in respect of capital contribution                                                                 | (7)        | -          |
|                                                                                                               | <hr/>      | <hr/>      |
| Net reduction in shareholders' funds                                                                          | -          | (129)      |
| Opening shareholders' funds                                                                                   | -          | 129        |
|                                                                                                               | <hr/>      | <hr/>      |
| Closing shareholders' funds                                                                                   | -          | -          |
|                                                                                                               | <hr/>      | <hr/>      |

### 16 Contingent liabilities

At 31 March 2007, the 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. Any liabilities that did arise on such guarantees would be recovered from the NDA under the M&O contracts.

Bank pooling guarantees, totalling £10 million, are in place in respect of the Company and certain other UK companies within the BNFL plc group.

## Notes (continued)

### 17 Commitments

- (a) There are no capital commitments at the end of the financial year (2006 £nil)
- (b) Annual commitments under non-cancellable operating leases are as follows

|                                        | Land & buildings |          | Other    |          |
|----------------------------------------|------------------|----------|----------|----------|
|                                        | 2007             | 2006     | 2007     | 2006     |
|                                        | £M               | £M       | £M       | £M       |
| Operating leases which expire          |                  |          |          |          |
| Within one year                        | -                | -        | -        | -        |
| In the second to fifth years inclusive | -                | -        | 1        | 1        |
| After five years                       | 5                | 5        | -        | -        |
|                                        | <u>5</u>         | <u>5</u> | <u>1</u> | <u>1</u> |

Operating lease costs in the year were as follows

|                         | 2007              | 2006              |
|-------------------------|-------------------|-------------------|
|                         | £M                | £M                |
| Operating lease rentals | <u>          </u> | <u>          </u> |
| Other                   | <u>4</u>          | <u>4</u>          |

Under the M&O contracts, operating lease rentals are reimbursed by the NDA

### 18 Pension schemes

#### Defined contribution schemes

##### Electricity Supply Pension Scheme

On 31 March 2007, the Electricity Supply Pension Scheme was sectionalised into various sections, however the Company remains unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis as required by FRS 17. Consequently, the scheme has been accounted for as if the scheme was a defined contribution scheme. The pension charge for the period represents contributions payable by the Company to the scheme which are directly recoverable from the NDA and amounts to £101,000 (2006 £81,000).

There were no outstanding or prepaid contributions at the year end (2006 £nil)

Detailed FRS 17 disclosures in relation to the Electricity Supply Pension Scheme are included in the British Nuclear Fuels plc statutory accounts for the year ended 31 March 2007

##### Combined Pension Scheme

The Combined Pension Scheme (CPS) is a multi-employer scheme which provides defined benefits to its members. In common with other unfunded public sector schemes the CPS does not have the attributes of typical private sector 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. Her Majesty's Government does not maintain a separate fund.

Prior to 1 April 2006 the scheme valuations were based on a theoretical calculation as to how a typical UK pension scheme would have invested the historical surplus of contributions over payments. In the year ended 31 March 2006, the Group disclosed the FRS 17 valuation of the scheme which were based on a theoretical calculation to derive notional assets and a notional surplus. This surplus was not recognised at 31 March 2006 in accordance with FRS 17 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.

## Notes (continued)

### 18 Pension schemes (continued)

On 1 April 2006 the funding arrangements for the schemes changed. Employer contributions are now set using the SCAPE (Superannuation Contributions Adjusted for Past Experience) methodology. Under this methodology the notional assets are no longer deemed to exist, the accrued liabilities at 1 April 2006 were deemed to be secured and no notional surplus or deficit is ascribed to the Company at that date. Future employer contributions will be adjusted to reflect the liability experience after 1 April 2006. The Company has a continuing obligation to the CPS to pay contribution rates for active members specified by the actuary in the periodic valuation reports.

The CPS is accounted for as a defined contribution scheme. The pension charge for the period represents contributions payable by the Company to the scheme which are directly recoverable from the NDA and amounts to £40,206,000 (2006: £nil). There were outstanding employer contributions of £3,334,000 at year end (2006: £nil), which are directly recoverable from the NDA.

