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BNFL

Annual Report and Accounts 2005

Ready for Business

This report will be available under British Nuclear Group Sellafield Limited at Companies House.

As of 1 April 2005, the company re-registered as a private limited company and changed its name to British Nuclear Group Sellafield Limited (Company No: 1002607). British Nuclear Group Sellafield Ltd is now part of a Group of Companies headed by a newly established parent company which has taken the name of British Nuclear Fuels plc.

Therefore any reference to BNFL pre 1 April 2005 refers to British Nuclear Group Sellafield Ltd and post 1 April 2005 it refers to British Nuclear Fuels plc, the new holding company (Company No:5027024).

Contents

Colleagues from BNFL and British Nuclear Group working together at Trawsfynydd.

Ready for Business

On 1 April 2005, the Nuclear Decommissioning Authority (NDA) took strategic responsibility for the decommissioning and clean-up of all 20 of the UK's civil nuclear sites. Established by the Government under the Energy Act 2004, the NDA will not itself undertake remediation. On the sites previously under British Nuclear Fuels plc (BNFL) ownership, the work will initially be contracted out to the various businesses under the BNFL Group. In the future, these contracts will be subject to fair and open tender from suitably qualified organisations.

BNFL is looking forward to meeting the challenges that lie ahead. We have prepared rigorously for the commercial realities of a new era for the nuclear industry. Our experience and expertise places us in prime position to take advantage of the opportunities it offers. BNFL is ready for business.

‘I should like to thank all our employees for their dedication and extremely hard work through a period of enormous change.’

Gordon Campbell
Chairman

Chairman’s Statement

The joint strategy review conducted in 2003 by British Nuclear Fuels plc (BNFL) and its shareholder, Her Majesty's Government, concluded that BNFL's principal focus should be the management of the clean-up of UK nuclear sites. Since then and particularly during last year, great steps have been taken on restructuring BNFL, culminating in the formation of the Nuclear Decommissioning Authority (NDA) on 1 April 2005.

The year was therefore one of enormous change for BNFL, and one which laid the foundation for a different way of operating in the future. With the setting up of the NDA to own certain assets and liabilities of the UK's nuclear heritage, pending European Union State Aid clearance, BNFL is now a contractor rather than an owner of these assets. The establishment of the NDA on 1 April 2005 was, in no small part, due to an enormous effort by the staff of BNFL. Despite this major time commitment, most of our key operational targets were exceeded, as reported in the rest of this document.

The loss before tax, interest and exceptional items was £144million, compared to the £283million of the previous year. However, we incurred exceptional charges of £243milllion. These were associated with the restructuring of BNFL to deal with its new role, and a provision of £132million to draw a line under the US legacy contracts signed in the mid-1990s. There was a cash outflow of £438million (page 24), a large but hardly surprising figure, given that the expenditure on cleaning up the historic liabilities was £725million. This expenditure will now be financed by the NDA. The cash outflow was substantially improved, since the year end, by the receipt of $460million for the close out of the US legacy contracts.

There were good performances at the Magnox reactors and at Spent Fuel Services within British Nuclear Group, as well as at Nexia Solutions and Westinghouse. Also the operational performance of Sellafield in terms of fuel reprocessing was extremely good, albeit spoilt by a leak from a fractured pipe detected in April 2005. The Sellafield reprocessing plant (Thorp) was designed to handle such a leak and there was no danger to individuals or the environment, with the containment acting precisely as designed. The leak has now been recovered and we aim to restart reprocessing as soon as safely possible.

Our strategy review concluded that BNFL's businesses would be managed both to deliver value and to control risks to the UK tax payer. In line with this strategy, we are starting a structured sale process for the Westinghouse business.

I should like to thank all our employees for their dedication and extremely hard work through a period of enormous change. I should also like to thank Richard Stone, Gail de Planque and Brian George, who retired from the Board, as planned, on the formation of the NDA. Michael Pavia has now joined the Board as a Non-Executive Director and as Chairman of the Audit Committee. I am sure he will contribute greatly to the functioning of the Board.

We are now operating in a public environment where the use of nuclear power generation is being reassessed. Old prejudices about the cost of nuclear power, the handling of waste, and safety concerns need to be reviewed objectively and set against the world’s desire to reduce carbon dioxide emissions. The outcome must surely be a return to building nuclear power generators from which the businesses of BNFL, with its massive expertise, can only benefit.

I am confident that BNFL will respond positively and successfully to its changing role.

‘We will concentrate on the businesses within BNFL for the next two years and make them tangible and demonstrable successes.’

Mike Parker
Chief Executive

Chief Executive's Report

The new business model adopted on 1 April 2005 has come on the back of the transfer of the majority of our UK assets to the newly established Nuclear Decommissioning Authority, albeit subject to final European Union State Aid approval. As our UK businesses start to become contractors focusing largely on the decommissioning and clean-up of the UK's civil nuclear sites, we are working very closely with the NDA to open up the market to competition.

Our new management structure is made up of: British Nuclear Group (including Spent Fuel Services), Westinghouse and Nexia Solutions. Each of these businesses report into the BNFL corporate centre.

The corporate centre retains the name British Nuclear Fuels plc (BNFL), and has been streamlined by means of staff reductions. It is now a smaller team managing the businesses of BNFL, setting strategy, establishing corporate key performance indicators and providing the oversight functions appropriate to a corporate centre.

Our UK based businesses, British Nuclear Group and Nexia Solutions, have made a great deal of progress in putting in place their organisation and business structures, and strengthening their commercial and financial disciplines. They have embarked on significant initiatives to streamline their organisations, reduce bureaucracy, decrease costs and drive customer focus. There has also been an improved financial contribution from our associate company Urenco.

In the USA, Westinghouse continues to operate with a well-formed business structure, with clearly defined business strategies, and with a strong outside-in focus as it deals with customers and stakeholders.

I am pleased to report that our operational performance has been very good, given all the changes that have taken place in the last year. Each of our businesses has met the majority of their operating and financial targets, and in some cases exceeded them.

Our corporate financial performance has shown a loss before interest, tax and exceptional items of £144million, halving the figure for last year of £283million. Exceptional charges of £243million were associated principally with restructuring costs and closing out of US legacy contracts.

In a period of unprecedented change, we have continued to put health and safety at the top of our agenda, and have narrowly missed our demanding environmental health & safety targets set at the beginning of the year. It is with regret that we have had an International Nuclear Events Scale (INES) level 3 incident at Thorp, which we have taken very seriously. We are working closely with all the relevant parties to resolve the outstanding issues related to this incident so we can avoid it happening again.

Chief Executive's Report

Operational Performance

We have met nearly all our major operational targets. They include an improvement in Mox fuel production, which allowed us to make the first delivery from the Sellafield Mox Plant (SMP) to a European customer, in May 2005.

Westinghouse

- An excellent year with a number of significant new orders won
- Westinghouse AP 1000 granted final design approval by the US Nuclear Regulatory Commission
- Continuing investment in research and development
- Customer First initiative improving quality of product, service and delivery and enhancing customer expectations.

British Nuclear Group (including Spent Fuel Services)

- Established as a decommissioning and clean-up contractor for the NDA
- Near-Term work plans and the placement of the first set of contracts agreed with the NDA
- Streamlining of the organisation and cultural change programme on target
- Site application processes simplified and improved.

Spent Fuel Services

- Four Mox assemblies safely delivered
- Six transport movements across Europe completed on schedule
- Eurofab project successfully accomplished.

Nexia Solutions

- Nuclear Sciences and Technology Services became Nexia Solutions with a new name and business identity
- Streamlining of the organisation and cultural change programme on target.

Environment, Health and Safety

The importance of health, safety, environment and quality for our business and our industry is well understood. The discovery of a pipe failure in one of the heavily shielded cells within the Thorp plant at Sellafield resulted in a leak of radioactive material into its sealed containment. Whilst the plant is designed to accommodate such leaks and there has been no danger to our staff, the public or the environment, the quantity of leakage resulted in the incident being rated at INES level 3. We have conducted a rigorous investigation into the causes of the incident and will ensure that we learn the lessons not only in Thorp, but where appropriate throughout the company.

On a more positive note, we have maintained a high level of EH&S performance throughout the company. The successes included the accomplishments by Westinghouse worldwide. This success reflects the continuing commitment to Human Performance Improvement as part of the Westinghouse's 'Customer First' programme.

The 90% reduction in Technetium-99 discharges from Sellafield has been an environmental success.

Additionally, we are pleased to have improved our score in this year's BiTC Corporate Responsibility Index and be placed 28th in the Top 100 Companies that Count. The index helps us to benchmark our performance across a wide range of corporate responsibility issues.

Chief Executive's Report

Financial Performance

The group turnover is broadly in line with last year, and the loss before interest, tax and exceptionals is £144million (2004: £283million). This reflected continuing losses on Magnox Electricity generation, Mox and liability discharges, a partial repair of pension deficits and the installation of a major IT system upgrade, offset by positive contributions from the businesses. The efficiency drive for the future included voluntary staff reductions across the Group, starting a cultural change programme and decentralisation of the day to day operations to the businesses. This led to reductions of head-office costs by £13million during 2004/5.

The exceptional charges were £243million (2004: profit £4million). This comprised £94milllion for restructuring provisions mainly for British Nuclear Group plus £132million for the closing out of the two US legacy contracts.

Overall, results continue to be overshadowed by historic issues and our cash flows are dominated by liability spend, a situation that can only be addressed fully when the European Union State Aid investigation of the NDA is concluded.

As of 1 April 2005, the majority of activities of ALFA (the shadow division within BNFL which held the assets, liabilities and activities) have been transferred to the NDA.

During 2004/05 BNFL ALFA generated an operating loss of £312million (2004: £532million). Reduced Mox losses, reassessments of certain customer arrangements and better electricity prices offset by lower volumes, have all contributed to this reduction in the loss. Magnox continues to have three figure accounting losses. BNFL ALFA has also borne the major part of the pension deficit repairs and IT upgrade costs.

Future

As the high level restructuring of the company becomes complete, we now have to concentrate on the businesses within BNFL, making them tangible and demonstrable successes that are able to maximise shareholder value.

Our aim is to further reduce bureaucracy across our businesses, increase efficiency and put customer focus and satisfaction at the top of our business agenda. As we do so, we intend never to lose sight of our aim of even higher standards of environmental, health and safety performance.

As the NDA becomes our principal customer in the UK, it will continue to require of its contractors that they are entirely capable of developing safe, timely and cost effective nuclear clean-up. Our aim is to become the NDA's 'Contractor of Choice' for the future.

A great deal has been done to prepare BNFL for the new era and I would like to take this opportunity to thank all our employees, who have worked so hard to achieve what amounts to an enormous step change.

Westinghouse is a very successful operation in its own right. It has reached all its targets, continues to win new business and is in an excellent position to capitalise on the China nuclear programme. As a mature business, Westinghouse is a prime asset that has all the skills to prosper in the private sector. There have been a number of unsolicited approaches for Westinghouse and it was decided at the Board meeting on 30 June to commence a sale process to determine whether a disposal would realise appropriate value. BNFL will use their retained financial adviser, NM Rothschild and Sons, to consult on this matter.

There is much still to do. The pace of change will not slacken as we strive to reach targets set by our Shareholder, the Secretary of State, and the NDA.

BNFL is ready for the future.

Managing Corporate Responsibility

This year has seen further developments in the way we manage our Corporate Responsibility (CR) activities. At the top level, Corporate Responsibility is reviewed by the Board EH&S Committee, and we have formed a Corporate Responsibility Executive chaired by David Bonser. It consists of the Group Chief Executive, the Chief Executives of each of the businesses, and the Directors of relevant functions (HR, EH&S and Corporate Affairs).

Our businesses have now developed their own visions and strategies for Corporate Responsibility, ready for implementation during the next financial year. Performance against these strategies is reviewed as part of the quarterly business reviews by the Executive Team.

Improving our Performance

Environment, Health and Safety

Our Environment, Health and Safety performance is key to the success of our business and for that reason we continually look to drive improvement in this area. To reflect the progress we have been making, for 2004/2005 we set significantly more demanding targets for our four key performance indicators. We recognised that meeting these targets would not be easy, particularly during such a major period of change for the company. We believe that through our continued emphasis on safety there was no deterioration in our performance since last year. However, we met one of our targets and narrowly missed the other three.

KPI	Actual	Target
• Days away case rate	0.28	≤ 0.27
• International Nuclear Events Scale (INES > Level1)	13	≤ 12
• Dangerous Occurrences	12	≤ 13
• Non-compliance with environmental discharge authorisation limits and conditions	7	≤ 5

The significant disappointment for us was the Thorp incident, in which radioactive material leaked from a pipe over a period of time. The material was captured in a containment vessel engineered for such an event, and there was no harm to any of our employees, members of the public or the environment. Because of the amount of material involved this was classified as an INES level 3 event . We are treating it very seriously and will ensure that we identify and act upon the important learnings from this incident.

We will continue to focus on industrial safety to drive improvements in nuclear health, safety and environmental protection across all our businesses.

BiTC Corporate Responsibility Index

One of the ways we assess our overall Corporate Responsibility performance is through participation in the BiTC Corporate Responsibility Index. This looks at a broad range of indicators on how we manage our impact on society and engage with our stakeholders in the workplace, marketplace, community and environment. We are pleased to have improved our score and be placed 28th in the Top 100 Companies that Count.

Working with our Stakeholders

The National Stakeholder Dialogue, set up in 1998 to inform BNFL's environmental decision making, came to a close in October 2004. Over the years some 200 stakeholders have taken part and addressed issues such as the management of spent fuel, waste management, plutonium, security and socio-economic impacts in West Cumbria. The results of the dialogue have been handed over to the relevant owners of the issues, including BNFL and the NDA.

Our Employees

We have undertaken surveys during the year to assess how our employees feel about the changes taking place. The results will be used to help us move forward in a positive and constructive way.

Our Customers

Over the year we have worked closely with the NDA in the preparation of handing over ownership of the sites and in developing Near-Term Work Plans which set out the work for the coming year. Westinghouse's 'Customer First' programme continues to provide even better service to customers around the world.

BNFL in the Community

We continue to invest in and be involved with our local communities, through focusing our activities in three key areas:

- we remain committed to supporting and developing our education programme at local, national and international levels, actively encouraging an interest in science and technology at all ages
- our community investment policy focuses on where we believe we can make a difference, tackling difficult and challenging social issues
- through our investment in economic regeneration, we continue to support and encourage the development of self-sustainable local communities, addressing complex problems to increase prosperity.

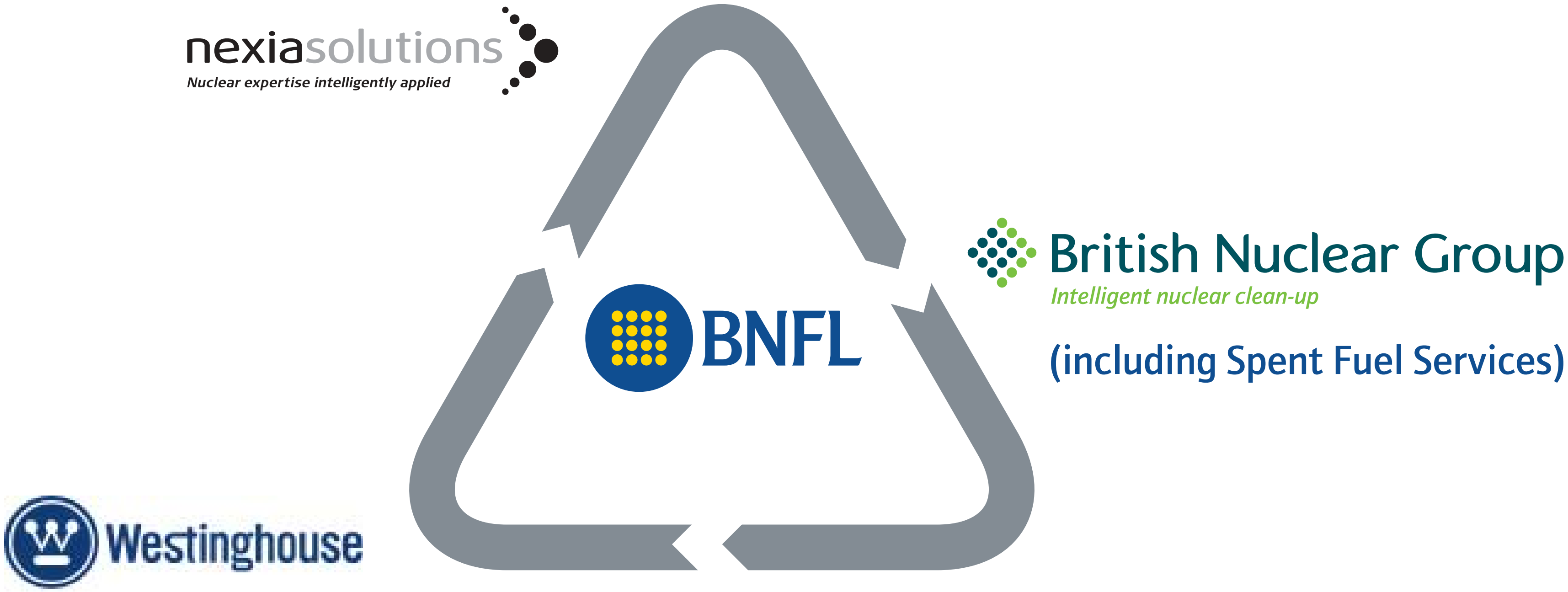
Our commitment to encouraging our own employees to become involved with community programmes continues to be a key priority. Through supporting those members of our workforce who volunteer their time and commitment to helping others, we are able to make a positive difference to society, whilst at the same time nurturing and developing the skills of our employees.

The benefits of all that we do are realised through the continued implementation of the London Benchmarking Group model. By analysing our activities through the direct and indirect benefits to both the community and our business, we are able to align our activity to those areas most in need.

BNG America decommissioning at Big Rock Point, Michigan, USA.

BNFL at a Glance

Management Structure



BNFL's activities span the entire nuclear energy cycle, from reactor design and fuel manufacture to power station decommissioning and clean-up.

BNFL Group

Company	Address Headquarters	Activities 2005	Employees at 31 March	Financial Highlights Total Sales £m	 Profit before Interest, Tax, Exceptional Items and Goodwill £m
BNFL	1100 Daresbury Park Daresbury Warrington WA4 4GB www.bnfl.com	BNFL corporate centre.	90 (note 1)	8	2 (note 2)
British Nuclear Group Intelligent nuclear clean-up	1100 Daresbury Park Daresbury Warrington WA4 4GB www.britishnucleargroup.com	Specialist nuclear site management, remediation, generation, reprocessing and clean-up business.	13,394	2,016	101
SFS			538	101	18
Westinghouse	4350 Northern Pike Monroeville, PA (USA) www.westinghousenuclear.com	Worldwide nuclear services organisation.	8,190	1,144	83
nexiasolutions Nuclear expertise intelligently applied	Technology Centre Sellafield Cumbria CA20 1PG www.nexiasolutions.com	Nuclear research and development.	784	113	6

note 1: in addition there were 18 people either leaving or transferring to the businesses just after year end and 13 who were working on specific strategic initiatives in support of keeping the nuclear option open.

note 2: BNFL ALFA is not included. Full details are available in note 2 to the accounts. As of 1 April 2005, the majority of the activities of BNFL ALFA transferred to the NDA.

