

Sellafield Limited

Directors' report and financial statements

Registered number 1002607

31 March 2008

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COMPANIES HOUSE

DIRECTORS

M D Parker (Chairman)
B Snelson (Managing Director)
J F Edwards
D R Bonser
D J Mason
J M Seddon
P R Lutwyche
Lord Clark of Windermere
Sir Paul Lever
Rear-Admiral Tim Chittenden

SECRETARY

S Quint

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 2008

Results and dividends

Loss before interest and taxation was £7 million (2007 loss £10 million) In 2008 the Company earned fees totalling £35 million under the Management & Operations (M&O) contracts with the Nuclear Decommissioning Authority (NDA) (2007 £56 million) This represented 90% of the available fee pool as a result of the Company's performance against the NDA's performance-based indicators (PBI's) (2007 89%)

The profit for the year, after taxation, amounted to £14 million (2007 loss £17 million)

No dividend is proposed (2007 £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 Nuclear Decommissioning Authority (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 Management and Operations (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

Following consultations with the NDA and the Department for Business, Enterprise and Regulatory Reform (BERR), it was announced on 24 October 2006 that the NDA would run a full competition for the Sellafield contract at the earliest possible timing The NDA is aiming to select a successful bidder and award the contract in autumn 2008 The Board of British Nuclear Fuels plc (BNFL) 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

During the year, the NDA has completed a full competition process for the Low Level Waste Repository (LLWR) M&O contract On 1 July 2007, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer certain property, rights and liabilities relating to the LLWR site from Sellafield Limited to LLW Repository Limited, which at the time was a wholly owned subsidiary of BNFL On 1 April 2008 all the issued share capital of LLW Repository Limited transferred to the successful bidder, UK Nuclear Waste Management Limited

On 1 April 2008, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer certain property, rights and liabilities of Sellafield Limited to the NDA (including the remaining 51% shareholding Sellafield Limited held in International Nuclear Services Limited (INS)) and from Sellafield Limited to INS On the same date, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer certain property, rights and liabilities of United Kingdom Atomic Energy Authority to Sellafield Limited in respect of the management and operations of the Windscale site

As a consequence of these changes Sellafield entered into a new Site Management and Operations Contract with the NDA in respect of the management and operations of the Sellafield (including Capenhurst and Calder Hall) and Windscale sites

Directors' report (*continued*)

Research and development

All research and development costs relate to the 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 95% (2007: 90%) 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 PR Lutwyche

Mr MD Parker

Mr JF Edwards

Mr DR Bonser (appointed 29th November 2007)

Lord Clark of Windermere (appointed 1st December 2007)

Sir Paul Lever (appointed 1st December 2007)

Rear Admiral Tim Chittenden (appointed 1st December 2007)

Mr AJ Shuttleworth (resigned 1st November 2007)

Mr AH Price (resigned 1st November 2007)

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 (2007: £nil). Donations to UK charities amounted to £2.6 million (2007: £2.6 million), which includes £1.7 million (2007: £1.7 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 18, 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 1 April 2008, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer certain property, rights and liabilities of Sellafield Limited to the NDA (including the remaining 51% shareholding Sellafield Limited held in International Nuclear Services Limited (INS)) and from Sellafield Limited to INS.

On the same date, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer certain property, rights and liabilities of United Kingdom Atomic Energy Authority to Sellafield Limited in respect of the management and operations of the Windscale site.

Directors' report (*continued*)

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

Annual General Meetings and Auditors

In accordance with the requirements of the Companies Act 2006 the Company is not required to hold an Annual General Meeting or to re-appoint the Auditors on an annual basis

By order of the board



S M Quint
Company Secretary

26 June 2008

1100 Daresbury Park
Warrington
WA4 4GB

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 2008 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 18. 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

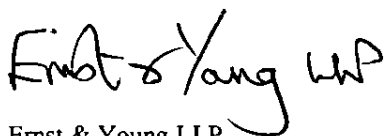
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of its profit 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
Registered Auditor
London

3 July 2008

Profit and loss account
for the 12 months ended 31 March 2008

	Note	2008	2007
		£M	£M
Gross revenue including Site Licence Company costs under management		1,252	1,192
Less Site Licence Company costs under management		(1,217)	(1,136)
Gross turnover		35	56
Operating costs and expenses (excluding exceptional items)	2	(42)	(42)
Exceptional costs included within operating costs and expenses	2	-	(24)
Operating costs and expenses	2	(42)	(66)
Operating loss		(7)	(10)
Loss before investment income, interest and taxation		(7)	(10)
Loss on ordinary activities before taxation		(7)	(10)
Tax on loss on ordinary activities	5	21	(7)
Profit/(loss) for the financial year		14	(17)
Profit/(loss) transferred to reserves	12	14	(17)