#### Defined benefit scheme

##### BNFL Group Pension Scheme

The BNFL Group Pension Scheme is a funded scheme. The parent company and other participating employers contribute to the scheme at rates recommended by the scheme's professionally qualified actuaries. Rates range from 14.0% to 14.9%. The most recent actuarial valuation was at 31 March 2004 using the projected unit method. The market value of the scheme's assets was £107 million with a 69% level of funding. The underlying assumptions used in the 2004 valuation were:

|                      | 2007 |
|----------------------|------|
|                      | %    |
| Discount rate        | 4.9  |
| Salary increase      | 4.9  |
| Pensions increase    | 2.9  |
| Inflation assumption | 2.9  |

The valuation for the scheme has been updated on a basis consistent with FRS 17. The major financial assumptions used are:

|                              | 2007 |
|------------------------------|------|
|                              | %    |
| Rate of increase in salaries | 5.1  |
| Rate of increase in pensions | 3.1  |
| Inflation assumption         | 3.1  |
| Discount rate                | 5.2  |

On 31 March 2007, the BNFL Group Pension Scheme was sectionalised into various sections. Following the sectionalisation, these financial statements reflect the Company's share of the FRS 17 assets and liabilities at 31 March 2007. Of the active members within the section of the BNFL Group Pension Scheme relating to the Site Licence Companies, only 2% are employed by an entity other than Sellafield Limited (being Magnox Electric Limited). Consequently, the entire section has been reflected in the Sellafield Limited accounts.

## Notes (continued)

### 18 Pension schemes (continued)

The fair value of the assets and liabilities for the section of the scheme relating to the Site Licence Companies are as follows

|                                     | 2007  |
|-------------------------------------|-------|
|                                     | £M    |
| Equities                            | 104   |
| Bonds                               | 74    |
| Other                               | 28    |
| Total market value of assets        | 206   |
| Present value of scheme liabilities | (230) |
| Pension liability                   | (24)  |

The expected rates of return for the scheme are

|          | 2007 |
|----------|------|
|          | %    |
| Equities | 7.0  |
| Bonds    | 4.7  |
| Other    | 5.3  |

The movements in the deficit in the period are as follows

|                                                                                 | £M   |
|---------------------------------------------------------------------------------|------|
| Deficit transferred on sectionalisation of the pension schemes at 31 March 2007 | (24) |
| Closing deficit in scheme                                                       | (24) |

The scheme was not sectionalised until 31 March 2007 consequently there is no charge/credit against the operating profit, other finance income/(cost) and the statement of total recognised gains and losses

In addition there is no history of experience gains and losses to report in respect of the Company's section of the BNFL Group Pension Scheme. The history of experience gains and losses for the scheme prior to sectionalisation is set out in the group accounts for British Nuclear Fuels plc. The consolidated accounts of this company are available to the public and may be obtained from 1100 Daresbury Park, Daresbury, Warrington, WA4 4GB

## **Notes (continued)**

### **19 Related party disclosures**

As the company is a wholly owned subsidiary of British Nuclear Fuels plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of British Nuclear Fuels plc, within which this Company is included, can be obtained from the address given in note 20.

During the year the Company earned fees of £56 million on M&O contracts with the NDA (2006 £44 million), which is under common control of the Government (see note 20). During the year the Company incurred costs of £1,136 million under M&O contracts with the NDA (2006 £1,061 million), and these Site Licence Company costs were reimbursed by the NDA under the terms of M&O contracts between the Company and the NDA. At 31 March 2007 the Company had debtors of £217 million with the NDA in respect of fees and working capital recoverable under the M&O contracts (2006 £237 million).

In 2006, exceptional items of £197 million (see note 5) arose as a result of certain assets and liabilities of the Company being transferred to the NDA and the Secretary of State for Trade and Industry, and other BNFL group companies by means of transfer schemes under the Energy Act 2004.