'The NDA requires a fundamental change in the attitudes of the business.'

Lawrie Haynes *Chief Executive*, British Nuclear Group

- Formation of British Nuclear Group as a set of companies on 1 April 2005
- Strong operational performance
- Key clean-up milestones delivered ahead of programme
- Staff reductions on target and operations streamlined
- Driving responsibility and accountability throughout the organisation
- Cultural change programme under way
- Near-Term work plans agreed with the NDA
- Work with the NDA to create a competitive market place progressing well

British Nuclear Group was formed in 2004 as a specialist clean-up business, focusing on the decommissioning of Britain's nuclear sites. Our role is to work with the new Nuclear Decommissioning Authority (NDA) to achieve its clean-up programme safely, quickly and cost-effectively.

Our priority this year has been on preparing for the significant milestones of the NDA launch on 1 April 2005, working with the NDA to create a competitive marketplace, and establishing British Nuclear Group as a dynamic, commercially orientated subsidiary of BNFL. The setting up of the new structure by the re-licensing and re-authorisation of some of our sites has required extensive work with regulatory bodies. At the same time, the management of a major change programme under operating licence conditions required over 100 individual change assessments to be carried out. Despite these demands on our resources, we are very much on track to deliver the change programme, one of the country's biggest. Most importantly, the programme will lead to the fundamental change in the attitudes of the business in terms of responsibility and accountability that the NDA requires of us. Against this backdrop, and leaving Thorp aside, our businesses have succeeded in delivering another year of excellent performance. The Near-Term work plans for the year have been agreed with the NDA. A great deal of progress has been made at both Berkeley and Sellafield, site efficiency improvements have led to capability improvements at the working reactor sites and operations at Sellafield have been greatly streamlined.

Financial performance

Our profit before interest, taxation and exceptional items was £101million (2004: £186million), which exceeded our target. We did, however, incur an exceptional charge of £132million (2004: nil) within BNG America as a result of the closure of the US Legacy Contracts at East Tennessee Technology Park and the Advanced Mixed Waste Treatment Facility in Idaho.

Operational performance

Management Services - Sellafield
The drive for continuous improvement in safety, environmental and quality performance has resulted in the Management Services division at Sellafield achieving or bettering most of its safety and environmental targets during the financial year. However, we have had an INES level 3 incident at Thorp, and we are implementing the recommendations made by the Board of Inquiry with immediate effect.

The Thorp Incident
On 22 April 2005, British Nuclear Group reported that a pipe had failed in one of the heavily shielded cells, known

as the feed clarification cell, in the Thorp Head End plant at Sellafield. This resulted in a quantity of dissolved nuclear fuel being released into a sealed containment. There was no danger to our staff, the public or the environment.
The key recommendations of the investigation were as follows:

- Ensuring that a detailed engineering review is conducted to confirm that the potential for stress induced fatigue is adequately addressed across the Sellafield site
- Improving the maintenance, testing and reliability of cell instrumentation and other systems that give indications of plant abnormality
- Reviewing operating practices throughout the plant to ensure lessons learned are implemented and embedded.

The maintenance of safety and environmental integrity has remained our absolute priority during both the recovery of the liquor and the future return of the plant to service.

Whilst recognising the challenges that we are facing at Thorp, we have continued to achieve a strong operational performance at the rest of the Sellafield site. In particular, we have made good progress in delivering some key clean-up milestones ahead of programme. Through consistently good plant performance and the application of novel ways of working, we have made headway in reducing hazard on the site, and have delivered a financial performance that exceeds our targets.

Management Services - Reactor Sites
Chapelcross power station ceased operation on 29 June 2004 after 50 years of operation, and a lifetime of producing enough electricity to power 15million homes for a year. Despite this event and the two unplanned outages at Sizewell A and Oldbury, output for reactor sites was only marginally below target. Total electricity output for the year was 13.83 TWh. Shortfalls from Chapelcross, Sizewell A and Oldbury were mitigated by Wylfa, where output was particularly strong. The successful completion of the major work required on the generator transformer at Sizewell A allowed the reactor to return to service earlier than originally planned, preventing further reductions in total outputs. Oldbury had to remain offline after an outage for work required on the graphite safety case of one of its reactors.

On the whole, our environmental performance remains good, although we are disappointed to report six environmental non-compliances. As three of these events were associated with discharges from site sewage plants, we will be strengthening our compliance arrangements regarding auxiliary plant systems.

The RoSPA recognition for industrial safety performance, including the President's Award at Sizewell A and Berkeley, was a major achievement. We are also delighted that Sizewell A has been given a unique award by the risk management consultants Det Norske Veritas. In a unique double, the power station in Suffolk - an electricity generator for nearly 40 years - was awarded perfect tens for its management of both safety and environmental performance.

Project Services

We highlighted our intention to be a full market-player in the new NDA market through the creation of Project Services as a 'Tier 2' contractor to Site Licence Companies, as well as serving a diverse European customer base. In establishing this business, we believe that it will also support broader NDA objectives of lower cost decommissioning solutions and strengthening the UK decommissioning supply chain. Given the go-ahead by the DTI in June 2004, the last year has seen great progress in delivering major projects to Reactor Sites and Sellafield, reducing costs and timescales and driving innovation into technical solutions.

BNG America (formerly BNFL Inc.)

BNG America continued its strong safety and quality performance this year, as well as achieving profits on its underlying business in line with the year's target. Following the agreement between the Department of Trade and Industry (DTI) and the US Department of Energy (DOE) on the legacy contracts, East Tennessee Technology Park project work is nearing completion. The Advanced Mixed Waste Treatment Facility in Idaho, following a recent successful customer audit, transferred to the DOE in April 2005.

New DOE design and engineering contracts were awarded at Richland, with project execution currently exceeding customer expectations. Waste shipment operations at the Savannah River site exceeded the year's target.

In April 2005, BNFL Inc. officially changed its name to BNG America to realign it with its parent company, British Nuclear Group.

BNG America will continue BNFL Inc.'s tradition as a leading provider of nuclear decommissioning and clean-up operations in the United States. BNG America has provided a good source of experienced personnel to the sites in the UK and also provides access to expertise in the broader US clean-up market.

The Future

Our challenge for the year ahead is to build on the foundations we have in place. Our objectives are threefold. First, we will continue to establish a strong site management and clean-up company in the UK which meets our customers' needs. Second, we will grow and operate a vibrant project-based company to address the sub-contractor nuclear clean-up market, both here in the UK and in continental Europe. Finally, in the United States, we will pursue a low risk contract model on nuclear decommissioning and clean-up sites.

Given the clear positioning we have created for British Nuclear Group, we are confident in our ability to create value for our Shareholder, both in terms of reducing the overall liability bill as well as adding value to our business.

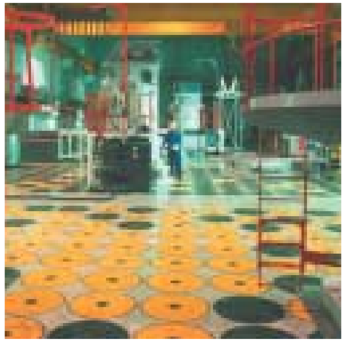
Main Picture:
Steel cutting in the reactor building at Trawsfynydd

Case study I image
Vitrified Product Store at Sellafield

Case study II image
John Clarke and the Norwegian Environment Minister Børge Brende

Case study III image
Hinkley Point A Control Room

case study I



Vitrification plant

The Vitrification Plant at Sellafield achieved its best ever year of operations, exceeding its target to deliver 460 containers to store. On 31 March 2005, the plant had manufactured 478 containers and placed 462 to store.

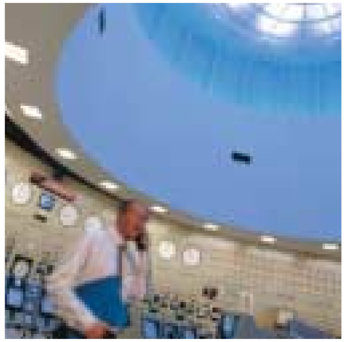
The previous highest annual total production was 341, which was achieved during the last financial year. The target next year is higher still at over 500 containers to store.

case study II

Technetium-99

Discharges of the radionuclide Technetium-99 (Tc-99) from the Sellafield site have been reduced by over 90% following the development of groundbreaking chemical treatment process. This achievement has won awards from the Norwegian Rogaland Liberal Party and the UK Environment Agency. It also gained recognition from the people of the Lofoten Islands, Norway. John Clarke (above right) is seen unveiling a commemorative plaque with the Norwegian Environment Minister, Børge Brende.

case study III



Hinkley Point A

The last of more than 71,000 fuel elements has been removed from the two reactors at Hinkley Point A power station and transported to Sellafield in special flasks, four months ahead of schedule. Defuelling of Reactor 2 started in December 2001, and on Reactor 1 about three months later. The despatch of the final flask means that 99% of the radioactivity has now been removed from site.

'We are working to put the needs of our customers first.'

David Bonser *Director*, Spent Fuel Services.

- Go-ahead given for intermediate-level waste substitution
- Eurofab shipment successfully delivered
- Pacific Crane and Pacific Swan ships decommissioned to the highest standards

As of 1 April 2005, Spent Fuel Services (SFS) has been put under the legal structure of British Nuclear Group Sellafield Limited as part of British Nuclear Group Limited.

SFS acts as the interface between the utility customers and the reprocessing activity in British Nuclear Group. The Division also provides rail and sea transport services, primarily for bringing spent fuel to the reprocessing plants and returning Mox fuel and waste to customers.

SFS performed well in the last year with profit before interest and taxation of £18million (2004: £18million) on a turnover of £101million (2004: £107million).

Following the Government's decision to allow overseas customers to accept slightly increased volumes of high-level waste in place of greater volumes of intermediate - level waste, we are now discussing practical details with customers for this substitution of wastes.

Although the Sellafield Mox Plant (SMP) had a slower start than expected with its commissioning, fuel assemblies were manufactured and shipped to our European customer in May 2005.

In the last year, six other shipments - a total of 12 flasks of spent fuel from Europe to Sellafield were completed.

The two ships that had reached the end of their working lives were decommissioned using best practice ship breaking procedures. The Direct Rail Services (DRS) business had around 754 flask movements, and a growing volume of non-nuclear, commercial traffic.

Our sea transport service successfully completed the delivery of plutonium from the USA to France. It was then manufactured into Mox fuel and returned to the USA. This was part of a US programme to dispose of weapons plutonium safely by fabricating it into Mox fuel (see case study II).

We are seeing the new financial year as one of opportunity. In operational terms, the first Mox delivery from SMP was a milestone, and one on which we intend to build.

case study I

Substitution

On 7 December 2004 the government approved a 'substitution' policy for the management of nuclear waste. In exchange for returning to our overseas customers an additional amount of high level waste (HLW), the UK will retain intermediate-level waste (ILW) due to be repatriated. The amount retained will result in an increase of one per cent in ILW stocks.

The exchange of wastes is environmentally neutral to both the UK and overseas customers. Substitution enables a reduction in transportation and relevant costs. It should also bring additional revenue that can be used for remediation by the NDA.

case study II

Eurofab

In September 2004 PNTL shipped 140 kg of weapons plutonium from Charleston, South Carolina to Cherbourg, France for the US Department of Energy. The plutonium was manufactured into Mox fuel and returned to the US by PNTL in March 2005. It will be utilised at the Catawba nuclear power station in South Carolina.

The Eurofab project is designed to demonstrate to US federal authorities that weapons plutonium can be disposed of safely by fabricating it into Mox fuel and burning it in commercial nuclear reactors. This is part of a programme to reduce stockpiles of weapons grade plutonium in the USA and Russia.

'The theme this year has been safety, performance and success.'

Steve Tritch *Chief Executive,* Westinghouse

- Excellent operational performance
- Days Away Case Rate lowest on record
- 'Customer First' initiative proving a success
- Commitment to Research and Development
- Investment in the business continues - majority interest in PaR Nuclear Inc. purchased
- Significant new orders won for fuel and services business
- Bid to build four new reactors in China awaiting decision

Westinghouse is a multifaceted worldwide nuclear company acquired by BNFL in 1999. We provide fuel, services, technology and equipment to the international nuclear industry, with nearly half the operational power plants around the world using Westinghouse technology. Our role is to help our customers produce safe, low-cost and environmentally friendly electricity. The considerable successes of the past year are attributable to the dedicated efforts of our 7,700 worldwide employees, alongside the following three factors:

- First, is the market backdrop of a resurgent international commercial nuclear power industry, a welcome development after the limbo of the last decade
- Second, our 'Customer First' initiative, which has begun to significantly enhance our ability to better anticipate and meet customer needs and expectations, while improving quality of product, service and delivery
- Third, is our unrelenting commitment to Research and Development.

These have enabled Westinghouse to again log first class financial results, exceeding our targets on turnover, orders and profit.

Financial Performance

The profit before amortisation for goodwill was $153million (2004: $162million) on a turnover of $1,788million (2004: $1,783million). The capital spending for 2005 was $57million (2004: $31million) and the total Research and Development expenditure was $51million.

Operational Performance

In the safety arena, Westinghouse, for the second straight year, bettered its increasingly stringent performance objective by at least 25%, bringing the company's Days Away Case Rate (DACR) to a record low 0.24, a 37% improvement over last year. Operationally, our 'Customer First' initiative is now in its second full year. To date, more than 60 'Customer First' projects have been successfully completed, with no less than 375 ongoing or in development. More than 225 Westinghouse employees from across all segments of the company have undergone 'Customer First' training, and 500 more are scheduled to do so over the next two years.

Core Fuel and Services Businesses Remain Strong

Our performance has been well balanced both from a business segment and geographic perspective. Last year Westinghouse won a number of significant orders in its core fuel and services business segments. These included a $50million award from RWE Power AG in Germany, a 13.5% power uprate project at Ringhals 3 in Sweden, a $27million contract extension from Ameren UE, a $140million award from PG&E, and a $90million award to provide technology, training, equipment and installation services for a tube mill for the Korea Nuclear Fuel Company in the Republic of Korea.

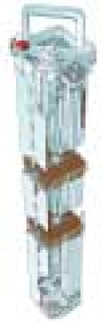
Finally, investment in the business continues with the recent purchase of a majority interest in PaR Nuclear Inc.

case study I

Robots Thrive In France

Westinghouse is expanding its steam generator maintenance work at nuclear power plants in France by using a lightweight (28-lb.) inspection robot. PEGASYS, developed at the Westinghouse Waltz Mill nuclear service centre in Pittsburgh, was qualified for use in France in 2004. The robot uses tube-walking technology for speed, simplicity and reliability, repairing tubes at the same time as inspection. PEGASYS also conducts small-scale plugging, in-situ leak testing, and stabilizer insertion operations. Its use reduces costs, improves productivity, and reduces worker radiation exposure.

case study II



Westinghouse Expands Fuel Fabrication

Fabrication of the first tranche of BWR fuel at the Westinghouse Columbia Fabrication Facility (USA) is scheduled to begin October 2005. Sixteen reloads of SVEA-96 Optima2 fuel, Westinghouse's leading fuel for BWR reactors, are planned for delivery to Exelon Generation's Dresden and Quad Cities nuclear power plants in Illinois. The fuel offers significantly improved fuel utilization through more uniform moderation distribution and increased reactivity, resulting in a more regular power and burn-up distribution.

Main picture: PWR Fuel - Top Nozzle 18x18 (for German type of reactor design)
Case study I: PEGASYS robot
Case study II: The BWR fuel rod

New Plant Segment Continues To Brighten

The new plant segment of the nuclear power industry continued to brighten in the last year. In addition to our ongoing involvement in the Republic of Korea's robust new-build market, there were three other highlights to the year:

- Last September the U.S. Nuclear Regulatory Commission (NRC) granted Final Design Approval (FDA) to the Westinghouse AP1000 reactor
- In co-operation with Mitsubishi Heavy Industries, a bid was submitted in February to provide four AP1000s, technology transfer and peripheral services to China
- Westinghouse joined NuStart, a consortium of prominent nuclear plant operators and suppliers pursuing a process designed to significantly reduce the time it takes to bring a new plant on line in the U.S.

Market, Technology Success in France

The French nuclear market, with 58 plants providing approximately 75% of the country's electricity, is among the most forward-looking in the world. It was also a market that was largely closed to Westinghouse until the European Union opened the market for competition in 2002. Since then, Westinghouse has won major fuel and services contracts that have made France one of the company's most important growth markets. In December 2002, we were selected to provide up to 20% of the total fuel requirements of Electricité de France (EDF), with the first shipment of 1300 MWe plant fuel taking place in March 2004. In June of that year, Westinghouse received subsequent orders for a cumulative total of 10 reloads for 900 MWe plants.

Additionally, the new Beacon Advanced Core Monitoring System was tested successfully at EDF's Graveline 1 plant in December 2004. Westinghouse also successfully employed the patented PEGASYS data acquisition robot, which resulted in winning a five-year contract to provide 50% of EDF's steam generator inspection work.

The Future

The commercial nuclear power industry is on the threshold of significant growth. Westinghouse has continued to invest considerable resources in Research and Development and in the commercialisation of new processes and technologies. As a result, we are ideally positioned to participate in the nuclear resurgence in the future.

'A challenging but successful year of safely delivering nuclear research, development and scientific services to our customers.'

Peter Bleasdale *Managing Director,* Nexia Solutions

- New name and brand launched in February 2005
- Investment in the business continues – AEAT Nuclear Science purchased
- RoSPA sector award for occupational safety won

Nexia Solutions (formerly known as Nuclear Sciences and Technology Services) was launched in February 2005 as part of the restructuring of the nuclear industry in the UK. Our aim is to build a sustainable business which will preserve the country's essential nuclear skills and facilities, and provide a core offering of technology services and solutions across the nuclear fuel cycle - primarily based in the UK. Much of the emphasis this year has been on ensuring that all aspects of the company are ready to enter a full commercial operation. This has involved everything from the development of a new operating model to negotiating initial contracts for sales and procurement activities.

Financial Performance

Despite fluctuations in turnover as a result of reduced customer demand and the transfer of part of our business to British Nuclear Group, Nexia Solutions achieved its profit and cash targets for the year. Turnover for the year was £113million (2004: £127million) on which an operating profit of £6million was earned. (Broadly consistent with last year after adjusting for changes in organisational structure). Non-BNFL related turnover grew by £2million to £12million as a result of the acquisition of AEAT Nuclear Science business. We also had a £4million exceptional charge relating to the removal of work streams and the increased levels of flexibility required by the business.