Continuing operations in 2008 and 2007 includes the fees earned from the NDA on the work undertaken by the Company
All of the Company's operations in 2008 and 2007 are continuing

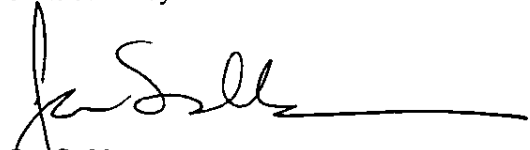
Statement of total recognised gains and losses

	2008	2007
	£M	£M
Profit/(loss) for the financial year	14	(17)
Total gains and losses recognised in the financial year	14	(17)
Actuarial gain recognised in the Group Pension Scheme (note 15)	7	-
Actuarial gain to the benefit of the NDA	(7)	-
Capital contribution to facilitate sectionalisation of the BNFL Group Pension Scheme (note 2)	-	24
Tax charge in respect of the capital contribution	-	(7)
Total gains and losses recognised since the last Annual Report and Accounts	14	-

Balance sheet
At 31 March 2008

	Note	£M	2008 £M	£M	2007 £M
Fixed assets					
Investments	6		-		-
Current assets					
Debtors Amounts falling due within one year	7	239		254	
Debtors Amounts falling due after more than one year	9	14		-	
Creditors Amounts falling due within one year	8	(239)		(230)	
Net current assets			14		24
Total assets less current liabilities			14		24
Creditors					
Pension amount to the benefit of NDA	15		(12)		-
Net assets / (liabilities) excluding pension asset / (liability)			2		24
Pension asset/(liability)	15		12		(24)
Net assets			14		-
Capital and reserves					
Called up share capital	10		33		33
Profit and loss account	11		(19)		(33)
Shareholders' funds	12		14		-

These financial statements were approved by the board of directors on 26 June 2008 and were signed on its behalf by


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 Limited (BNG), the Company's voting rights are controlled within the group headed by British Nuclear Fuels plc (BNFL), 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 BNFL, within which this Company is included, can be obtained from the address given in note 17.

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 (continued)

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 Group Pension Scheme (GPS) (formerly the BNFL Group Pension Scheme) and the Electricity Supply Pension Scheme. 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 the Group Pension Scheme (GPS) on a defined benefit basis. On 31 March 2007, the GPS was sectionalised. The pension deficit identified in respect of the Company was recognised on the balance sheet at 31 March 2007 and has been accounted for on a defined benefit basis from this date.

The GPS surplus (to the extent that it is recoverable) or deficit is recognised in full with a corresponding asset or liability to the NDA for the full value of the deficit/surplus. The movements in the GPS surplus/deficit after taking account of any amounts falling due/from the NDA are split between operating charges, finance items and, actuarial gains and losses, within the Statement of Total Recognised Gains and Losses.

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 2008 and 2007 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 2008 and 2007 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.

Notes (continued)

1 Accounting Policies (continued)

l 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.

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.

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 2008 and 2007 the Company managed sites funded by the NDA as a Site Licence Company.

	2008 £M	2007 £M
Other operating costs		
Management fee paid to BNG	35	56
Bonus paid to employees	-	9
Other operating income		
Reimbursement from BNG for bonus paid to employees	-	(9)
Taxation credit due to BNG	7	-
Reimbursement of taxation charge from BNG	-	(14)
Operating costs and expenses (excluding exceptional items)	42	42
Exceptional items Pension deficit transferred on sectionalisation of the GPS	-	24
Reimbursement from BNG for disallowable costs in excess of the Annual Site Funding Limit	(34)	-
Disallowable costs in excess of the Annual Site Funding Limit	34	-
	42	66

Notes (continued)

2 Net operating costs and expenses (continued)

Auditors' remuneration

	2008 £000	2007 £000
Audit	184	191
Other services - fees receivable by the auditors and their associates	28	38

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

Exceptional items

In accordance with the contract between NDA, the Company and BNG, where costs are incurred in excess of the NDA's Annual Site Funding Limit ('ASFL') those costs are classified as disallowable and BNG is required to reimburse them to NDA. Following extensive discussions between the NDA, the Company and BNG during the year, in recognition of the need to deliver on certain commitments and activities on the Sellafield site and prepare the Company for new ownership as part of the competition process being run by the NDA, it was agreed that the Company would incur certain items of expenditure in excess of the ASFL and, in accordance with the contract, these would therefore be reimbursed by BNG.