### **20 Ultimate parent company and parent undertaking of larger group of which the company is a member**

The Company is a subsidiary undertaking of British Nuclear Group Limited, a company registered and incorporated in England and Wales. The ultimate parent undertaking is British Nuclear Fuels plc. The consolidated financial statements of British Nuclear Fuels plc are available to the public and may be obtained from 1100 Daresbury Park, Daresbury, Warrington, WA4 4GB.

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 NDA, the Ministry of Defence, and the UKAEA.

## Notes (continued)

### 21 Derivatives and other financial instruments

As explained in note 1n, the Company uses derivatives and other financial instruments in managing the risk associated with its business. The Company 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 BNFL Board. The following numerical analysis gives an indication of the significance of these instruments to the Company.

#### a Fair value of derivatives and other financial instruments

Set out below is a comparison of the book values and fair values of the Company'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).

|                                           | Book values       |                   | Fair values                         |                   |
|-------------------------------------------|-------------------|-------------------|-------------------------------------|-------------------|
|                                           | 2007<br>£M        | 2006<br>£M        | 2007<br>£M                          | 2006<br>£M        |
| <b>Derivatives</b>                        |                   |                   |                                     |                   |
| Foreign exchange forward contracts        | -                 | -                 | 1                                   | -                 |
|                                           | <u>          </u> | <u>          </u> | <u>          </u>                   | <u>          </u> |
|                                           |                   |                   | Net unrecognised gains/<br>(losses) |                   |
|                                           |                   |                   | 2007<br>£M                          | 2006<br>£M        |
| <b>Foreign currency hedge instruments</b> |                   |                   |                                     |                   |
| Foreign exchange forward contracts        |                   |                   | 1                                   | -                 |
|                                           |                   |                   | <u>          </u>                   | <u>          </u> |

## Notes (continued)

### 21 Derivatives and other financial instruments (continued)

#### b Currency exposure

##### (i) Hedges

Board policy is that all significant foreign exchange transactions expected to crystallise are hedged. This is done by forward contracts, currency options, or where appropriate, by matching receipts and payments in the same currency.

The difference between the fair value of derivatives and the book values of derivatives is derived as follows:

|                                                                            | Gains<br>£M | Losses<br>£M | 2007<br>Net Total<br>£M | Gains<br>£M | Losses<br>£M | 2006<br>Net total<br>£M |
|----------------------------------------------------------------------------|-------------|--------------|-------------------------|-------------|--------------|-------------------------|
| Unrecognised gains/(losses) at 1 April                                     | -           | -            | -                       | 22          | (13)         | 9                       |
| (Gains)/losses arising in previous years<br>recognised in current year     | -           | -            | -                       | (22)        | 13           | (9)                     |
|                                                                            | <hr/>       | <hr/>        | <hr/>                   | <hr/>       | <hr/>        | <hr/>                   |
| (Gains)/losses arising in previous year<br>not recognised in current year  | -           | -            | -                       | -           | -            | -                       |
|                                                                            | <hr/>       | <hr/>        | <hr/>                   | <hr/>       | <hr/>        | <hr/>                   |
| Gains/(losses) arising in current period<br>not recognised in current year | 1           | -            | 1                       | -           | -            | -                       |
|                                                                            | <hr/>       | <hr/>        | <hr/>                   | <hr/>       | <hr/>        | <hr/>                   |
| Unrecognised gains/(losses) on hedges<br>as at 31 March                    | 1           | -            | 1                       | -           | -            | -                       |
|                                                                            | <hr/>       | <hr/>        | <hr/>                   | <hr/>       | <hr/>        | <hr/>                   |

Unrecognised gains and losses as at 31 March 2007 are expected to be recognised as follows:

|                                                      | 2007<br>Gains<br>£M | Losses<br>£M | 2006<br>Gains<br>£M | Losses<br>£M |
|------------------------------------------------------|---------------------|--------------|---------------------|--------------|
| Within one year - Foreign exchange forward contracts | 1                   | -            | -                   | -            |
| After one year - Foreign exchange forward contracts  | -                   | -            | -                   | -            |
|                                                      | <hr/>               | <hr/>        | <hr/>               | <hr/>        |