Transitional Activities

As a new company built on the foundations of Nuclear Sciences and Technology Services, much of the year has been devoted to setting Nexia Solutions on a firm footing. Part of this work has involved defining and refining our offering to customers. This is based on a powerful combination of the knowledge and experience of our people. The support for customers is provided in these four key areas:

- Operating Plants - maintaining the licence to operate and improving performance
- Decommissioning and clean-up - supporting cost reduction and programme acceleration in the UK
- Nuclear Strategy - assisting UK nuclear policy development and implementation
- Laboratory Management - management of multifaceted nuclear laboratory facilities on several sites.

Other transitional activities have included the development of contracts covering sales and procurement activities, and the establishment of leases to enable the operation of facilities at Sellafield, Windscale and Springfields. These activities have resulted in securing work volumes and a contractual framework to support our successful operation as a commercial subsidiary. Also, as part of the transition plan, a new operating model has been implemented, based on a project delivery approach. This will increase our focus on customer delivery and provide the platform for driving cost efficiencies into the business.

Operational Performance

Nexia Solutions has continued with a challenging but successful year of safely delivering nuclear research, development and scientific services to our customers. Under formal agreements with our major customers, we have met rigorous cost control, effectiveness targets and performance based incentives in delivering products and services. These include technical support to improve the performance of existing nuclear operations, site remediation activities and continued support and leadership of the University Research Alliances. The latter are at the forefront of the revival in the study of nuclear science in the UK.

We embarked on a major cultural change programme in support of the new brand identity initiative. The activities included developing awareness, motivational training and other processes to enable Nexia Solutions to become self standing and be able to provide the best possible service on behalf of our customers.

Finally, against a strong general EH&S performance, Nexia Solutions was delighted to have been granted the RoSPA research & development services sector occupational safety award for the second year running.

The Future

The outlook for Nexia Solutions is positive. By using our unique combination of skills, we have established the foundations of a robust business focusing on the needs of our customers. This places the company in a key position to deliver the technology component of the clean-up mission for the NDA and its sites, as well as supporting other customers such as British Energy and the Ministry of Defence. The company also has the skills to play a key role in underpinning nuclear research needs for the UK.

case study I

Non-intrusive site characterisation

Nexia Solutions used non-intrusive survey techniques to confirm the precise locations of contaminated land on a 10,000 square metre area used as waste trenches at Sellafield. Traditionally, investigations of this nature have used drilling and sampling techniques. Instead, we used ground-penetrating radar. This confirmed trench boundaries and provided information on the shape, volume and location of the wastes. Our solution is safer, quicker and more cost effective for the customer. It costs only £200,000 compared to an original cost of £6million.

case study II

Plutonium Residues

There are around five tonnes of plutonium residues at Sellafield unsuitable for recycling. The Australian Nuclear Science and Technology Organisation (ANSTO) has developed a synthetic rock, known as SYNROC. Nexia Solutions has worked with ANSTO to modify SYNROC to incorporate plutonium residues. This innovative solution provides safe storage for all the plutonium residues at Sellafield. The liability value ascribed to these residues in the Sellafield Lifecycle Baseline Plan is £141million. Our solution will save around £100million of baseline cost.

Main picture:
Safety is important in all aspects of Nexia Solutions work

Case study I: Trenches identified at Sellafield

Case study II : 'Synroc'

Financial Review

John Edwards, Group Finance Director

Overview

We are in the somewhat unusual position that the most significant issue in these financial statements for 2004/05 is the event which took place the day after the financial year ended. The NDA transfer is under European Union State Aid investigation and so only a partial transfer and balance sheet reconstruction could actually take place on 1 April 2005. The remainder cannot be completed until European Union clearance is given. That said, the restructuring was sufficient to allow full operation of the planned NDA market in both an operational and commercial sense.

We have had another good year's operational performance – other than Mox all major operational targets have again been met. Mox fuel production continued to be challenging but excellent progress was made particularly in the last part of the year. The 2004/05 target was met in May (albeit slightly after the end of the financial year) with the manufacture and successful shipment of the first four fuel assemblies from SMP.

The continuing strong operational performance reflects in the improvement in our underlying results over those of the previous year. Reduced Mox losses, better contribution from Westinghouse fuel production, a reassessment of certain customer arrangements and better electricity prices (offset by reduced generation volumes) have all contributed to a lower loss before interest, tax and exceptional items of £144million (2004: £283million). Whilst electricity prices have improved, Magnox continues to generate three figure accounting losses. The loss also includes charges for the partial repair of pension deficits and a major IT implementation.

In 2004/05 we took £243million of exceptional charges including two major items (see note 4). We initiated an efficiency programme across our UK businesses and this has required £94million of restructuring provisions mainly in British Nuclear Group. Whilst most of the financial benefits of this restructuring will pass to the NDA under our contracts, we believed this was the right thing to do in order to prepare our business for the future. We also took a charge of £150million as a result of a number of commercial settlements with customers, primarily within BNG America.

We explained in last year's accounts that there were discussions between the US DOE and the UK DTI, supported by BNFL, around two large clean-up contracts run by our US subsidiary BNG America. Negotiations on these contracts have now concluded and as a result since closing the books we have received $460million of cash although we had to take an accounting write off. This transaction achieved the strategic aim of reducing our major exposure to clean-up projects in the United States.

The cash position was an outflow of £438million (£134million in 2004) (as reconciled on page 24). Liabilities discharge expenditure in the UK totalled £725million (£510million in 2004). The net cash flow from other activities was positive, with contributions from Westinghouse, our investment in Urenco, the remaining operating Magnox power stations and Sellafield commercial operations. Cash funding for BNG America was required (prior to the settlement detailed above) and £44million was spent on the partial repair of pension fund deficits in the UK. We invested £23million in an acquisition by Westinghouse and spent £36million on a major IT transition programme to enable our UK businesses to meet the information needs of our new customer, the NDA.

The pipe fracture at Thorp, described in the British Nuclear Group's review (pages 14 and 15), was identified after the year end. Clean-up operations are now completed and we are committed to getting the plant ready to restart reprocessing operations as soon as it is safe to do so. We are not aware of any material impact on the accounts as presented. Thorp is one of the assets which transferred to the NDA on 1 April 2005 and we are undertaking current clean-up activities under our contract with them.

Key Issues

Exceptional Items

Note 4 sets out the exceptional charges in these accounts, which in total amount to £243million. In addition to the restructuring costs (£94million) and commercial settlement charges (£150million) already discussed there is the small £9million charge associated with the restructuring of our Captive Insurance companies. Previously we had four Captives, in preparation for the restructuring on 1 April 2005, one company was wound-up and the charge relates to fees payable to transfer out its residual liabilities. On 1 April 2005, two of the remaining Captives transferred to the NDA and the Group retains one.

Nuclear Liabilities

In the accounts for the year ended 31 March 2005, the directors have made their best estimate of the cost of discharging the nuclear liabilities and have used this estimate as a basis for the nuclear provisions on our balance sheet. Our role from 1 April 2005 is to operate as a contractor to deliver the NDA's plan for liabilities discharge. The NDA, as a liabilities agency, may develop different views as to the approaches taken to cleaning up the sites. Accordingly, we as a Board have reviewed our assumptions at 31 March 2005 and in the circumstances, concluded that our 'best estimates' remain unchanged.

Financial Review

Progress towards the NDA

The NDA 'went live' on 1 April 2005 and on that date we transferred substantial assets and certain liabilities and began to run the UK sites as a 'contractor' to the NDA. At the same time we started the balance sheet reconstruction. The immediate impact on our balance sheet is set out in note 36 to these accounts but the final transfers and restructuring cannot take place until the European Union State Aid investigation is complete. The initial step on 1 April 2005 has transferred both the ownership and the future economic benefits of our fixed assets on our UK sites to the NDA along with associated accounting balances; certain funds have also transferred. On the liabilities side there has been a limited accounting transfer pending completion of the State Aid investigation.

Whilst, as set out in note 36, the immediate impact is a deterioration in our net deficit position with the introduction of a debenture (see below); this is a feature of the restructuring on 1 April being a transitional step rather than the full transfer.

Most of the 'split' of assets and liabilities has been incorporated in the 2004/05 accounts in the allocation between BNFL ALFA and the rest of the Group. The analysis of the 2004/05 segmental profit and loss set out in note 2 to the accounts is now getting close to reflecting the shape of the newly structured business. This is reflected in the comparison with the prior year, which shows the impact of the changes in Springfields' structure for Westinghouse and margins for British Nuclear Group. The most significant structural change not yet reflected in these accounts is in Spent Fuel Services where there were further transfers of assets and economic benefits to the NDA on 1 April 2005. In future SFS will operate mainly on the basis of fees earned which will substantially reduce its margins from 2004/05 levels. The profit margins on the NDA contracts for 2005/06 have only recently been agreed and the outturn will depend very much on how our businesses perform. We continue to expect the new businesses to give profits before interest and tax of circa £150million. Until the State Aid investigation is complete the Group will however, retain certain liability and asset accounting balances. Any top-up or movements in these net liabilities will reduce the operating profits generated by the new business.

Financial Performance

Group turnover is broadly in line with last year. At the operating level, the loss reduced to £216million before exceptionals (£135million improvement over 2004). After a contribution from joint ventures and associated undertakings of £72million the Group halved its 2004 loss (£144million in 2005, £283million in 2004) before interest, tax and exceptionals.

Our net financing costs are higher than last year (£84million compared with £20million) almost entirely due to the increase in provisions which in 2005 used an RPI of 3.2% compared with 2.5% the previous year.

This resulted in a loss before tax and exceptionals of £228million (2004: £303million). Taking account of exceptional items the Group generated a loss before taxation of £471million (2004: £299million).

The net cash outflow of the businesses was £438million (2004: £134million). The reported statutory cash flow has to reflect movements in 'cash' as defined in FRS1 'Cashflow Statements'. This definition does not include withdrawal of our longer term deposits which do not qualify as cash under FRS1 (unless they are accessible within 24 hours) and also excludes income or expenditure from the Nuclear Liabilities Investment Portfolio (NLIP) which is treated as a fixed asset. The table below explains how the total business cashflow reconciles to the FRS1 reported cashflow.

	2005 £m	2004 £m
Total cash outflow from the business	(438)	(134)
Expenditure/(Income) from NLIP (Note 1)	281	(153)
Liquidated long term deposits (Note 2)	932	159
Reported Cash Inflow/(Outflow)	775	(128)

Note 1

The expenditure from the NLIP represents the amount drawn down to fund liabilities net of interest received. This year interest received was £182million but £463million was drawn down to offset our spend on liabilities which totalled £725million. (The net movement is thus £463million - £182million = £281million). The NLIP is accounted for as a fixed asset.

Note 2

This is particularly high because most of our investments were liquidated at 31 March 2005 to enable the transfer to different accounts on 1 April 2005. Whilst this treasury management is irrelevant in the total cashflow it counts as an 'inflow' under FRS1.

Treasury

The financial resources of the Group at 31 March 2005 comprised :

	2005 £m	2004 £m
Nuclear Liabilities Investment Portfolio	3,750	4,016
Investments and short term deposits	1,367	1,522
Net Cash at Bank and in Hand	132	119
	5,249	5,657
Secretary of State's Undertaking	5,956	5,525
	11,205	**11,182**

Financial Review

We had originally anticipated that the NLIP, Secretary of State's Undertaking and certain other investments would transfer to the NDA on 1 April 2005 along with the financial responsibility for UK nuclear liabilities. With the restriction of the State Aid transition arrangements the partial restructuring has involved:-

- a transfer of £685million of the NLIP to the NDA to enable it to fund the liability discharge programme in 2005/06
- a transfer to the NDA of £684million of investments, short term deposits and cash; of this £211million is related to the funds in the two Captive Insurance companies whose ownership transferred. The majority of the rest of the transfer enables NDA to fund the creditors for which they took responsibility from 1 April 2005 (£473million)
- creation of a £575million debenture, paying 7.5% interest. Interest payments start in December 2006.

After these transfers on 1 April 2005, the Group's total financial resources reduced to £9,836million (£9,261million net of the debenture). During the process of the restructuring the Group undertook a full review of its working capital requirements post 1 April 2005 and agreed arrangements with the Shareholder which allows us to operate within a reasonable and sufficient working capital allowance with call on the remaining funds (which are ring fenced) if additional funds are required to meet the Group's liabilities. Since closing the books we have received $460million from the US DOE settlement, this has been included within the ring fenced funds. We are satisfied that the combination of the working capital and access to the ring fenced funds are sufficient to allow the Board to make the going concern assertion on pages 32 and 33.

The new business model (from 1 April 2005) does not have major working capital requirements. Westinghouse is financially self sufficient having call on both a $50million receivables facility and a $470million credit facility with a consortium of leading banks (increased in the year from $340million). For British Nuclear Group, the majority of expenditure at its UK sites is funded by the NDA as expenditure is incurred and so, provided we comply with the contract terms, should have a limited working capital requirement. Nexia and Spent Fuel Services are smaller activities with limited working capital needs.

At 31 March 2005 the Group remained relatively debt free with total loans of £26million (2004: £27million). The £26million related to Westinghouse's $50million receivables facility which was fully drawn down at 31 March 2005. At 31 March 2005 there was no cash drawn down on the Westinghouse credit facility and for the major part of the year the facility has again been used solely to support letters of credit.

Apart from the Captive Insurance subsidiaries which hold equities, the investment policy of the rest of the Group is to hold funds in gilts and bank deposits, money funds and cash funds which are less vulnerable to market variations. This keeps the Group's investment risk at a low level. From a liquidity perspective, the Group's investment policy is fairly straightforward and similarly cautious. Except for the NLIP, which is mostly invested in gilts, it is largely centred around short to medium term deposits in the money market with strong banks. Whilst the Captive Insurance subsidiaries' investment policy is to hold equities and fixed income investments through managed funds, the policy is designed to maintain risk within a defined limit. During the year the Captives have revised their investment policy to reduce further the equity content and thus reduce risk.

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

The Group's policy is to hedge against specific foreign currency transactions including some substantial US$ denominated intergroup loans. In addition to forward currency sales during the year the Group also used a put option to avoid cash exposure on the US$ position. Bank charges include the amortised premium for this transaction. The closing US$:£ exchange rate as at 31 March 2005 was 1.89 (2004: 1.84)

Summary

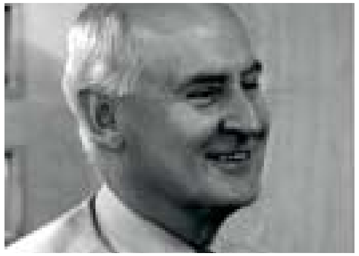
Although the full balance sheet restructuring could not take place on 1 April 2005, the transitional arrangements are sufficient to establish the new NDA business model as fully operational and to ensure the Group has adequate liquidity. This is good news. The hand-over at 1 April 2005 of assets and liabilities was a major and complex exercise. From a financial perspective we have been pleased with the co-operative and well controlled manner in which it was conducted. It was a major step forward for the Group.

The year's results continue to be overshadowed by historic issues and our cash flows continue to be dominated by liability spend. This can only be partially addressed before the State Aid investigation is completed. BNFL has delivered good underlying operational results and we remain optimistic about the new UK business model. We look forward to our world-wide operations meeting the challenges of the testing commercial environments in which they operate.

June 2005

Board of Directors

Gordon Campbell (58)
Non-Executive Chairman. Joined the Board on 1 August 2000 and appointed Non-Executive Chairman on 1 June 2004. He is part-time Chairman of Babcock International Group PLC and former Chief Executive of Courtaulds plc. He is also Non-Executive Chairman of Jupiter Second Split Trust and a Non-Executive Director of Senior plc. Following the restructuring of the Group on 1 April 2005, he joined the Board of the new ultimate parent company British Nuclear Fuels plc as Non-Executive Chairman.



Mike Parker (58)
Group Chief Executive. Joined the Board on 1 August 2003. He was formerly President and Chief Executive Officer of The Dow Chemical Company, USA. He served in a wide variety of jobs in research, manufacturing and the commercial area since he began his Dow career in 1968, working in the USA, UK, Switzerland and Hong Kong before joining the Dow Board in 1995. Following the restructuring of the Group on 1 April 2005, he joined the Board of the new ultimate parent company British Nuclear Fuels plc as Group Chief Executive.

John Edwards (56)
Group Finance Director. Joined the Board on 1 July 2000. He is the former Finance Director of Jaguar, Northern Electric and Meyer International plc. He is Chairman of BNFL's Investment Review Panel, a Director of Westinghouse Electric Company and BNG America and a Non-Executive Director of Urenco, where he is Chairman of its Audit Committee. Following the restructuring of the Group on 1 April 2005, he joined the Board of the new ultimate parent company British Nuclear Fuels plc as Group Finance Director.

David Bonser (56)
Executive Director responsible for BNFL ALFA, Spent Fuel Services, Corporate Responsibility and Human Resources. Joined the Board on 30 September 1999. He joined BNFL in 1971 and has been a Director of Thorp, Company Development and Engineering, Waste Management and Decommissioning prior to his current position. He has been a member of the Government's Radioactive Waste Management Advisory Committee (RWMAC) and was Chairman of United Kingdom Nirex Limited until December 2001. Following the restructuring of the Group on 1 April 2005, he joined the Board of the new ultimate parent company British Nuclear Fuels plc as Executive Director.

Dr Gail de Planque (60)
Non-Executive Director. Joined the Board on 23 November 2000. She has served as a Commissioner with the United States Nuclear Regulatory Commission and as the Director of the Department of Energy's Environmental Measurements Laboratory in New York City. She is a Fellow and past President of the American Nuclear Society, a Fellow of the American Association for the Advancement of Science, a member of the National Academy of Engineering and a former member of the National Council on Radiation Protection and Measurements. She is President of Strategy Matters Inc., and serves as a member of the Board of Trustees of Northeast Utilities and is a Director of TXU Corp., BNG America and Landauer, Inc. She left the Board on 31 March 2005 at the completion of her term of office with the Company.

Joe Darby (56)
Non-Executive Director. Joined the Board on 23 January 2002. He was previously Chief Executive Officer and Deputy Chairman of LASMO plc. He is Chairman of Faroe Petroleum plc, a Non-Executive Director of John Mowlem & Company plc and a Fellow of the Institute of Petroleum. Following the restructuring of the Group on 1 April 2005, he left the Board on 31 March 2005 and joined the Board of the new ultimate parent company British Nuclear Fuels plc as a Non-Executive director.

Jim Currie (63)
Non-Executive Director. Joined the Board in November 2002. A highly experienced international civil servant, he spent many years working in Brussels and Washington. He was formerly Director General at the European Commission with responsibility for the EU's Environmental Policy and previously Director General for Customs and Indirect Taxation. He is also a director of The Royal Bank of Scotland plc and International Adviser to Eversheds. Following the restructuring of the Group on 1 April 2005, he left the Board on 31 March 2005 and joined the Board of the new ultimate parent company British Nuclear Fuels plc as a Non-Executive Director.