Pension deficit

On 31 March 2007, the GPS was sectionalised and the FRS 17 assets and liabilities were split between the various sections.

On 31 March 2007, a pension deficit of £23,670,000 was identified in respect of the Company and in accordance with FRS 17 this was recognised as a pension liability on the balance sheet. This is included within operating costs and expenses in the profit and loss account.

BNFL was 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 was made by BNFL amounting to £23,670,000, which was recognised within debtors. During 2007/08, BNFL met its commitment to fully fund the GPS, and with effect from 1 April 2008, the NDA has become the principal employer to the GPS.

Geographic Segment Analysis

In both 2008 and 2007, all turnover relates to the operation of M&O contracts in the UK.

Notes (continued)

3 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	961	615
Amounts receivable under bonuses	155	581
Pension contributions	101	64
	<u>1,217</u>	<u>1,260</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 MD Parker, JF Edwards, AJ Shuttleworth and DR Bonser are employees of BNFL, and their remuneration is met by, and disclosed in the financial statements of that company

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £378,000 (2007 £581,000) and the Company made pension contributions of £35,775 (2007 £30,000)

	Number of directors	
	2008	2007
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	<u>4</u>	<u>5</u>

Pensions

In both 2008 and 2007 the highest paid director is an active member of the Combined Pension Scheme, 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 £35,775 have been made to this scheme during the year (2007 £30,000) Details of the pension benefits for the highest paid director are as follows

	2008 £	2007 £
Accrued pension benefits	80,181	64,744
Accumulated lump sum	240,542	194,232
Transfer value	1,443,538	1,148,047

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	
	2008	2007
Average number of employees	9,565	8,803

The aggregate payroll costs of these persons were as follows

	2008	2007
	£M	£M
Wages and salaries	386	344
Social security costs	33	30
Other pension costs	52	53
	471	427

Pension costs disclosed above include FRS 17 current and past service costs (note 15) charged to the profit and loss account together with contributions paid to defined contribution schemes. All contributions paid are included in site licence costs under management and are recovered from the NDA on a paid basis. Amounts relating to FRS 17 charges are included in the profit and loss account together with offsetting amounts reflecting the fact that any overall pension surplus or deficit is for the benefit of/to be funded by the NDA.

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.

Notes (continued)

5 Taxation

Analysis of charge in period

	2008 £M	2007 £M
<i>UK corporation tax</i>		
Current tax on income for the period	(6)	(4)
Adjustments in respect of prior periods	(1)	11
Total current taxation (credit)/charge	(7)	7
Deferred taxation in respect of taxable losses carried forward and other timing differences for the period	(5)	-
Deferred taxation – adjustment in respect of prior periods	(9)	-
Taxation (credit)/charge	(21)	7

Factors affecting the tax charge for the current period

The current tax (credit)/charge for the period is £5 million greater (2007 £10 million) than the standard rate of corporation tax in the UK (30%, 2007 30%). The differences are explained below

	2008 £M	2007 £M
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(7)	(10)
Current tax at 30% (2007 30%)	(2)	(3)
<i>Effects of</i>		
Items not chargeable/(deductible) for taxation purposes	(10)	(1)
Other timing differences	(3)	-
Unrelieved tax losses carried forward	9	-
Adjustments to tax charge in respect of previous periods	(1)	11
Total current tax (credit)/charge (see above)	(7)	7

Notes (continued)

6 Fixed asset investments

	2008 £M	2007 £M
Subsidiary undertakings (note 6a)	-	-

a) Subsidiary undertakings

	Shares at cost £M	Amount provided £M	Total £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.

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

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
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, 51%
International Nuclear Services Japan KK *	Japan	Administration	Ordinary, 51%
Fellside Heat and Power Limited	UK	Non-trading	Ordinary, 100%

* Held indirectly through International Nuclear Services Limited

On 1 April 2008, the Secretary of State used nuclear transfer scheme powers under the Energy Act 2004 to transfer the remaining 51% shareholding in International Nuclear Services Limited (INS) from the Company to the NDA. The transfer was made to the NDA for £1, giving rise to a profit on disposal of £1.