Brian George (69)
Non-Executive Director. Joined the Board on 12 March 2001. He is a former Executive Director of Nuclear Electric plc and NNC Limited. He has worked for General Electric Company as Chief Executive of GEC Marine Limited, Vickers Shipbuilding and Engineering Limited and Yarrow Shipbuilders Limited. He left the Board on 31 March 2005 at the completion of his term of office with the Company.

Richard Stone (62)
Non-Executive Director. Joined the Board on 1 January 2001. He retired from the Global Board of PricewaterhouseCoopers at the end of 2000. Prior to the merger with Price Waterhouse in 1998, he was Deputy Chairman of Coopers & Lybrand, and Chairman of the firm's European corporate finance activities. He is Chairman of CSW Group Limited and Drambuie Limited and Non-Executive Director of Halma plc, TR Property Investment Trust plc, Trust Union Finance (1991) plc and Gartmore Global Trust plc. He left the Board on 31 March 2005 at the completion of his term of office with the Company.

Bill Lowther (65)
Non-Executive Director. Joined the Board on 1 August 2000. He was Director-General of Surface Specialties plc (UCB Films plc worldwide) until his retirement in 2002 when he was appointed as Non-Executive Chairman. In September 2004, Innovia Films Limited acquired the films activities of UCB SA and he was appointed Executive Deputy Chairman. He remains Deputy Chairman of Securency Pty. Ltd. which is now a joint venture company between The Reserve Bank of Australia and Innovia Films Limited. Since 1998 he has been a member of the North West Business Leadership Team and is Chairman of the Cumbria Strategic Partnership. He left the Board on 31 March 2005 and joined the Board of the new ultimate parent company British Nuclear Fuels plc as a Non-Executive Director.

Report of the Directors for the year ended 31 March 2005

1 The directors of British Nuclear Group Sellafield Limited (formerly British Nuclear Fuels plc) present to the Shareholders their thirty-fourth Annual Report together with the audited accounts for the year ended 31 March 2005.

On 1 April 2005 the Company re-registered as a private limited Company and changed its name to British Nuclear Group Sellafield Limited as a consequence of the Energy Act 2004. The Company is now part of a Group of Companies headed by a newly established ultimate parent Company which has taken the name of British Nuclear Fuels plc.

Review of the year

2 Group results

The Group loss for the year, after taxation and minority interests amounted to £344million (2004: loss of £194million), comprising of a loss on ordinary activities before taxation and exceptional items of £228million (2004: loss of £303million), net exceptional costs of £243million (2004: net exceptional income of £4million) and a taxation credit of £127million (2004: tax credit £105million). Further information on the Group's results is contained in the Financial review on pages 23 to 25.

3 Dividend

No dividend is proposed (2004: nil).

4 Activities

The main activities of the Group during the year comprise:

- Westinghouse: provides fuel, services, technology, plant design and equipment to the worldwide nuclear electric power industry
- British Nuclear Group: provides nuclear clean-up, decommissioning and environmental services, together with nuclear facility management and operations to governments and the commercial nuclear industry worldwide with its main focus in the UK
- Spent Fuel Services: manages the customer interface between the Group and utility customers, both in the UK and overseas, that send used fuel to Sellafield for recycling. It also provides a transport service, primarily to bring spent fuel to the reprocessing plants and to return Mox fuel to customers
- Nexia Solutions: launched out of the business group NSTS, provides a core offering of technology services and solutions across the nuclear fuel cycle, primarily based in the UK
- Corporate: mainly comprises head office functions, certain strategic initiatives and Captive Insurance subsidiaries
- Assets, Liabilities and Financing Agency (BNFL ALFA): held the assets and liabilities that were expected to be transferred to the NDA and acted as the internal customer for the management and operations businesses in British Nuclear Group and Westinghouse.

From 1 April 2005, as part of the restructuring, Spent Fuel Services is an operating unit within the British Nuclear Group Sellafield Limited legal entity, one of the main operating companies within the British Nuclear Group. Information on the activities and developments of the business of the Group during the year is contained in the Chairman's statement, Group Chief Executive's review, Business reviews and Financial review appearing on pages 5 to 25.

5 Research and development

The Group had a significant research and development programme. During the year, the Group spent a total of £92 million (2004: £98 million) on research and development, £55 million (2004: £59 million) were costs charged against profits, and £37 million (2004: £39 million) was charged to customers. Future research and development will be funded by customers.

6 Personnel

The average number of people employed by the Group during the year was 23,016 (2004: 23,149). At 31 March 2005 the total number of people employed by the Group was 23,050 (2004: 23,153). The Group has instigated organisational restructuring at a number of its sites. Further information on the organisational restructuring and employee information is given in notes 4 and 5 within the accounts on pages 46 and 47.

The Group attaches importance to the involvement of its employees in the Group'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 Group. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of the employees.

The Group is committed to a policy of equal opportunities for all employees. Great care is exercised in our recruitment and selection procedures to ensure that there is no discrimination and that training is given to meet individual needs. Applications by people with disabilities are given full and fair consideration and, wherever practical, provision is made for their special needs. The same criteria for training and promotion apply to people with disabilities as to any other employee. If employees become disabled, every effort is made to ensure their continued employment.

7 The Board of Directors

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

Chairman and Executive Directors:

Mr H R Collum (Chairman) (4*)
resigned 31 May 2004

Mr G A Campbell (3*), (4*)
(Chairman from 1 June 2004)

Mr M D Parker (Group Chief Executive)
Mr J F Edwards
Mr D R Bonser

Non-Executive Directors:
Mr J Darby (1), (3)
Dr E G de Planque (1), (3)
Mr B V George (1*), (2)
Mr W Lowther (2)
Mr R A Stone (2*), (4)
Mr J Currie (3), (4)

BV George, RA Stone and Dr EG de Planque resigned as Non-Executive Directors on 31 March 2005 at the completion of their term of office with the Company. J Darby, J Currie and W Lowther resigned as Non-Executive Directors on 31 March 2005 and joined the Board of the new ultimate parent Company, British Nuclear Fuels plc.

Committees:
(1) Environment, Health and Safety Committee
(2) Audit Committee
(3) Remuneration Committee
(4) Nominations Committee
* denote Chairman of the Committee

During the year, the Secretary of State for Trade and Industry was recorded in the Company's register of Directors as a Shadow Director of the Company within the meaning of Section 741 of the Companies Act 1985 and ceased to be a Shadow Director on 31 March 2005.

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

8 Directors' shareholdings and interests

No serving director held, at any time during the year, any share in, or convertible loan stock of, the Company or any of its subsidiaries or of any associated undertaking or joint venture, except for the Shadow Director, who held 32,668,243 (2004: 32,668,243) ordinary £1 shares.

9 Contributions for political or charitable purposes

The Group has not made any political donations in the year (2004: £nil). Charitable contributions during the year amounted to £3.1million (2004: £3.3million), in support of the Group's community involvement and economic regeneration initiatives. These contributions included £1.8million (2004: £1.9million) to support West Cumbrian economic regeneration initiatives.

10 Policy on the payment of suppliers

The Company has continued its commitment to the Prompt Payers Code of Practice drawn up by the Confederation of British Industry (CBI), with rigorous monitoring of payment performance. The Company has two main payment terms, net monthly and 35 days. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. After taking account of genuine queries, 81% (2004: 85%) of invoices submitted against these terms were paid on time. The average age of invoices outstanding at 31 March 2005 was 20 days (2004: 34 days). A new computer system was introduced in April 2005 causing administrative problems regarding the payment of invoices. This is being progressively resolved.

11 Post balance sheet events

The Energy Act 2004 created the Nuclear Decommissioning Authority (NDA) to secure the operation, decommissioning and clean-up of designated nuclear sites. On 1 April 2005, specified assets and liabilities of the Group transferred to the NDA under the Act. The Group now operates these sites under site management and operations contracts with the NDA. Full particulars of this event can be found in note 36 to the accounts.

In April 2005, a leak from a fractured pipe was identified in the Thorp Head End plant at Sellafield. This fracture resulted in dissolved nuclear fuel being released into a sealed contained area designed to handle such an incident. The Company initiated a Board of Inquiry into the incident and is implementing its findings. The leak has been recovered and the Company aims to recommence reprocessing as soon as possible. There is no material impact on these accounts as presented at this time.

The maintenance of safety and environmental integrity remains the Company's absolute priority during both the recovery of the liquor and the subsequent return of the plant to service.

12 Auditors

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

By order of the Board

A J Shuttleworth
Secretary
30 June 2005

Corporate Governance

The statement below reflects the position for the financial year ended 31 March 2005. The Company having been re-registered as a private limited company on 1 April 2005 and renamed British Nuclear Group Sellafield Limited is now part of a Group of Companies headed by a newly established ultimate parent Company which has taken the name British Nuclear Fuels plc.

British Nuclear Fuels plc as the ultimate parent Company has adopted the Code which will apply, where appropriate, to its Group of Companies and with effect from 1 April 2005, it implemented a Board Committee structure in accordance with the Code.

Statement of compliance

The Board continued to be committed to achieving the highest standards of Corporate Governance and has committed to comply with the Revised Combined Code issued by the United Kingdom Listing Authority (the Code).

The Board

During the year the Board comprised a Non-Executive Chairman, three Executive Directors, including the Group Chief Executive and six Non-Executive Directors. The biographies of the directors can be found on pages 26 and 27 which provides details of each director's experience and qualifications together with a note of the Chairman's other commitments. Gordon Campbell was the appointed Senior Non-Executive Director up until his appointment as Non-Executive Chairman on 1 June 2004. For the period from 1 June 2004 to 31 March 2005, the Board considered that the appointment of a Senior Non-Executive Director would not enhance the manner in which they discharged their duties, however from 31 March 2005, Joe Darby was appointed the senior Non-Executive Director of the new ultimate parent Company, British Nuclear Fuels plc. The Non-Executive Directors were independent from management and were free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Non-Executive Directors bring a wide range of experience to the Board and participate in decisions on key issues facing the Group.

Nine Board meetings were held during the year at various Group locations and the Board took the opportunity to combine the formal business of the Group with site visits and presentations. All members of the Board attended the meetings with the following exceptions. Apologies were received from Jim Currie who could not attend the October 2004 Board meeting, Brian George who could not attend the February 2005 Board meeting and Richard Stone who could not attend the March 2005 Board meeting due to other outside commitments.

The Board had the responsibility for the overall management and performance of the Group. There was a formal schedule of matters reserved for the Board's decision which included:

- Approval of the Group's commercial strategy, annual operating budget, business plan and corporate plan
- Committing to major capital and decommissioning expenditure, acquisitions and disposals
- Director and senior executive appointments
- Changes to the Group's management and control structure
- Changes to the Group's capital structure or status
- Approval of the Group's treasury policy
- Approval of interim and final Annual Report and Accounts
- Review of the effectiveness of the Group's system of internal control and risk management strategy and arrangements
- Approval of the Group's Health, Safety and Environmental policy.

The Chairman and Company Secretary ensured that appropriate and timely information was supplied to the directors to enable the Board to discharge its duties. All directors are entitled to obtain independent professional advice at the expense of the Company and have access to the advice and services of the Company Secretary. The Company Secretary has the responsibility for ensuring the Board procedures are followed and for advising on governance matters. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Evaluation

During the year, the Board undertook a formal evaluation of its own performance and that of its committees and individual directors. The process comprised of an assessment questionnaire completed by all directors covering the effectiveness of the Board and its committees including composition, arrangements for and content of meetings, access to information and administrative procedures and individual performance of the Chairman and individual Non-Executive Directors. A summary of findings has been produced by the Company Secretary. The Group Chief Executive evaluated the performance of the Executive Directors.

The Chairman meets from time to time the Non-Executive Directors in the absence of the Executive Directors.

Corporate Governance *(continued)*

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

The Board established five Committees; the Environment, Health and Safety Committee; the Audit Committee; the Remuneration Committee; the Nominations Committee and the General Purposes Committee. Each committee consisted of Non-Executive Directors with the exception of the General Purposes Committee. All Non-Executive Directors received notice of each Committee meeting and were entitled to attend. Only directors who were formally appointed to a Committee had the right to vote on matters presented to it. The Company Secretary was the secretary of each Committee. The terms of reference of each Committee were reviewed and revised to take account of changes to the Combined Code. The members of each Committee are set out within the directors' report on pages 28 and 29.

Report of the Audit Committee

The Audit Committee met four times during the year and all members attended each meeting. In addition to the members of the Committee, the following attended the meetings at the invitation of the Chairman of the Committee: the Non-Executive Chairman, the Group Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Internal Audit and the external auditor.

In discharging its responsibilities, the work of the Committee included the following activities during the year:

- On behalf of the Board, reviewed the 2004 Annual Report and Accounts and the 2005 Interim accounts
- Matters relating to the integrity of the Annual Report and Accounts of the Group, the accounting policies adopted and significant financial reporting judgements made were discussed and agreed
- On behalf of the Board, reviewed the Group's system of internal control and risk management along with the significant risks facing the Group
- Reviewed and recommended to the Board the appropriateness of the delegated powers of the financial authority
- Monitored the activities of the internal audit function including the audit plan and received regular reports of the internal audit findings and reviewed the effectiveness of the internal audit function
- The independence and objectivity of the external auditors was examined, this included reviewing the arrangements for and the nature and value of any non-audit work performed
- Received reports from the external auditor three times during the year and met with both the external and internal auditors without management present
- Reviewed the Group's 'Serious Concerns' reporting arrangements in accordance with the Combined Code.

Environment, Health and Safety Committee

The Environment, Health and Safety Committee sought to provide assurance on the adequacy and implementation of the Group Environment, Health and Safety manual, the UK Environment, Health and Safety manual and the Group Environment, Health and Safety inspection, audit and monitoring programme. The Committee sought assurances on the implementation and recommendations in independent inspection/audit reports, internal reports and presentations on specific initiatives within the Group and inspections undertaken by the regulatory bodies. The Committee met four times during the year and all members attended each meeting.

Remuneration Committee

The Remuneration Committee made recommendations to the Board on the remuneration of Executive Directors and the conditions of service applied. The decisions on directors' remuneration were made by the Shareholder. The Committee met three times during the year, all members attended each meeting except that apologies were received from Joe Darby who could not attend the March 2005 meeting due to outside commitments. The Remuneration Report is on pages 34 and 35.

Nominations Committee

The Nominations Committee reviewed the Board structure, size and composition and makes recommendations to the Shareholder. The Committee met once during the year and all members attended the meeting.

General Purposes Committee

The General Purposes Committee had all the powers of the Board in relation to any matters, which in the opinion of the Chairman or Group Chief Executive, were deemed urgent or necessary

Corporate Governance *(continued)*

for the proper conduct of the business of the Company. All Board members are considered members of the Committee. The quorum for a meeting of the Committee was the Chairman together with two further directors, one of which must be a Non-Executive Director. The Committee met three times during the year and reported all matters undertaken by it to the next meeting of the Board.

Internal control

During the financial year the Group continued to develop, embed and adapt to the new organisational structure, the procedures necessary to implement the guidance issued by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales published in September 1999 (the Turnbull Committee Report) and report in accordance with that guidance.

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

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risk faced by the Group. This process was fully implemented across the Group for the whole of the financial year.

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

- The Audit Committee reviews the effectiveness of the internal controls within the Group and refers its findings to the Board. It receives reports from the internal and external auditors as well as from business groups as appropriate

- The Group operates a risk management process, which identifies the key risks facing the business. This process is based on each business group and function identifying their key risks and the probability of those risks occurring, their impact and actions being taken to manage those risks. This information is used to produce a profile of the significant risks facing the Group

- At the year end, before producing the statement in the Annual Report and Accounts, the Board asks each Executive to complete a Letter of Assurance confirming compliance with the Group's policies, procedures and risk management processes. The outcome of these letters is reported to the Audit Committee and thereafter to the Board. The Board, via the Audit Committee, reviews the significant risks twice a year and receives regular reports on any major issues or changes in risks

- The Board also receives regular reports from its Board Committees, business groups and risk management functions which include details of any control failures, together with corrective actions planned or executed, in addition to other performance reports.

Areas of non-compliance with the Combined Code

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

- The Articles of Association did not require the Executive Directors to submit themselves for re-election at least every three years. However, two Executive Directors' service contracts provide for a notice period of one year and one for a notice period of six months, and notices can be given at any time. Non-Executive Directors were appointed for a fixed term not exceeding three years before being eligible for re-election

- Members of the Board considered that the appointment of a senior Non-Executive Director would not enhance the manner in which they currently discharge their duties for the period from 1 June 2004 to 31 March 2005, however from 31 March 2005, Joe Darby was appointed as the Senior Non-Executive Director of the new ultimate parent Company, British Nuclear Fuels plc

- The Group does not currently have any institutional investors and therefore the requirements of the Combined Code in this area were not relevant.

Going concern

During the year, the Group has continued to have a net asset deficit. At the balance sheet date the deficit was £3,223million (2004: £2,895million), principally as a result of the impact of the Historic Waste Management Strategy introduced in 2002, which substantially increased the level of nuclear provisions on the Group's balance sheet.

These accounts have been prepared on a going concern basis, having taken account of the Group's cash resources, the Energy Act 2004, and

Corporate Governance *(continued)*

the subsequent creation of the Nuclear Decommissioning Authority (NDA). Consideration has also been given to the European Commission's ongoing State Aid investigation and the transitional arrangements that have been put in place. The impact of these transitional arrangements is set out in note 36 (post balance sheet events). During the process of restructuring, the Group undertook a full review of its working capital requirements in the transitional period. Arrangements were agreed with the Shareholder which enable the Group to operate within a reasonable and sufficient working capital allowance with call on the remaining funds (which have been ring-fenced) if additional amounts are required to meet the Group's liabilities. If and when the European Commission's investigation into State Aid is successfully completed, a final transfer of remaining assets and liabilities will be made to the NDA. We expect the overall impact of these transactions to address the Group's balance sheet deficit.

Whilst recognising that approval of State Aid is a matter for the European Commission, both the directors and the Secretary of State are confident of a successful outcome of the European Commission's review.

If the outcome of the European State Aid review is unsuccessful, the Group understands that the Secretary of State will have regard to the necessity of avoiding any prejudice to creditors and the long term position of BNFL.

Remuneration report

The Remuneration report below reflects the position for the financial year ended 31 March 2005, prior to the restructuring of the BNFL Group as a consequence of the provisions of the Energy Act 2004.

In line with best practice, the Board will be submitting this report on directors' remuneration for the financial year ended 31 March 2005 to the Shareholder at the forthcoming Annual General Meeting.

Remuneration Committee

The following directors were members of the Remuneration Committee of the Company during the year ended 31 March 2005:

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

The members of the Remuneration Committee had no financial interest in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. On 1 June 2004 Gordon Campbell was appointed Non-Executive Chairman of the Board of Directors of the Company in place of Hugh Collum. With effect from that date he continued as Chairman of the Remuneration Committee until a new Chairman could be appointed. On 31 March 2005, Jim Currie was appointed Chairman of the Remuneration Committee of the new ultimate parent Company, British Nuclear Fuels plc.

The Remuneration Committee, during the period received advice from Towers Perrin who were appointed by the Company on behalf of the Remuneration Committee.

The Remuneration Committee met three times during the year, making recommendations to the Shareholder on the terms and conditions, including annual remuneration and bonus awards, for the Executive Directors. The Group Chief Executive and the Director of Human Resources normally attended these meetings by invitation, except when their own salaries were discussed.

Policy on remuneration of Executive Directors

During the year the remuneration policy for Executive Directors was to offer a competitive remuneration package which attracted and retained the highest calibre of Executive and ensured that individual rewards and incentives are directly aligned with the performance of the Group and the interests of the Shareholder. In order to ensure this approach was competitive, a group of UK and international companies was selected, and the remuneration components were compared against this group. The Company's policy continued to be in line with median levels of this group.

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

i. Basic salary and benefits

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

ii. Performance related bonus

The performance related bonus targets are agreed at the beginning of each year by the Remuneration Committee and approved by the Shareholder. Annual performance bonuses, which this year have a maximum payment of 40% of basic salary, were subject to the achievement of targets linked to the Group's performance in safety, profit before taxation and cash flows and a further 10% of basic salary was for the formation of the Nuclear Decommissioning Authority on 1 April 2005. The Shareholder approves the amount of bonus payable to each Executive Director after considering the achievements against targets and after recommendation from the Remuneration Committee.

iii. Pensions

David Bonser is 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. No employer contributions have been made to this scheme during the year. Details of the pension benefits for David Bonser are as follows:

Table A. Pension benefits

	2005 £	2004 £	Increase £	Increase excluding inflation/ contributions* £
Accrued pension benefits	**100,582**	92,051	8,531	5,670
Accumulated lump sum	**301,747**	276,153	25,594	17,011
Transfer value*	**1,759,750**	1,574,683	185,067	163,067*

*The transfer value represents a potential liability of the pension scheme and is not a sum paid or payable to David Bonser. The increase in transfer value of £163,067 is net of contributions made by David Bonser himself.

Pension contributions of £30,200 (2004: £28,750) for John Edwards were made to his personal defined contribution pension scheme. Mike Parker receives a monthly allowance of 10% through his salary and makes his own pension arrangements.

Service agreements

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

Information regarding Executive Directors' service contracts up to 31 March 2005 is summarised in the table below:

	Date of current contract	Notice period from Company	Notice period from director
Mike Parker	1 August 2003	12 months	6 months
John Edwards	1 July 2000	12 months	3 months
David Bonser	30 September 1999	6 months	3 months

The normal retirement age for each of the Executive Directors is 60, with the exception of Mike Parker, who has a normal retirement age of 62.

Chairman and Non-Executive Directors

The original date of appointment as a director of the Company and the termination dates were as follows:

	Date first appointed	Date of termination
Hugh Collum	21 July 1999	31 May 2004
Gordon Campbell	1 August 2000	31 March 2007
Jim Currie	1 November 2002	31 March 2005
Joe Darby	23 January 2002	31 March 2005
Brian George	12 March 2001	31 March 2005
Bill Lowther	1 August 2000	31 March 2005
Gail de Planque	23 November 2000	31 March 2005
Richard Stone	1 January 2001	31 March 2005

None of the Non-Executive Directors had service agreements. Each Non-Executive Director's Letter of Appointment provided for an initial period of three years. Letters of Appointment do not provide for a notice period. Non-Executive Directors did not serve longer than two consecutive periods of three years; such reappointment was subject to the approval of the Shareholder.

Gordon Campbell's Letter of Appointment, as Non-Executive Chairman, provided for a period of three years ending 31 March 2007 and was terminable by the Company at six months' notice.

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

Remuneration report *(continued)*

Directors' remuneration

Table B below summarises total directors' remuneration. Benefits to Executive Directors include non-cash benefits comprising the provision of a company car and private healthcare.

The remuneration of the Non-Executive Directors took the form of fees, which are approved by the Shareholder. The fee for each Non-Executive Director was £25,000 per annum. In addition, each Non-Executive Director receives an additional £5,000 per annum if they served as a Chairman of a Board Committee or £2,500 per annum if appointed a Member of a Committee, except the General Purposes Committee, for which no fees are paid. The Non-Executive Directors were reimbursed reasonable travel expenses.

The remuneration of the Chairman was determined by the Shareholder.

Fees paid to former directors

During the year the former directors as detailed in Table C below received payments from the Group. These payments relate to the provision of consultancy services within areas of their individual expertise.

Table C. Fees paid to former directors

	2005 £	2004 £
G G Butler	**53,000**	78,109
J Rimington	**4,500**	3,875
W L Wilkinson	**49,853**	38,708

Table B. Directors' remuneration

	Basic salary and fees		Annual bonus		Benefits		Total	
	2005 £	2004 £	**2005** £	2004 £	**2005** £	2004 £	**2005** £	2004 £
Chairman								
Gordon Campbell (1)	**142,917**	31,250	**–**	–	**19,811**	–	**162,728**	31,250
Hugh Collum (2)	**27,500**	165,000	**–**	–	**4,070**	26,098	**31,570**	191,098
Executive								
Mike Parker (3)	**470,000**	300,000	**103,776** (4)	58,570	**61,975**	87,153	**635,751**	445,723
David Bonser	**220,000**	207,000	**61,864** (4)	40,303	**18,592**	17,429	**300,456**	264,732
John Edwards	**302,000**	287,500	**84,922** (4)	55,976	**18,093**	17,872	**405,015**	361,348
Norman Askew	**–**	125,317	**–**	–	**–**	6,321	**–**	131,638
Non-Executive								
Jim Currie	**30,000**	28,750	**–**	–	**–**	–	**30,000**	28,750
Joe Darby	**30,000**	28,750	**–**	–	**–**	–	**30,000**	28,750
Brian George	**32,500**	31,250	**–**	–	**–**	–	**32,500**	31,250
Bill Lowther	**27,500**	26,250	**–**	–	**–**	–	**27,500**	26,250
Gail de Planque	**30,000**	28,750	**–**	–	**–**	–	**30,000**	28,750
Richard Stone	**32,500**	31,250	**–**	–	**–**	–	**32,500**	31,250
							1,718,020	1,600,789
Fees paid to Gail de Planque as a Non-Executive Director of BNG America (formerly BNFL Inc), a wholly owned subsidiary of the Company							**22,326**	18,081
							1,740,346	1,618,870

(1) Fees paid to Gordon Campbell for 2004 relate to his position as a Non-Executive Director. Fees paid in 2005 relate to his position as Non-Executive Director from 1 April 2004 to 31 May 2004 of £5,417 and as a Non-Executive Chairman from 1 June 2004 to 31 March 2005 of £137,500.

(2) Fees paid to Hugh Collum for 2005 relate to the period of his appointment from 1 April 2004 to 31 May 2004.

(3) Remuneration paid to Mike Parker for 2004 is for a full year in 2005, whereas 2004 was for 8 months. Benefits paid to Mike Parker relate primarily to relocation and accommodation costs. In addition to the remuneration shown in the table above, Mike Parker received £47,000 (2004: £30,000) to be used at his discretion to fund personal pension contributions.

(4) Subject to final agreement with the Shareholder.

On behalf of the Board

G A Campbell Chairman
30 June 2005

Statement of directors' responsibilities

in respect of the preparation of the accounts

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

- Select suitable accounting policies and then apply them consistently;

- Make judgements and estimates that are reasonable and prudent;

- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them for safeguarding the assets of the Group, and to prevent and detect fraud and other irregularities.

Independent Auditors' report

to the members of British Nuclear Fuels plc

We have audited the Group's accounts for the year ended 31 March 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the notes there to, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 36. These accounts have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Fundamental uncertainty in the estimation of nuclear liabilities

In forming our opinion, we have taken note of the fundamental uncertainty inherent in the estimation of nuclear liabilities which is described in note 24a. Our opinion is not qualified in this respect.

Fundamental uncertainty relating to the outcome of the European Commission State Aid review and going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the accounts concerning the uncertainty as to the outcome of the European Commission State Aid review and the implications for going concern. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 March 2005 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Manchester
30 June 2005

Consolidated profit and loss account

for the year ended 31 March

	Note	2005 Operations before exceptional items £m	2005 Exceptional items (note 4) £m	2005 Total £m	2004 Operations before exceptional items £m	2004 Exceptional items (note 4) £m	2004 Total £m
Turnover – ongoing operations		2,484	–	2,484	2,504	–	2,504
– acquisitions		12	–	12	–	–	–
Turnover from continuing operations		2,496	–	2,496	2,504	–	2,504
Less: share attributable to joint ventures		(132)	–	(132)	(182)	–	(182)
Group turnover from continuing operations		2,364	–	2,364	2,322	–	2,322
Operating costs and expenses	3	(2,580)	(253)	(2,833)	(2,673)	–	(2,673)
Operating loss from continuing operations		(216)	(253)	(469)	(351)	–	(351)
Operating (loss)/profit – ongoing operations		(217)	(253)	(470)	(351)	–	(351)
– acquisitions		1	–	1	–	–	–
Group operating loss from continuing operations		(216)	(253)	(469)	(351)	–	(351)
Operating profit – joint ventures		14	–	14	25	–	25
– associated undertakings		58	–	58	43	–	43
Profit on sale of fixed assets	6	–	10	10	–	4	4
(Loss)/profit before investment income, interest and taxation		(144)	(243)	(387)	(283)	4	(279)
Investment and interest income	7	692	–	692	652	–	652
Interest payable and similar charges	8	(776)	–	(776)	(672)	–	(672)
(Loss)/profit on ordinary activities before taxation		(228)	(243)	(471)	(303)	4	(299)
Taxation on (loss)/profit on ordinary activities	9	104	23	127	105	–	105
(Loss)/profit on ordinary activities after taxation		(124)	(220)	(344)	(198)	4	(194)
Profit attributable to minority interests		–	–	–	–	–	–
(Loss)/profit transferred to reserves	29	(124)	(220)	(344)	(198)	4	(194)

Following the creation of the NDA on the 1 April 2005, BNFL will operate specified nuclear sites under site management and operation contracts with the NDA. The operations transferring to the NDA have not been classified as discontinuing on the basis that the profit and loss impact is not separately identifiable without making significant assumptions.

Further details of the transfers to the NDA and the transitional arrangements during the period of the European Commission's State Aid Review are included in note 36, post balance sheet events.

Consolidated statement of total recognised gains and losses

for the year ended 31 March

	2005 £m	2004 £m
Loss for the financial year	(344)	(194)
Currency translation differences	16	(10)
Total gains and losses recognised since the last Annual Report and Accounts	(328)	(204)

Consolidated balance sheet

as at 31 March

	Note	2005 £m	2005 £m	2004 £m	2004 £m
Fixed assets					
Intangible assets	10		627		634
Tangible assets	11		7,020		7,174
Investments:	12				
Joint ventures:					
Share of gross assets		52		708	
Share of gross liabilities		(46)		(675)	
		6		33	
Associated undertakings		130		109	
Nuclear Liabilities Investment Portfolio		3,750		4,016	
Other		3		3	
			3,889		4,161
			11,536		11,969
Current assets					
Stocks	13	543		517	
Debtors:					
Amounts falling due within one year	14	1,206		946	
Amounts falling due after more than one year:					
Customer recoverable relating to nuclear liabilities	15	4,441		4,631	
Secretary of State's Undertaking	16	5,956		5,525	
Other debtors		24		132	
Total amounts falling due after more than one year		10,421		10,288	
Investments and short-term deposits	17	1,367		1,522	
Cash at bank and in hand		136		128	
		13,673		13,401	
Creditors: Amounts falling due within one year	18	(1,612)		(1,426)	
Net current assets			12,061		11,975
Total assets less current liabilities			23,597		23,944
Creditors: Amounts falling due after more than one year	19	(4,762)		(4,895)	
Provisions for liabilities and charges	23	(22,058)		(21,944)	
			(26,820)		(26,839)
Net liabilities			(3,223)		(2,895)
Capital and reserves					
Called up share capital	28	33		33	
Profit and loss account	29	(3,259)		(2,931)	
Shareholders' funds	30		(3,226)	–	(2,898)
Minority interests			3		3
			(3,223)		(2,895)

The Group's balance sheet includes those assets and liabilities that transferred to the NDA on the 1 April 2005. Further details of the transfers and the transitional arrangements during the period of the European Commission's State Aid Review are included in note 36, post balance sheet events.

Gordon Campbell Chairman
30 June 2005

Mike Parker Chief Executive
30 June 2005

John Edwards Group Finance Director
30 June 2005

Company balance sheet

as at 31 March

	Note	2005 £m	2005 £m	2004 £m	2004 £m
Fixed assets					
Tangible assets	11		8,101		8,158
Investments	12		4,859		5,175
			12,960		13,333
Current assets					
Stocks	13	61		80	
Debtors:					
Amounts falling due within one year	14	3,095		2,612	
Amounts falling due after more than one year:					
Customer recoverable relating to nuclear liabilities	15	9,563		9,789	
Other debtors		18		127	
Total amounts falling due after more than one year		9,581		9,916	
Investments and short-term deposits	17	934		821	
Cash at bank and in hand		9		36	
		13,680		13,465	
Creditors: Amounts falling due within one year	18	(1,865)		(2,906)	
Net current assets			11,815		10,559
Total assets less current liabilities			24,775		23,892
Creditors: Amounts falling due after more than one year	19	(6,860)		(6,248)	
Provisions for liabilities and charges	23	(17,783)		(17,411)	
			(24,643)		(23,659)
Net assets			132		233
Capital and reserves					
Called up share capital	28		33		33
Profit and loss account	29		99		200
Shareholders' funds	30		132		233
			132		233

The Company's balance sheet includes those assets and liabilities that transferred to the NDA on the 1 April 2005. Further details of the transfers and the transitional arrangements during the period of the European Commission's State Aid Review are included in note 36, post balance sheet events.

Gordon Campbell Chairman
30 June 2005

Mike Parker Chief Executive
30 June 2005

John Edwards Group Finance Director
30 June 2005

Consolidated cash flow statement

for the year ended 31 March

	Note	2005 £m	2004 £m
Net cash outflow from operating activities	i	**(385)**	(169)
Dividends from joint ventures and associated undertakings	ii	**18**	28
Returns on investment and servicing of finance	iii	**249**	263
Taxation	iv	**(6)**	32
Capital expenditure and financial investment	v	**(8)**	(460)
Acquisitions and disposals	vi	**(25)**	35
Net cash outflow before use of liquid resources and financing		**(157)**	(271)
Management of liquid resources	vii	**932**	159
Financing	viii	**–**	(16)
Increase/(decrease) in cash in the year		**775**	(128)

Notes to the consolidated cash flow statement

for the year ended 31 March

Reconciliation of net cash flow to movement in net funds

	2005 £m	2004 £m
Increase/(decrease) in cash in the year	**775**	(128)
Repayment of loans and finance leases	**–**	16
Withdrawal from investments and deposits not qualifying as cash	**(932)**	(159)
Change in net funds resulting from cash flows	**(157)**	(271)
Reversal of previously recognised losses on investments held by Captive Insurance subsidiaries	**8**	61
Exchange adjustments	**8**	(15)
Movement in net funds in the year	**(141)**	(225)
Opening net funds	**1,612**	1,837
Closing net funds	**1,471**	1,612

Analysis of changes in net funds

	At 1 April 2004 £m	Cash flow £m	Non-cash movements £m	At 31 March 2005 £m
Cash at bank and in hand	128	4	4	**136**
Cash in short-term deposits	123	766	5	**894**
Overdrafts (note 18)	(9)	5	–	**(4)**
	242	775	9	**1,026**
Loans due within one year (note 18)	(27)	–	1	**(26)**
Finance leases (note 18)	(2)	–	–	**(2)**
Current asset investments	1,399	(932)	6	**473**
	1,612	(157)	16	**1,471**

Non-cash movements relate to the reversal of previously recognised losses on investments held by Captive Insurance subsidiaries and exchange losses on retranslation of current asset investments denominated in foreign currencies.

Notes to the consolidated cash flow statement

for the year ended 31 March

		2005 £m	2004 £m
	Operating loss	**(469)**	(351)
	Depreciation/amortisation/impairment charges	**541**	553
	Nuclear provisions charge	**112**	85
	Nuclear provisions discharge of liabilities	**(748)**	(604)
	Other provisions charge	**491**	252
	Other provisions release/expenditure	**(343)**	(250)
	(Increase)/decrease in debtors	**(58)**	7
	Increase in creditors	**55**	109
	Increase in stock and work in progress	**(26)**	(62)
	Increase in advance payments	**64**	94
	Grants released	**(4)**	(2)
i.	**Net cash outflow from operating activities**	**(385)**	(169)
	Dividends from joint ventures and associated undertakings		
	Dividends from joint ventures	**9**	20
	Dividends from associated undertakings	**9**	8
ii.	**Dividends from joint ventures and associated undertakings**	**18**	28
	Returns on investment and servicing of finance		
	Interest received	**271**	296
	Interest paid	**(5)**	(29)
	Income from other investments	**1**	–
	Dividends paid to minority interests	**(1)**	(1)
	Bank charges	**(17)**	(3)
iii.	**Returns on investment and servicing of finance**	**249**	263
	Taxation		
	UK corporation taxation received	**1**	35
	Overseas taxation paid	**(7)**	(3)
iv.	**Taxation**	**(6)**	32
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(307)**	(311)
	Proceeds from disposal of tangible fixed assets	**18**	4
	Cash received from/(invested in) Nuclear Liabilities Investment Portfolio*	**281**	(153)
v.	**Capital expenditure and financial investment**	**(8)**	(460)
	Acquisitions and disposals		
	Acquisitions of subsidiary undertakings (note 10)	**(23)**	–
	Disposal of joint ventures (note 12c)	**(3)**	35
	Loans repaid by associated undertakings	**1**	–
vi.	**Acquisitions and disposals**	**(25)**	35
	Management of liquid resources		
	Withdrawal from investments and deposits not qualifying as cash	**932**	159
vii.	**Management of liquid resources**	**932**	159
	Financing		
	Repayment of loans	**–**	(15)
	Finance lease repayments	**–**	(1)
viii.	**Financing**	**–**	(16)

*In 2005, monies were withdrawn from the Nuclear Liabilities Investment Portfolio to contribute to expenditure on discharging liabilities.

Notes to the accounts

1. Accounting policies

a. Accounting convention

These accounts have been prepared on a going concern basis, having taken account of the Group's cash resources, the Energy Act 2004, and the subsequent creation of the Nuclear Decommissioning Authority (NDA). Consideration has also been given to the European Commission's ongoing State-Aid investigation and the transitional arrangements that have been put in place. The impact of these transitional arrangements is set out in note 36 (post balance sheet events). During the process of restructuring, the Group undertook a full review of its working capital requirements in the transitional period. Arrangements were agreed with the Shareholder which enable the Group to operate within a reasonable and sufficient working capital allowance with call on the remaining funds (which have been ring-fenced). If and when the European Commission's investigation into State Aid is successfully completed, a final transfer of remaining assets and liabilities will be made to the NDA. We expect the overall impact of these transactions to resolve the Group's balance sheet deficit.