7 Debtors: amounts falling due within one year

	2008 £M	2007 £M
Company's fees and working capital recoverable from the NDA	201	217
Parent undertaking's commitment to meet the pension deficit (notes 2 and 15)	-	24
Corporation tax	10	-
Amounts owed by Group undertakings	2	13
Amounts owed by parent undertaking	26	-
	239	254

Notes (continued)

8 Creditors: amounts falling due within one year

	2008 £M	2007 £M
Trade creditors	22	24
Amounts owed to Parent undertaking	15	26
Amounts owed to other group undertakings	3	17
Other taxes and social security costs	29	22
Accruals and deferred income	164	134
Other creditors	6	7
	<u>239</u>	<u>230</u>

9 Deferred taxation

	2008 £M	2007 £M
Corporation tax losses carried forward	8	-
Other timing differences	6	-
	<u>14</u>	<u>-</u>

The movement on deferred taxation is as follows

	£M
Balance at 1 April 2007	-
Movements in the year	
Corporation tax losses	8
Other timing differences	(3)
Prior period adjustment	9
	<u>14</u>
Balance at 31 March 2008	14

The Company continues to account for deferred taxation on a basis consistent with prior periods. Other timing differences relate to pension related provisions. The movement in the year gives rise to a current year deferred tax credit to the profit and loss account of £14 million. The deferred tax asset of £14 million arises wholly in the UK.

The deferred taxation asset is recognised on the basis that the Company expects there to be future taxable profits from which the taxable losses and reversal of timing differences can be deducted.

The Company has no unrecognised deferred taxation assets or liabilities at 31 March 2008 (2007 unrecognised deferred tax asset £9 million).

Notes (continued)

10 Called up share capital

	2008 £M	2007 £M
<i>Authorised</i>		
43,000,000 Ordinary shares of £1 each	43	43
<i>Allotted, called up and fully paid</i>		
32,668,244 Ordinary shares of £1 each	33	33

11 Reserves

	Profit and loss account £M
At beginning of year	(33)
Profit for the financial year	14
Actuarial gain on Group Pension Scheme	7
Actuarial gain to the benefit of the NDA	(7)
At end of year	(19)

12 Reconciliation of movements in shareholders' funds

	2008 £M	2007 £M
Profit/(loss) for the financial year	14	(17)
Capital contribution by BNFL to facilitate sectionalisation of GPS	-	24
Tax charge in respect of capital contribution	-	(7)
Actuarial gain on GPS	7	-
Actuarial gain to the benefit of the NDA	(7)	-
Net increase in shareholders' funds	14	-
Opening shareholders' funds	-	-
Closing shareholders' funds	14	-

13 Contingent liabilities

At 31 March 2008, 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)

14 Commitments

- (a) There are no capital commitments at the end of the financial year (2007 £nil)
- (b) Annual commitments under non-cancellable operating leases are as follows

	Land & buildings		Other	
	2008	2007	2008	2007
	£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

	2008	2007
	£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

15 Pension schemes

Defined contribution schemes

Electricity Supply Pension Scheme (ESPS)

On 31 March 2007, the ESPS 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 ESPS, which are directly recoverable from the NDA and amounted to £87,000 (2007 £101,000).

There were no outstanding or prepaid contributions at the year end (2007 £nil)

Detailed FRS 17 disclosures in relation to the ESPS are included in the BNFL statutory accounts for the year ended 31 March 2008

Combined Pension Scheme (CPS)

The 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 BNFL group disclosed the FRS 17 valuation of the scheme which was 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 BNFL group had no rights to the surplus other than as allowed by the scheme managers.

Notes (continued)

15 Pension schemes (continued)

On 1 April 2006 the funding arrangements for the scheme 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 was ascribed to the Company at that date. Future employer contributions have been 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 CPS, which are directly recoverable from the NDA and amounted to £46,556,000 (2007 £40,206,000). There were outstanding employer contributions of £3,771,000 at year end (2007 £3,334,000), which are directly recoverable from the NDA.

Defined benefit scheme

Group Pension Scheme (formerly BNFL Group Pension Scheme)

The Group Pension Scheme (GPS) is a funded scheme. The Company and other participating employers contribute to the GPS at rates recommended by the GPS's professionally qualified actuaries. Rates ranged from 14.0% to 14.9% in the year ended 31st March 2008.

On 31 March 2007, the GPS 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 2008 and 2007 respectively. Of the active members within the section of the GPS relating to the Site Licence Companies (SLC section), only 2% are employed by an entity other than the Company. Consequently, the entire section has been reflected in these accounts.