Whilst recognising that approval of State Aid is a matter for the European Commission, both the directors and the Secretary of State are confident of a successful outcome of the European Commission's review. If the outcome of the European State Aid review is unsuccessful, the Group understands that the Secretary of State will have regard to the necessity of avoiding any prejudice to creditors and the long-term position of the Group. It is not possible to quantify the impact on the accounts should the European Commission's State Aid review be unsuccessful.

The business has undertaken a thorough review of its cash requirements within the transitional period. Sufficient cash has been retained by the Group to meet its needs. Arrangements have been made to enable the Group to access ring-fenced funds if additional cash is required to meet the Group's liabilities.

The accounts have been prepared under the historical cost convention, modified to include the market value of certain current asset investments and in accordance with all applicable United Kingdom accounting standards. FRS 17 Retirement Benefits has continued to be implemented in the year in accordance with the transitional provisions in the standard. FRS 17 will be applied in full in the next financial year. Additional disclosure can be found within note 1l of the accounting policies and note 32 of the notes to the accounts.

b. Basis of consolidation

The consolidated accounts include the accounts of British Nuclear Group Sellafield Limited (formerly British Nuclear Fuels plc) and all its subsidiary undertakings.

Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement, are treated as joint ventures. In the consolidated accounts, joint ventures are accounted for using the gross equity method. Entities, other than subsidiaries or joint ventures, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associated undertakings. In the consolidated accounts, associated undertakings are accounted for using the equity method.

c. Goodwill and other intangible assets

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

For acquisitions of associated undertakings and joint ventures before 1 April 1998, the consolidated accounts include the Group's share of net assets. For acquisitions after 1 April 1998, the consolidated accounts include the Group's share of net assets together with the balance of unamortised goodwill. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary and associated undertakings and joint ventures acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Intangible assets, other than goodwill (note 10), are capitalised at cost and amortised on a straight-line basis over their estimated useful lives but no longer than 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Licences have an estimated useful economic life of 12 years, other intangibles seven years.

d. Turnover

Turnover, which is stated net of value added tax, represents the value of products delivered and services rendered to outside customers. For contracts entered into for the provision of services extending over a period of years (long-term contracts), turnover represents the value of work done in the year including, where appropriate, estimates of amounts not yet invoiced. For electricity generation, turnover represents amounts receivable for sales of electricity through a combination of bilateral contracts, exchange deals and the balancing mechanism of the electricity trading arrangements effective from 27 March 2001.

Substantial payments in advance are held as part of the contractual arrangements under which nuclear fuel services are provided to a number of customers. Interest income earned on these contractual advance payments is recognised as part of turnover on the contracts concerned (note 7). As the anticipated financing income on these contractual advance payments formed an integral part of the negotiation of the commercial terms, this presentation more fairly reflects the commercial terms.

e. Long-term contracts

Profits on long-term contracts are taken in the year in which the services are provided, in a manner appropriate to the stage of completion of the contracts and the nature of the business concerned. Profits are determined proportionate to the prudently assessed overall forecast profitability of the contracts after allowing for contingencies. Full provision is made for losses on contracts in the year in which they are first identified (note 27).

f. Nuclear liabilities

The accounts include provisions for the Group's obligations in respect of nuclear liabilities, being liabilities in respect of the costs associated with nuclear decommissioning, waste management, and reprocessing of fuel from the Group's reactors (note 24). These provisions are based on the latest technical assessments of the processes and methods likely to be used in the future and represent best estimates. They are derived from a combination of the latest technical knowledge available, the existing regulatory regime, commercial agreements and using statistical modelling techniques to evaluate the impact of a range of possible alternative outcomes. The Group's obligations are reviewed on a continual basis and estimates and hence provisions are updated accordingly. Where some or all of the expenditure required to settle a provision is expected to be recovered from another party, in accordance with FRS 12, the recoverable amount is treated as an asset. In respect of waste management or reprocessing the recoverable amounts are included in debtors (note 15), whereas amounts which relate to decommissioning are included as residual values of fixed assets (note 11a). In the profit and loss account, the provisions charges are net of recoveries from customers.

Nuclear provisions are stated in the balance sheet at current price levels, discounted at an appropriate real rate of return to take account of the timing of payments. Each year the financing charges in the profit and loss account include a revalorisation

Notes to the accounts *(continued)*

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

In respect of the Historic Waste Management Strategy referred to in the 'Background to Nuclear Liabilities' on pages 72 to 73 and in note 24, the accounting treatment varies from the normal Group procedures. Despite the extensive work undertaken, the nature of wastes, the length of time for which they have been stored and the age of the storage facilities mean that much further work will be required over a number of years to confirm and further refine this strategy. The Board has recorded its best estimate of the related liabilities based on available knowledge, including a normal level of cost contingency. This estimate would normally be required to include risk, which means the financial implications of a range of possible alternative outcomes associated with the treatment of these wastes. In this case however, the level of uncertainty associated with these alternatives is such that the Board has been unable to quantify the financial impact of the range of alternative outcomes with reasonable certainty.

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

- Decommissioning

Provisions are made for the costs (discounted) of decommissioning the Group's radioactive facilities and thereby reducing the radiological hazard. These decommissioning activities address the demolition of facilities and the management of the associated waste. The extent of decommissioning during the next century will be defined by considering both the requirements to reduce radioactive discharges and to protect the workforce by restricting dose uptake. From a safety or environmental viewpoint complete removal of all facilities on all sites may not be justified. The provisions take account of such issues and consider both facilities which are already operating and those which are expected to be commissioned as part of fulfilling the Group's waste management obligations.

For facilities that have been commissioned, provisions are recognised in full and the discounted costs are capitalised as part of the costs of the asset and depreciated accordingly (note 11). To the extent that costs are recoverable from third parties, they are treated as residual values of the assets concerned and depreciation is adjusted accordingly. Changes in estimates are treated as adjustments to the assets concerned.

Radioactive waste materials arising as a result of the Group's operations give rise to liabilities reflecting the cost of treating and disposing of them. In some instances the provisions so created cover the cost of constructing and decommissioning of plants to manage those wastes. As a result, long before those waste management plants are built and commissioned, the costs of doing so have been provided in accordance with the waste management accounting policy below. Once built, the waste management plants are treated as fixed assets, the costs of which are capitalised and depreciated over the life of the plant. This depreciation charge utilises the provisions already established. On commissioning, the decommissioning costs are capitalised and depreciated accordingly.

- Waste management

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

- Reprocessing of fuel

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

g. Research and development expenditure

Research and development expenditure on projects not specifically recoverable directly from customers is charged to the profit and loss account in the year in which it is incurred (note 3). Expenditure on products for which firm orders have been received is held as part of the value of stocks and work in progress for recovery against the sales value of the initial orders.

h. Tangible fixed assets

Tangible fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost (including decommissioning costs where appropriate see accounting policy 1f) less accumulated depreciation. Assets in the course of construction are stated at cost and are not depreciated until commissioned. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that a provision for impairment is required, or if estimated remaining useful economic lives exceed 50 years. Accumulated depreciation includes any additional charges made where necessary to reflect impairments in value.

Depreciation is calculated to write off the historical cost less residual value of assets, generally by equal annual instalments unless a throughput basis is considered more appropriate, over the period assessed as their useful lives. The periods used for depreciation purposes are:

- buildings 10 to 60 years;
- plant and machinery 10 to 20 years; and
- fixtures, fittings, tools and equipment 3 to 10 years.

Provision is not made for depreciation on freehold land. Leasehold land is amortised over the period of the lease. To the extent that costs are recoverable from third parties, they are treated as residual values of the assets concerned and depreciation is adjusted accordingly.

The Group has commercial arrangements in place for Thorp, which recover capital costs of that plant under reprocessing contracts over a shorter period than the plant's potential economic life. In order to maintain a proper matching for accounting purposes of contract income and related costs, an accrual is made for future depreciation recovered over the contract period, which will be released over the remaining useful economic life of the plant once the related reprocessing contracts are complete. This is referred to as the 'Depreciation matching accrual' in notes 18 and 19.

Capital grants are treated as deferred income and transfers are made to the profit and loss account, generally by equal annual instalments, over the period used for depreciation purposes for the assets to which they relate (notes 3, 18 and 19).

i. Fixed asset investments

Fixed asset investments comprise investments in and loans to subsidiary and associated undertakings and joint ventures, together with investment portfolios held to fund certain long-term nuclear liabilities (note 12f).

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

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

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

Notes to the accounts *(continued)*

j. Current asset investments and short-term deposits
Current asset investments and short-term deposits comprise short and medium-term gilt investments intended to be held to redemption, short and medium-term managed investments and other short-term investments (note 17). Current asset investments are stated at the lower of cost and estimated net realisable value.

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

l. Pensions and post-retirement benefits
The Group provides pension schemes for the benefit of the majority of its employees (note 32). The schemes are funded by contributions, partly from the employees and partly from the Group, to separately administered funds.

For the Combined Pension Scheme, contributions are paid to and benefits are paid by HM Government via the Consolidated Fund. In respect of the Electricity Supply Scheme and the Group Pension Scheme the company operates defined benefit pension schemes which require contributions to be made to separately administered funds. Westinghouse Electric Company and its subsidiaries provide post-retirement benefits in the form of pensions, defined medical, dental and life insurance benefits for eligible retirees and dependants.

The contributions to each of these funds are based on independent actuarial valuations designed to secure the benefits as set out in the rules. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The regular cost is attributed to individual years using recognised actuarial methods. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. The disclosures as required by FRS 17 'Retirement Benefits' are detailed in note 32.

m. Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date, with the following exceptions:

- Deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted;

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets; and

- Provision is made for the 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.

Deferred taxation is measured on a non-discounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date (note 26).

n. Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All exchange differences are taken to the profit and loss account.

The accounts of overseas subsidiary and associated undertakings and joint ventures are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken to reserves (note 29).

o. Derivatives and commodity contracts
The Group 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.

The Group enters into contracts to sell electricity generated by its power stations. The principal contracts for physical delivery are accounted for either on the spot or forward price, depending on the nature of the contract. These forward contracts are accounted for as hedges, with gains and losses recognised when the hedged transaction takes place.

Provisions are made for loss making contracts.

p. Captive Insurance subsidiaries
Investments are stated at the lower of cost and market value at the balance sheet date and are included in current asset investments. The gains or losses on the change in market values and on disposal of investments are taken to the profit and loss account. Gains in market values are only recognised to the extent that they represent reversals of previous impairment losses. Where there is a disposal of part of an investment holding, the gain or loss arising is calculated by reference to the average unit value of the total holding. Full provision is made for all claims incurred, but not settled at the balance sheet date, on the basis of the most up-to-date information (note 27).

q. Leases
Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

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

Notes to the accounts *(continued)*

2. Segmental information

a. Business segment analysis

	Westinghouse £m	British Nuclear Group £m	Spent Fuel Services £m	Nexia Solutions £m	Corporate £m	**Subtotal £m**	BNFL ALFA £m	**Total £m**
2005								
Total sales	1,144	2,016	101	113	8	**3,382**	1,677	**5,059**
Inter-segment sales	(178)	(1,911)	(92)	(101)	(7)	**(2,289)**	(406)	**(2,695)**
Sales to third parties	966	105	9	12	1	**1,093**	1,271	**2,364**
Operating profit/(loss) before amortisation of goodwill	83	87	18	6	(56)	**138**	(312)	**(174)**
Goodwill amortisation charges	(42)	–	–	–	–	**(42)**	–	**(42)**
Operating profit/(loss) after amortisation of goodwill	41	87	18	6	(56)	**96**	(312)	**(216)**
Share of operating profit – joint ventures	–	14	–	–	–	**14**	–	**14**
– associated undertakings	–	–	–	–	58	**58**	–	**58**
Profit/(loss) before interest, taxation and exceptional items	41	101	18	6	2	**168**	(312)	**(144)**
Exceptional items (note 4)	2	(132)	–	(4)	(7)	**(141)**	(102)	**(243)**
Profit/(loss) before interest and taxation	43	(31)	18	2	(5)	**27**	(414)	**(387)**
Inter-segment interest (payable)/receivable	(26)	–	–	(3)	29	**–**	–	**–**
Other investment income/(interest payable)	1	7	1	(1)	35	**43**	(127)	**(84)**
Profit/(loss) before taxation and exceptional items	16	108	19	2	66	**211**	(439)	**(228)**
Exceptional items (note 4)	2	(132)	–	(4)	(7)	**(141)**	(102)	**(243)**
Profit/(loss) before taxation	18	(24)	19	(2)	59	**70**	(541)	**(471)**

The results of Westinghouse in US Dollars are as follows: Turnover to third parties 2005: $1,788 million, (2004: $1,783 million), and operating profit before amortisation of goodwill 2005: $153 million, (2004: $162 million). The Westinghouse segment above includes the contribution from the PaR acquisition (see note 10a). The average US$ exchange rate was $1.85/£ (2004: $1.705/£).

	Westinghouse £m	British Nuclear Group £m	Spent Fuel Services £m	Nexia Solutions £m	Corporate £m	**Subtotal £m**	BNFL ALFA £m	**Total £m**
2004 restated								
Total sales	1,125	1,746	107	127	20	3,125	1,449	4,574
Inter-segment sales	(79)	(1,638)	(50)	(117)	(18)	(1,902)	(350)	(2,252)
Sales to third parties	1,046	108	57	10	2	1,223	1,099	2,322
Operating profit/(loss) before amortisation of goodwill	95	161	18	(8)	(42)	224	(532)	(308)
Goodwill amortisation charges	(41)	–	–	(2)	–	(43)	–	(43)
Operating profit/(loss) after amortisation of goodwill	54	161	18	(10)	(42)	181	(532)	(351)
Share of operating profit – joint ventures	–	25	–	–	–	25	–	25
– associated undertakings	–	–	–	–	43	43	–	43
Profit/(loss) before interest, taxation and exceptional items	54	186	18	(10)	1	249	(532)	(283)
Exceptional items (note 4)	(2)	–	–	–	–	(2)	6	4
Profit/(loss) before interest and taxation	52	186	18	(10)	1	247	(526)	(279)
Inter-segment interest (payable)/receivable	(25)	–	–	(3)	28	–	–	–
Other (interest payable)/investment income	(10)	5	1	(1)	103	98	(118)	(20)
Profit/(loss) before taxation and exceptional items	19	191	19	(14)	132	347	(650)	(303)
Exceptional items (note 4)	(2)	–	–	–	–	(2)	6	4
Profit/(loss) before taxation	17	191	19	(14)	132	345	(644)	(299)

The comparative information has been restated in respect of Nexia Solutions. In the previous year the business was included within Corporate. £15 million of strategic initiatives and technology costs have transferred from Nexia Solutions to Corporate in 2004/2005. These were managed by Nexia Solutions in 2003/2004. Corporate also includes the Captive Insurance companies. From 1 April 2005, as part of the restructuring, Spent Fuel Services will become an operating unit within the British Nuclear Group Sellafield Limited legal entity, one of the main operating companies within the British Nuclear Group.

Notes to the accounts *(continued)*

2. Segmental information *(continued)*

	Westinghouse £m	British Nuclear Group £m	Spent Fuel Services £m	Nexia Solutions £m	Corporate £m	**Subtotal £m**	BNFL ALFA £m	**Total £m**
2005								
Intangible assets	602	25	–	–	–	**627**	–	**627**
Tangible assets	172	279	108	3	20	**582**	6,438	**7,020**
Investments:								
Joint ventures	–	6	–	–	–	**6**	–	**6**
Associated undertakings	–	2	–	–	128	**130**	–	**130**
Other	–	–	–	–	3	**3**	3,750	**3,753**
Total fixed assets	774	312	108	3	151	**1,348**	10,188	**11,536**
Customer recoverable relating to nuclear liabilities	–	–	–	–	–	**–**	4,812	**4,812**
Secretary of State's Undertaking	–	–	–	–	–	**–**	5,956	**5,956**
Other net current assets	(105)	(460)	12	(14)	1,739	**1,172**	121	**1,293**
Net current (liabilities)/assets	(105)	(460)	12	(14)	1,739	**1,172**	10,889	**12,061**
Nuclear provisions	(81)	–	(45)	–	–	**(126)**	(20,715)	**(20,841)**
Other provisions	(229)	(232)	–	(15)	(52)	**(528)**	(689)	**(1,217)**
Other long-term liabilities	(257)	(3)	–	–	256	**(4)**	(4,758)	**(4,762)**
Total long-term liabilities	(567)	(235)	(45)	(15)	204	**(658)**	(26,162)	**(26,820)**
Internal funding	(93)	642	(12)	(191)	(322)	**24**	(24)	**–**
Net (liabilities)/assets	9	259	63	(217)	1,772	**1,886**	(5,109)	**(3,223)**
2004 restated								
Intangible assets	634	–	–	–	–	634	–	634
Tangible assets	353	298	123	23	35	832	6,342	7,174
Investments:								
Joint ventures	–	32	–	–	1	33	–	33
Associated undertakings	–	–	–	–	109	109	–	109
Other	–	–	–	–	3	3	4,016	4,019
Total fixed assets	987	330	123	23	148	1,611	10,358	11,969
Customer recoverable relating to nuclear liabilities	5	–	–	–	–	5	4,889	4,894
Secretary of State's Undertaking	–	–	–	–	–	–	5,525	5,525
Other net current assets	33	19	5	(31)	1,390	1,416	140	1,556
Net current assets/(liabilities)	38	19	5	(31)	1,390	1,421	10,554	11,975
Nuclear provisions	(349)	(7)	(35)	(17)	–	(408)	(20,350)	(20,758)
Other provisions	(346)	(147)	(8)	(4)	(205)	(710)	(476)	(1,186)
Other long-term liabilities	(368)	(19)	(68)	2	259	(194)	(4,701)	(4,895)
Total long-term liabilities	(1,063)	(173)	(111)	(19)	54	(1,312)	(25,527)	(26,839)
Internal funding	(77)	335	(9)	(177)	(72)	–	–	–
Net (liabilities)/assets	(115)	511	8	(204)	1,520	1,720	(4,615)	(2,895)

The comparative information has been restated in respect of Nexia Solutions. In the previous year the business was included within Corporate. In 2004/2005, there have been transfers of assets/liabilities from business units to ALFA (eg. Springfields). This reflects our evolving understanding of the NDA's operating model.