A full actuarial valuation for the SLC section was carried out at 31st March 2007 and updated to 31st March 2008 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms)

	2008	2007
	%	%
Discount rate	5.9	4.9
Salary increase	5.6	4.9
Pensions increase	3.6	2.9
Inflation assumption	3.6	2.9

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

	2008	2007
	%	%
Rate of increase in salaries	5.6	5.1
Rate of increase in pensions	3.6	3.1
Inflation assumption	3.6	3.1
Discount rate	6.0	5.2

Notes (continued)

15 Pension schemes (continued)

The fair value of the assets and liabilities for the SLC section are as follows

	2008	2007
	£M	£M
Equities	124	104
Bonds	50	74
Other	87	28
Total market value of assets	261	206
Present value of scheme liabilities	(249)	(230)
Net pension asset/(liability)	12	(24)

The expected rates of return for the GPS are

	2008	2007
	%	%
Equities	7.0	7.0
Bonds	4.6	4.7
Other	6.0	5.3

Notes (continued)

15 Pension schemes (continued)

Analysis of the movement in GPS surplus during the year:

	GPS 2008 £M	Amount Payable to NDA £M	Net Total £M
Surplus/(deficit) in section at beginning of year	(24)	-	(24)
Movement in year			
Current service cost	(9)	9	-
Contributions	39	(15)	24
Past service costs	(1)	1	-
Net return on assets/(interest cost)	-	-	-
Actuarial gain/(loss)	7	(7)	-
Surplus/(deficit) in section at end of year	12	(12)	-

Analysis of the amount charged to operating profit

	2008 £000
Current service cost	8,540
Past service cost	571
Total operating charge	9,111

Amounts charged to operating profit have been borne by the NDA

Analysis of the amount credited to other finance income

	2008 £000
Expected return on GPS pension scheme assets	13,120
Interest on GPS pension scheme liabilities	(12,851)
Net return	269

Finance payable on the GPS pension scheme has been borne by the NDA

Analysis of the amount that has been recognised in the Statement Total Recognised Gains and Losses:

	2008 £M
Actual return less expected return on assts	(9)
Experience gains and losses on liabilities	-
Changes in assumptions (demographic)	-
Changes in assumptions (financial)	16
Actuarial gain /(loss) recognised in STRGL	7

The actuarial gain in the current year has been for the benefit of the NDA

Notes (continued)

15 Pension schemes (continued)

History of experience gains and losses	2008
Difference between expected and actual return on section assets	
amount (£000)	(9,427)
percentage of section assets	-4%
Experience gains and losses of section liabilities	
amount (£000)	58
percentage of section liabilities	0%
Total amount recognised in statement of total recognised gains and losses	
amount (£000)	6,607
percentage of section liabilities	-3%

The GPS was not sectionalised until 31 March 2007, and in previous years was accounted for as a defined contribution scheme. Consequently, there is no charge/credit against the operating profit, other finance income/(cost) and the statement of total recognised gains and losses for previous years.

In addition there is no history of experience gains and losses to report in respect of the Company's section of the GPS for previous years. The history of experience gains and losses for the GPS prior to sectionalisation is set out in the group accounts for BNFL, which can be obtained from the address set out in note 17.

16 Related party disclosures

As the company is a wholly owned subsidiary of BNFL, 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 BNFL, within which the Company is included, can be obtained from the address given in note 17.

During the year the Company earned fees of £35 million on M&O contracts with the NDA (2007 £56 million), which is under common control of the Government (see note 17). During the year the Company incurred costs of £1,217 million under M&O contracts with the NDA (2007 £1,136 million), and these costs were reimbursed by the NDA under the terms of M&O contracts between the Company and the NDA. At 31 March 2008 the Company had debtors of £201 million with the NDA in respect of fees and working capital recoverable under the M&O contracts (2007 £217 million).

17 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)

18 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	
	2008 £M	2007 £M	2008 £M	2007 £M
Derivatives				
Foreign exchange forward contracts	-	-	-	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
			Net unrecognised gains/ (losses)	
			2008	2007
			£M	£M
Foreign currency hedge instruments:				
Foreign exchange forward contracts			-	1
			<u> </u>	<u> </u>

Notes (continued)

18 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 £M	Losses £M	2008 Net Total £M	Gains £M	Losses £M	2007 Net total £M
Unrecognised gains/(losses) at 1 April	1	-	1	-	-	-
(Gains)/losses arising in previous years recognised in current year	(1)	-	(1)	-	-	-
(Gains)/losses arising in previous year not recognised in current year	-	-	-	-	-	-
Gains/(losses) arising in current period not recognised in current year	2	(2)	-	1	-	1
Unrecognised gains/(losses) on hedges as at 31 March	2	(2)	-	1	-	1

Unrecognised gains and losses as at 31 March 2008 are expected to be recognised as follows:

	2008 Gains £M	Losses £M	2007 Gains £M	Losses £M
Within one year - Foreign exchange forward contracts	1	(2)	1	-
After one year - Foreign exchange forward contracts	1	-	-	-