Notes to the accounts *(continued)*

2. Segmental information *(continued)*

b. Geographical segment analysis

	Europe EU (excluding UK) £m	Europe Other £m	Japan and Far East £m	North and South America £m	UK £m	**Total £m**
2005						
Turnover by destination						
Sales to third parties	**504**	**46**	**253**	**600**	**961**	**2,364**
Turnover by origin						
Total sales	**94**	**1**	**17**	**836**	**1,423**	**2,371**
Inter-segment sales	**–**	**–**	**(1)**	**(2)**	**(4)**	**(7)**
Sales to third parties	**94**	**1**	**16**	**834**	**1,419**	**2,364**
Profit/(loss) before taxation by origin						
Operations before exceptional items	**28**	**–**	**2**	**20**	**(278)**	**(228)**
Exceptional items	**–**	**–**	**–**	**(130)**	**(113)**	**(243)**
Total	**28**	**–**	**2**	**(110)**	**(391)**	**(471)**
Net assets/(liabilities)	**265**	**–**	**–**	**459**	**(3,947)**	**(3,223)**
2004						
Turnover by destination						
Sales to third parties	258	59	369	682	954	2,322
Turnover by origin						
Total sales	208	3	3	733	1,393	2,340
Inter-segment sales	–	–	(3)	(10)	(5)	(18)
Sales to third parties	208	3	–	723	1,388	2,322
Profit/(loss) before taxation by origin						
Operations before exceptional items	42	–	1	(19)	(327)	(303)
Exceptional items	–	–	–	–	4	4
Total	42	–	1	(19)	(323)	(299)
Net assets/(liabilities)	243	–	–	747	(3,885)	(2,895)

Notes to the accounts *(continued)*

3. Net operating costs and expenses

	2005			2004
	Total before exceptional items £m	**Exceptional items £m**	**Total £m**	Total before and after exceptional items £m
Employee costs (note 5)	**1,117**	**–**	**1,117**	1,035
Nuclear provisions charge	**112**	**–**	**112**	85
Other provisions charge	**247**	**244**	**491**	252
Depreciation – on capitalised decommissioning costs	**42**	**–**	**42**	47
– provisions for impairment	**47**	**–**	**47**	81
– other depreciation	**410**	**–**	**410**	382
Amortisation of goodwill	**42**	**–**	**42**	43
Raw materials and consumables	**512**	**–**	**512**	537
Research and development charges not directly recoverable from customers	**55**	**–**	**55**	59
Other income and operating charges	**49**	**9**	**58**	208
Operating lease rentals	**5**	**–**	**5**	5
Own work capitalised	**(42)**	**–**	**(42)**	(45)
Own work on nuclear fuel stock	**(12)**	**–**	**(12)**	(14)
Regional development grants released	**(4)**	**–**	**(4)**	(2)
	2,580	**253**	**2,833**	2,673

Auditors' remuneration

It is the Group's policy to engage the Group's auditors, Ernst & Young LLP, on assignments where their expertise and experience with the Group are important or where they win work on a competitive basis. The fees are included in net operating costs and expenses and are analysed below in line with recommended best practice.

Annual audit fees

	Group		Company	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Statutory audit	**1,609**	1,504	**672**	556
Audit related reporting	**224**	224	**170**	174
Total annual audit fees	**1,833**	1,728	**842**	730

Other non-audit fees

	Group	
	2005 £000	2004 £000
Further assurance services	**380**	243
Taxation advice	**94**	329
	474	572

4. Exceptional items

	2005 £m	2004 £m
Liquidation of Insurance Captive	**(9)**	–
Commercial settlements	**(150)**	–
Restructuring costs	**(94)**	–
Increase in operating loss	**(253)**	–
Profit on sale of fixed assets (note 6)	**10**	4
	(243)	4

Liquidation of Insurance Captive

At the year end, the Group was in the process of liquidating Electricity Producers Insurance Company Limited. This has resulted in £9 million of closure costs.

Commercial settlements

The Group has agreed a number of commercial settlements with customers during the year, predominantly the historic BNG America (formerly BNFL Inc.) contracts with the US Department of Energy (DOE). On 9 February 2005, the then Secretary of State for Trade and Industry, Patricia Hewitt, announced that the DTI and BNFL had reached an agreement with the DOE regarding BNG America's historic fixed price clean-up contracts at the East Tennessee Technology Park (ETTP) and the Advanced Mixed Waste Treatment Plant (AMWTP) in Idaho. The agreement, which followed months of negotiations between DTI and DOE officials, resulted in contract modifications providing for the transfer of the AMWTP facility to the DOE in May 2005 for $434 million. The original AMWTP contract envisaged the DOE's purchase of the facility over time. The contract modifications accelerated this action to give the DOE complete control over the project. The agreement settled a number of Requests for Equitable Adjustments and additional potential claims between DOE and BNG America at both projects. BNG America completed all transition activities at AMWTP and the transfer of assets was executed on 30 April 2005, ahead of schedule.

Restructuring costs

The Group has initiated organisational restructuring at a number of sites, predominantly Sellafield and Berkeley. At Sellafield, via a programme of voluntary severance, resource levels are being aligned to site management and operations contracts' funding levels and the engineering function is being integrated into the Sellafield operational structure. Monies were transferred to the NDA on 1 April 2005 to enable them to meet the liabilities in these areas (see note 36). A voluntary severance programme is also underway at Berkeley.

5. Employee information

Average number of employees	**2005**	Restated 2004
Westinghouse	**7,716**	7,665
British Nuclear Group	**13,786**	13,688
Spent Fuel Services	**494**	494
Nexia Solutions	**854**	1,094
Corporate	**137**	176
BNFL ALFA	**29**	32
	23,016	23,149

The comparative information for the average number of employees has been restated in respect of Nexia Solutions. In the previous year, the business was included within Corporate.

Notes to the accounts *(continued)*

5. Employee information *(continued)*

	2005 £m	2004 £m
Employee costs		
Wages and salaries	857	867
Social security costs	72	74
Other pension costs	72	40
Other employee costs	116	54
	1,117	1,035

The figures given above include directors. Further details of directors' emoluments are set out in Tables A to C within the Remuneration report on pages 34 and 35.

6. Profit on sale of fixed assets

	2005 £m	2004 £m
Tangible fixed assets	4	(1)
Realised gains on Nuclear Liabilties Investment Portfolio	8	5
Fixed asset investments	(2)	–
	10	4

7. Investment and interest income

	2005 £m	2004 £m
Nuclear Liabilities Investment Portfolio:		
Amortisation of premium/discount	(32)	(16)
Indexation of gilts	47	36
Investment income	182	161
Reversal of previously recognised losses on investments held by Captive Insurance subsidiaries	8	61
Income from current asset investments	69	80
Total investment income	274	322
Interest receivable from Secretary of State's Undertaking	431	366
Indexation of gilts	3	–
Interest receivable relating to loans to joint ventures	–	1
Exchange gains	17	–
Financing income from long-term contract advance payments reclassified to turnover	(33)	(37)
Total interest income	418	330
	692	652

Income from the Nuclear Liabilities Investment Portfolio and the contractually agreed interest on the Secretary of State's Undertaking is available to set-off against the increase in nuclear liabilities arising from changes in price levels and the unwinding of one year's discounting known as revalorisation. Over time the income generated should match the time-related increases in nuclear liabilities included under interest payable and similar charges. In line with our accounting policy (note 1i) premiums and discounts on gilts are amortised over their life.

8. Interest payable and similar charges

	2005 £m	2004 £m
Revalorisation on nuclear provisions		
Changes in price levels	403	314
Unwinding of one year's discount	315	313
	718	627
Revalorisation on other provisions		
Changes in price levels	15	13
Unwinding of one year's discount	11	12
	26	25
Total revalorisation	744	652
Interest payable:		
Interest on loans	8	9
Exchange losses	–	2
Bank charges	17	3
Share of associated undertakings' interest payable	7	6
Total interest payable	32	20
	776	672

9. Taxation on (loss)/profit on ordinary activites
a. Analysis of taxation credit in the year

	2005 Total before exceptional items £m	2005 Exceptional items £m	2005 Total £m	2004 Total before and after exceptional items £m
UK corporation taxation in respect of parent and subsidiaries:				
Adjustment in respect of prior years	10	–	10	61
	10	–	10	61
Joint ventures' taxation charge	(2)	–	(2)	(2)
Associated undertakings' taxation charge	(20)	–	(20)	(14)
	(12)	–	(12)	45
Overseas taxation charge	(7)	–	(7)	(3)
Total current taxation (charge)/credit	(19)	–	(19)	42
Deferred taxation in respect of parent and subsidiaries (current year)	123	23	146	63
Taxation credit	104	23	127	105

There is no corporation taxation effect arising from the profit on sale of fixed assets included within notes 4 and 6. The disposal of properties and investments fall within the taxation of chargeable gains regime but any gains arising on disposals are removed by virtue of the availability of taxation losses within the Group.

Notes to the accounts *(continued)*

9. Taxation on (loss)/profit on ordinary activities *(continued)*

b. Factors affecting the taxation credit for the year

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

	2005 £m	2004 £m
Loss on ordinary activities before taxation	**(471)**	(299)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation taxation in the UK of 30% (2004: 30%)	**141**	90
Effects of:		
Expenses not deductible for taxation purposes	**(38)**	(13)
Capital allowances in excess of depreciation	**(131)**	(62)
Other timing differences	**57**	(50)
Adjustments in respect of prior years	**10**	61
Associated undertakings and joint venture taxation	**(3)**	(6)
Overseas taxation	**(55)**	22
Current taxation (charge)/credit for year (note 9a)	**(19)**	42

10. Intangible fixed assets

	Goodwill £m	Licences £m	Other £m	Total £m
Cost at 1 April 2004	817	3	–	**820**
Exchange adjustments	(12)	–	–	**(12)**
Additions	20	–	25	**45**
Cost at 31 March 2005	825	3	25	**853**
Amortisation at 1 April 2004	183	3	–	**186**
Exchange adjustments	(2)	–	–	**(2)**
Charge for the year	42	–	–	**42**
Amortisation at 31 March 2005	223	3	–	**226**
Net book value at 31 March 2005	602	–	25	**627**
Net book value at 31 March 2004	634	–	–	634

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

Goodwill additions of £20 million represent the excess of consideration over the fair value of assets acquired on the acquisition of PaR Systems Inc.

Other intangible assets represent rights to proportions of certain present and future Washington Group International contracts (see note 12c).

10. Intangible fixed assets *(continued)*

a. Acquisition of PaR Systems Inc.

On 6 May 2004, Westinghouse completed the purchase of 81% of PaR Systems Inc. (PaR) for US$41 million (£22.9 million). The acquisition of PaR involved the purchase of share capital for cash.

Goodwill arising on the acquisition of PaR has been capitalised and will be amortised in line with Group policy, on a straight-line basis over 20 years.

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

	Book value to Group £m	Fair value adjustments £m	Fair value to Group £m
Tangible fixed assets	1	–	**1**
Intangible fixed assets	9	(9)	**–**
Debtors	4	–	**4**
Other non-current assets	1	–	**1**
Creditors: Amounts falling due within one year	(3)	–	**(3)**
Net assets acquired	12	(9)	**3**
Goodwill arising on acquisition			**20**
Consideration			**23**

There were no material accounting policy adjustments. The fair value adjustment of £9 million eliminates goodwill in PaR Systems Inc. prior to acquisition.

The results shown below are from the date of acquisition to the year end.

	£m
Turnover	**12**
Operating profit	**1**
Profit before taxation	**1**
Taxation	**–**
Profit after taxation	**1**

There were no recognised gains or losses apart from the profit shown above.

Notes to the accounts *(continued)*

11. Tangible fixed assets

a. Group

	Land and buildings		Plant and machinery				
	Long leasehold £m	Freehold £m	Capitalised decommissioning costs (note 1f) £m	Other £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	**Total £m**
Cost at 1 April 2004	6	3,580	3,258	4,642	180	1,818	**13,484**
Exchange adjustments	–	(1)	–	(2)	–	(8)	**(11)**
Additions	–	2	137	33	5	233	**410**
Disposals	(3)	(5)	(101)	(21)	(3)	(2)	**(135)**
Assets in course of construction commissioned	–	7	–	147	4	(158)	**–**
Cost at 31 March 2005	**3**	**3,583**	**3,294**	**4,799**	**186**	**1,883**	13,748
Depreciation at 1 April 2004	3	1,813	1,034	3,138	155	167	**6,310**
Exchange adjustments	–	(1)	–	(1)	–	–	**(2)**
Impairment of assets	–	3	–	3	2	39	**47**
Charge for the year	1	150	42	247	10	2	**452**
Disposals	(2)	–	(58)	(16)	(3)	–	**(79)**
Depreciation at 31 March 2005	**2**	**1,965**	**1,018**	**3,371**	**164**	**208**	6,728
Net book value at 31 March 2005	**1**	**1,618**	**2,276**	**1,428**	**22**	**1,675**	7,020
Net book value at 31 March 2004	3	1,767	2,224	1,504	25	1,651	7,174

b. Company

		Plant and machinery				
	Freehold land and buildings £m	Capitalised decommissioning costs (note 1f) £m	Other £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	**Total £m**
Cost at 1 April 2004	3,415	4,480	3,939	114	1,352	**13,300**
Additions	–	213	12	2	192	**419**
Disposals	–	(98)	(4)	(1)	(2)	**(105)**
Assets in course of construction commissioned	6	–	131	4	(141)	**–**
Cost at 31 March 2005	**3,421**	**4,595**	**4,078**	**119**	**1,401**	13,614
Depreciation at 1 April 2004	1,728	657	2,641	98	18	**5,142**
Impairment of assets	1	–	2	–	18	**21**
Charge for the year	145	29	204	10	–	**388**
Disposals	–	(32)	(4)	(2)	–	**(38)**
Depreciation at 31 March 2005	**1,874**	**654**	**2,843**	**106**	**36**	5,513
Net book value at 31 March 2005	**1,547**	**3,941**	**1,235**	**13**	**1,365**	8,101
Net book value at 31 March 2004	1,687	3,823	1,298	16	1,334	8,158

The Company's impairment charge represents a write down of capital expenditure during the year at the Springfields site. The Group's impairment charge also includes the write down of capital expenditure during the year at the Magnox stations. Both Springfields and the Magnox stations existing tangible fixed assets were fully impaired in prior years.

Freehold land amounting to £5 million (2004: £5 million) for the Group and £5 million (2004: £5 million) for the Company, has not been depreciated.

Following the creation of the NDA on 1 April 2005, specified tangible fixed assets transferred to the NDA. Details of the assets transferred are included in note 36, post balance sheet events.

Notes to the accounts *(continued)*

12. Fixed assets – investments

a. Summary

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Subsidiary undertakings (note 12b)	**–**	–	**1,083**	1,131
Joint ventures (note 12c)	**6**	33	**1**	2
Associated undertakings (note 12d)	**130**	109	**–**	–
Trade investments (note 12e)	**3**	3	**2**	2
Nuclear Liabilities Investment Portolio (note 12f)	**3,750**	4,016	**3,773**	4,040
	3,889	4,161	**4,859**	5,175

See page 74 for details of principal subsidiary undertakings, associated undertakings and joint ventures.

b. Subsidiary undertakings

	Company				
	Shares £m	Loans £m	**Total cost £m**	Amounts provided £m	**Net book value £m**
At 1 April 2004	1,087	68	**1,155**	(24)	**1,131**
Repayments	–	(26)	**(26)**	8	**(18)**
Disposals	(30)	–	**(30)**	–	**(30)**
At 31 March 2005	**1,057**	**42**	**1,099**	**(16)**	**1,083**

The disposal relates to Electricity Producers Insurance Company Limited which was in the process of being liquidated at the year end. Costs of the liquidation are shown in note 4.

c. Joint ventures

	Group				Company		
	Share of net assets £m	Goodwill £m	Loans and advances £m	**Total £m**	Shares £m	Loans and advances £m	**Total £m**
Cost at 1 April 2004	(2)	44	88	**130**	1	63	**64**
Disposals	8	(44)	(88)	**(124)**	–	(63)	**(63)**
Cost at 31 March 2005	**6**	**–**	**–**	**6**	**1**	**–**	**1**
Amounts amortised/provided at 1 April 2004	–	10	87	**97**	–	62	**62**
Amortisation charge in the year	–	2	–	**2**	–	–	**–**
Disposals	–	(12)	(87)	**(99)**	–	(62)	**(62)**
Amounts amortised/provided at 31 March 2005	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net book value at 31 March 2005	**6**	**–**	**–**	**6**	**1**	**–**	**1**
Net book value at 31 March 2004	(2)	34	1	**33**	1	1	**2**

During the year, the Group's joint venture interests in Westinghouse Government Environmental Services Company LLC and Westinghouse Government Services Company LLC were disposed of. In return for this, the Group has received rights to proportions of certain present and future Washington Group International contracts. This interest is recorded as an intangible asset in the Group's balance sheet (see note 10).

The Group has also disposed of its interest in United Kingdom Nirex Limited. Shareholder loans, against which full provision had been made, have been assigned for a nominal sum as part of the sale agreement.

AWE Management Limited is the Group's only joint venture at 31 March 2005.

Notes to the accounts *(continued)*

12. Fixed assets – investments *(continued)*

d. Associated undertakings

	Group share of net assets £m
Net book value at 1 April 2004	109
Exchange adjustment	2
Share of retained profit and reserves	19
Net book value at 31 March 2005	**130**

The principal associated undertaking is Urenco Limited. In the previous year, as part of a restructuring of the Urenco business in which the Group holds one third of the shares, the Group subscribed for a shareholding in a newly formed Urenco subsidiary, Enrichment Technology Company Limited (ETC).

In the 2003/2004 financial year, the Group entered into a conditional contract with Société de Participations du Commissariat à l'energie atomique (trading as Areva) to sell 50% of its interests in ETC. As part of these arrangements, a refundable deposit of €50million (£35million) was received. The deposit is included in other creditors (note 18) as at 31 March 2005. Competition clearance has been obtained from the European Commission, but Inter-Governmental ratification is awaited between the UK, Germany, Netherlands and France. It is expected that the transaction will be completed in the next financial year.

e. Trade investments

	Group			Company		
	Cost £m	Amounts provided £m	**Net book value £m**	Cost £m	Amounts provided £m	**Net book value £m**
Balance at 1 April 2004 and at 31 March 2005	11	(8)	3	9	(7)	2

f. Nuclear Liabilities Investment Portfolio

The Nuclear Liabilities Investment Portfolio (NLIP) represents funds earmarked for the costs associated with the discharge of nuclear liabilities. During the year £725million was spent on discharging nuclear liabilities. Only £463million of funds have been withdrawn from the NLIP, with £262million funded by cash from existing operations. An analysis of movements in the portfolio is shown below:

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Balance at 1 April	**4,016**	3,843	**4,040**	3,869
Profit on sale of investments	**8**	5	**8**	5
Investment income	**174**	148	**174**	148
Amortisation of premium/discount	**(32)**	(16)	**(33)**	(18)
Indexation of gilts	**47**	36	**47**	36
Total liabilities discharged (note 25c)	**(725)**	(510)	**(725)**	(510)
Less liabilities funded by operations	**262**	510	**262**	510
Balance at 31 March	**3,750**	4,016	**3,773**	4,040

In order to ensure that funds are available when needed to meet the long-term nuclear liabilities, the investment policy has to address long-term returns and their relationship to inflation, the effects of taxation, credit risk and reinvestment risk. The fund is thus invested through fund managers in a combination of a gilts investment portfolio, which generally holds gilts to maturity and actively traded managed portfolio.

i. Gilts investment portfolio

The Group has invested £1,431million (2004: £1,375million) of the portfolio in index-linked gilts and £1,051million (2004: £982million) in conventional gilts, with the remaining £76million (2004: £101million) held as bank deposits. The gilts are intended to be held until redemption. The index-linked gilts have an average period to maturity of 13.63 years (2004: 14.62 years) and returned 2.45% per annum after taxation and inflation in the year (2004: 2.33%). The advantages of this instrument to the portfolio are taxation-free indexation cover for inflation, a roughly constant annual post-taxation yield to maturity and excellent credit risk. There are two areas of risk associated with this instrument; firstly the taxation legislation may change; and secondly, given the longest maturity is up to 2024, but the nuclear liabilities go out to 2150, there will be a significant degree of refinancing risk if the Government does not issue longer maturing index-linked gilts in due course.

Notes to the accounts *(continued)*

12. Fixed assets – investments *(continued)*

f. Nuclear Liabilities Investment Portfolio *(continued)*

ii. Managed portfolio

£1,192million is invested through fund managers against either a LIBID or index-linked benchmark dependent upon the maturity profile of the investment. Funds are primarily invested in fixed income instruments, such as certificates of deposit, index-linked and conventional gilts and a very small proportion in equity instruments. The purpose of using the fund managers is to provide some flexibility and add value by active strategic investment. Performance is monitored through formal monthly and quarterly reports. The potential change in value on the funds is controlled by the benchmarks and by maturity limits. Credit risk on non-gilt investments is controlled by limiting the amount that can be placed with each counterparty and specifying a minimum credit worthiness of the counterparty as determined by the rating agencies.

A summary of the movements in the individual portfolios is as follows:

	Group			Company		
	Gilts investment portfolio £m	Managed portfolio £m	**Total £m**	Gilts investment portfolio £m	Managed portfolio £m	**Total £m**
Balance at 1 April 2004	2,458	1,558	**4,016**	2,482	1,558	**4,040**
Additions	845	3,177	**4,022**	845	3,177	**4,022**
Disposals	(760)	(3,543)	**(4,303)**	(760)	(3,543)	**(4,303)**
Indexation of gilts	47	–	**47**	47	–	**47**
Amortisation of premium/discount	(32)	–	**(32)**	(33)	–	**(33)**
Balance at 31 March 2005	**2,558**	**1,192**	**3,750**	**2,581**	**1,192**	**3,773**

The NLIP contains listed and unlisted investments as follows:

	Group				Company			
	2005		2004		**2005**		2004	
	Market value £m	**Book value £m**	Market value £m	Book value £m	**Market value £m**	**Book value £m**	Market value £m	Book value £m
Listed investments	**3,896**	**3,656**	4,136	3,899	**3,896**	**3,679**	4,136	3,923
Unlisted investments	**94**	**94**	117	117	**94**	**94**	117	117
Total	**3,990**	**3,750**	4,253	4,016	**3,990**	**3,773**	4,253	4,040

The book value of listed investments in the Company is greater than that of the Group due to the transfer of investments from Magnox Electric plc at the then market value, being in excess of cost following the acquisition of that company in the year ended 31 March 1998. Unlisted investments are principally bank deposits.

Following the creation of the NDA from 1 April 2005, specified assets within the NLIP transferred to the NDA. Details of the assets transferred are included in note 36, post balance sheet events.

Notes to the accounts *(continued)*

13. Stocks

	Group		Company	
	2005 **£m**	2004 £m	**2005** **£m**	2004 £m
Nuclear fuel	**22**	19	**–**	2
Raw materials and consumables	**427**	391	**42**	39
Work in progress	**53**	73	**14**	35
Finished goods	**41**	34	**5**	4
	543	517	**61**	80

14. Debtors: Amounts falling due within one year

a. Summary

	Group		Company	
	2005 **£m**	2004 £m	**2005** **£m**	2004 £m
Trade debtors	**237**	204	**71**	85
Recoverable on long-term contracts	**88**	73	**–**	–
VAT	**29**	38	**13**	24
Corporation taxation	**–**	1	**–**	1
Prepayments and accrued income	**444**	283	**406**	241
Other debtors	**25**	75	**8**	66
Owed by Group undertakings	**–**	–	**1,858**	1,600
Owed by associated undertakings	**12**	9	**–**	–
Customer recoverable relating to nuclear liabilities (note 15)	**371**	263	**739**	595
	1,206	946	**3,095**	2,612

b. Amounts outstanding from employees

	Group		Company	
	Number of employees	£000	Number of employees	£000
As at 31 March 2005	**67**	**460**	**58**	**395**
As at 31 March 2004	91	558	84	512

Notes to the accounts *(continued)*

15. Customer recoverable relating to nuclear liabilities

The Group and Company have commercial agreements in place under which some or all of the expenditure required to settle nuclear liabilities will be recovered from third parties. The movements in amounts recoverable during the year are detailed in the table below. Revalorisation reflects the change in price levels in the year and the unwinding of one year's discounting.

	Decommissioning fixed assets £m	Decommissioning debtor £m	Waste management debtor £m	Reprocessing debtor £m	Total debtors £m	**Total recoverable £m**
Group						
Balance at 1 April 2004	2,080	68	4,826	–	4,894	**6,974**
Revalorisation	120	3	207	–	210	**330**
Increase in the year	17	–	–	–	–	**17**
Discharge of liabilities	(43)	–	(292)	–	(292)	**(335)**
Balance at 31 March 2005	**2,174**	**71**	**4,741**	**–**	**4,812**	**6,986**
Company						
Balance at 1 April 2004	3,713	172	9,212	1,000	10,384	**14,097**
Revalorisation	214	10	412	51	473	**687**
Increase in the year	–	–	70	39	109	**109**
Discharge of liabilities	(66)	–	(540)	(124)	(664)	**(730)**
Balance at 31 March 2005	**3,861**	**182**	**9,154**	**966**	**10,302**	**14,163**

The debtors balance is recoverable as follows:

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Amounts falling due within one year	**371**	263	**739**	595
Amounts falling due after more than one year	**4,441**	4,631	**9,563**	9,789
	4,812	4,894	**10,302**	10,384

Notes to the accounts *(continued)*

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

	Group £m
Balance at 1 April 2004	**5,525**
Interest accrued during the year	**431**
Balance at 31 March 2005	**5,956**

The Secretary of State's Undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and Magnox Electric plc. The Secretary of State has undertaken to pay Magnox Electric plc £3,700million (March 1998 money values) together with interest at a rate of 4.5% per annum above inflation (based on RPI) on the outstanding amount. Payments commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116. The terms of the Undertaking provide for potential adjustments to the outstanding amount in two circumstances:

a. Where actions taken by persons or bodies external to the BNFL Group cause or may cause a reassessment of the nuclear related liabilities of the Group attributable to the Magnox fuel cycle (Magnox liabilities). Magnox liabilities account for over 82% of the Group's nuclear liabilities.

b. Where there is an adjustment to provisions as a result of downward revisions in the estimate of the cost of Magnox liabilities for reasons other than those covered by (a) above.

A review by Her Majesty's Government in relation to (a) above was due on 1 April 2003. Given the process for implementation of the restructuring of UK civil nuclear liabilities set out in the Energy Act 2004 and as detailed in note 36, post balance sheet events, a deferral of this review has been agreed. Reductions in provisions falling within (b) above are to be shared between the Group and the Secretary of State (via adjustment of the outstanding amount of the Undertaking) on a sliding scale with the maximum reduction in the Undertaking being £800million escalated by 2.5% above inflation from 1 April 1998.

The directors have not assumed any increase in the Undertaking for the revisions to nuclear liabilities estimates in recent years.

17. Current asset investments and short-term deposits

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Gilts investments – medium-term maturity	**109**	105	**109**	105
– short-term maturity	**–**	123	**–**	123
Managed investments	**399**	608	**–**	–
Short-term deposits	**859**	686	**825**	593
	1,367	1,522	**934**	821

Gilt investments

The Group has invested £109million in index-linked gilts, which are intended to be held until redemption. These funds are earmarked to cover decommissioning costs at our Springfields site. These have an average maturity of 18.71 years and returned 2.79% per annum after taxation and inflation this year. The advantages and risks of this type of instrument are discussed in the NLIP note (12f).

Managed investments

Managed investments of £399million represent funds held by Captive Insurance subsidiaries. Funds are invested via a number of fund managers, who operate portfolios which include a combination of equity investments, fixed income instruments and bank deposits. There has been a significant reduction in the level of managed investments as one of the subsidiaries, Electricity Producers Insurance Company Limited was in liquidation at the year end.

Notes to the accounts *(continued)*

17. Current asset investments and short-term deposits *(continued)*

Short-term deposits
These consist of bank deposits and other fixed and call deposits, supported by a level of funds invested in certificates of deposit and a money fund to cover unforeseen requirements. Liquidity is managed by preparing short and medium-term cash flow forecasts against which the maturity of bank deposits is timed. An element of the short-term deposits, £74million as at 31 March 2005, is held within charge over deposit accounts over which customers have a legal charge as explained in note 33 (iv).

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

	Group				Company			
	2005		2004		2005		2004	
	Market value £m	**Book value £m**	Market value £m	Book value £m	**Market value £m**	**Book value £m**	Market value £m	Book value £m
Listed investments:								
Carried at market value	**105**	**105**	583	583	**–**	**–**	–	–
Carried at cost	**180**	**152**	244	228	**137**	**109**	244	228
Total listed investments	**285**	**257**	827	811	**137**	**109**	244	228
Unlisted investments	**1,110**	**1,110**	711	711	**825**	**825**	593	593
Total	**1,395**	**1,367**	1,538	1,522	**962**	**934**	837	821

The historic cost of the Group listed investments carried at market value was £105million (2004: £592million).

18. Creditors: Amounts falling due within one year

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Loans (note 20)	**26**	27	**–**	–
Bank overdraft	**4**	9	**169**	278
Payments received on account (note 21)	**803**	683	**950**	835
Obligations under finance leases and hire purchase contracts	**2**	2	**–**	–
Trade creditors	**176**	182	**72**	72
VAT	**53**	38	**38**	21
Corporation taxation	**–**	10	**–**	6
Other taxes and social security	**15**	18	**10**	14
Accruals and deferred income	**473**	418	**273**	221
Other creditors	**60**	39	**3**	2
Owed to Group undertakings	**–**	–	**350**	1,457
	1,612	1,426	**1,865**	2,906

Accruals and deferred income in both the Group and Company include £64million (2004: £64million) relating to the depreciation matching accrual (note 1h) and £7million (2004: £1million) relating to capital grants (note 1h). Included within other creditors is a refundable deposit of £35million relating to the Group's conditional contract for the sale of 50% of the Group's interest in ETC (note 12d).

19. Creditors: Amounts falling due after more than one year

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Payments received on account (note 21)	**4,244**	4,304	**5,515**	5,667
Accruals and deferred income	**518**	579	**514**	579
Owed to Group undertakings	**–**	–	**831**	–
Other creditors	**–**	12	**–**	2
	4,762	4,895	**6,860**	6,248

Accruals and deferred income in both the Group and Company include £507million (2004: £571million) relating to the depreciation matching accrual (note 1h) and £6million (2004: £8million) relating to capital grants (note 1h).

Notes to the accounts *(continued)*

20. Loans

	Group 2005 £m	Group 2004 £m
Repayable – in one year or less, or on demand	**26**	27

21. Payments received on account

Payments on account have been received from customers for the provision of services under long-term contracts. These will be released to the profit and loss account and hence turnover recognised as the services are provided. The expected profile for release of payments received on account as at 31 March is as follows:

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
In one year or less	**803**	683	**950**	835
In more than one year but not more than two years	**633**	488	**1,025**	861
In more than two years but not more than five years	**1,844**	1,542	**2,922**	2,741
In more than five years	**1,767**	2,274	**1,568**	2,065
	5,047	4,987	**6,465**	6,502

Following the creation of the NDA on 1 April 2005, the beneficial interest on specified contracts has passed to the NDA. Details of the payments received on account transferred are included in note 36, post balance sheet events.

22. Undrawn committed borrowing facilities

The Group has undrawn committed borrowing facilities of £117million which expire within two to five years (2004: £70million within two to five years).

23. Provisions for liabilities and charges

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Nuclear provisions – recoverable under commercial agreement (note 24)	**6,986**	6,974	**14,163**	14,097
– Group funded (note 24)	**13,855**	13,784	**2,440**	2,360
Nuclear provisions total	**20,841**	20,758	**16,603**	16,457
Deferred taxation (note 26)	**1**	147	**–**	–
Other provisions (note 27)	**1,216**	1,039	**1,180**	954
	22,058	21,944	**17,783**	17,411

Notes to the accounts *(continued)*

24. Nuclear provisions

a. Summary of the movements in nuclear provisions

	Decommissioning		Waste management		Reprocessing		**Total**	
	Recoverable under commercial agreement £m	Group funded £m	Recoverable under commercial agreement £m	Group funded £m	Recoverable under commercial agreement £m	Group funded £m	**Recoverable under commercial agreement £m**	**Group funded £m**
Group								
Balance at 1 April 2004	2,148	6,020	4,826	6,594	–	1,170	**6,974**	**13,784**
Exchange adjustments	–	(2)	–	–	–	–	**–**	**(2)**
Reclassifications	–	(12)	–	3	–	–	**–**	**(9)**
Revalorisation	123	338	207	320	–	60	**330**	**718**
Increase/(decrease) in the year	17	(36)	–	107	–	41	**17**	**112**
Discharge of liabilities	(43)	(256)	(292)	(349)	–	(143)	**(335)**	**(748)**
Balance at 31 March 2005	**2,245**	**6,052**	**4,741**	**6,675**	**–**	**1,128**	**6,986**	**13,855**
Company								
Balance at 1 April 2004	3,885	1,225	9,212	1,002	1,000	133	**14,097**	**2,360**
Revalorisation	224	68	412	48	51	7	**687**	**123**
Increase in the year	–	4	70	52	39	12	**109**	**68**
Discharge of liabilities	(66)	(48)	(540)	(45)	(124)	(18)	**(730)**	**(111)**
Balance at 31 March 2005	**4,043**	**1,249**	**9,154**	**1,057**	**966**	**134**	**14,163**	**2,440**

The Group has estimated the financial cost of meeting its obligations to decommission radioactive facilities and has provided for them. These obligations address the demolition of plants used for fuel manufacture, reprocessing operations and generating plant together with the disposal of associated waste. Provisions are also made for the treatment, handling and disposal of waste products arising from reprocessing operations together with defuelling, reprocessing and waste management of used nuclear fuel from the Group's reactors. The bulk of these provisions relate to treatment plant and related facilities at Sellafield, where the complexity and number of plants is significantly greater than at the other locations for which the Group has site licence responsibility. For safety reasons, much of the dismantling and demolition work will not occur for a considerable time. Similarly, the costs of constructing long-term storage for waste will not be incurred for a long time and the accounting provisions for such costs must necessarily be based on estimates, which are calculated using the practical experience and extensive knowledge that already exists.

£9million has been re-classified from nuclear provisions to non-nuclear provisions in the year as a result of the creation of Nexia Solutions and the transfer of activities to this new business.

Notes to the accounts *(continued)*

24. Nuclear provisions *(continued)*

a. Summary of the movements in nuclear provisions *(continued)*

In respect of historic wastes, specifically those arising from the early military and civil nuclear programmes, following extensive work over a number of years, the Board approved a substantially revised retrieval and processing strategy in the financial year ended 31 March 2002. Despite the extensive work undertaken, the nature of the wastes, the length of time for which they have been stored and the age of the storage facilities mean that much further work will be required over a number of years to confirm and further refine this strategy. The Board recorded its best estimate of the related liabilities based on available knowledge. The Group's procedures would normally require this estimate to include risk, which in this context means the financial implications of a range of possible alternative outcomes associated with the treatment of these wastes. In this case however, the level of uncertainty associated with these alternatives is such that the Board was unable to quantify this incremental financial impact with reasonable certainty. As a consequence, it is likely that the liabilities will differ from the amounts recorded although those amounts remain the best available estimate at the present time.

Given the potential changes that may result from the transfer of responsibilities for liabilities and provisions to the NDA, no adjustments have been made to the assumptions underpinning the nuclear provisions. The NDA's views on these matters will become clearer as the new organisation develops its policies in these areas. Accordingly, the directors have concluded that the assumptions underpinning the prior year provisions remain the best estimates of the costs of discharging the nuclear liabilities.

The estimates on which all the provisions are based are themselves reliant upon assumptions derived from detailed technical assessments of the processes and methods likely to be used to discharge the obligations. These assumptions reflect a combination of the latest technical knowledge available, the timescale involved before the work is carried out and the requirements of the existing regulatory regime and commercial agreements, in addition to statistical modelling of the financial impact of the various outcomes. However, the nature of the obligations means that fundamental uncertainties remain regarding the measurement of the liabilities and the timing of the cash flows. As stated in note 36 (post balance sheet events), ultimate responsibility for the nuclear provisions remains with BNFL for the transitional period. Any additional liabilities could materially affect the operational and financial condition of the Group. Further background to nuclear liabilities is provided on pages 72 to 73.

Employment costs make up a proportion of the nuclear provisions. As stated in note 32, whilst we have not received an updated triennial valuation of the Combined Pension Scheme, it is possible that the current contributions holiday will be curtailed. A resumption of payments will impact the Group's nuclear provisions.

b. Funding of long-term nuclear provisions

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

	2005 £m	2004 £m
Group-funded provisions	**13,855**	13,784
Non-cash (see below)	**(942)**	(968)
Future cash expenditure in respect of existing liabilities	**12,913**	12,816
Nuclear Liabilities Investment Portfolio market value (note 12f)	**3,990**	4,253
Secretary of State's Undertaking in relation to the liabilities of Magnox Electric plc (note 16)	**5,956**	5,525
Funds earmarked for liabilities	**9,946**	9,778
Level of percentage funding	**77%**	76%

The non-cash adjustment represents depreciation on certain historic capital expenditure, which will be charged against provisions over the remaining operating life of those assets.

25. Nuclear liabilities

a. Total future cash expenditure

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

	Total future cash expenditure		Group funded future cash expenditure	
	Undiscounted £m	Discounted £m	Undiscounted £m	Discounted £m
Decommissioning	**18,877**	**8,243**	**14,304**	**6,011**
Waste management	**20,348**	**10,144**	**12,814**	**6,029**
Reprocessing	**2,720**	**2,207**	**1,537**	**1,228**
At 31 March 2005	**41,945**	**20,594**	**28,655**	**13,268**
At 31 March 2004	41,361	20,507	28,331	13,293

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

	2005 £m	2004 £m
Group funded provisions	**13,855**	13,784
Non-cash	**(942)**	(968)
Future activities for which provision is not yet required (see below)	**355**	477
Group funded future cash expenditure	**13,268**	13,293

Future activities for which provision is not yet required relates to liabilities expenditure which is not yet provided, as the recognition criteria under FRS 12 have not yet been met.

c. Movements in future cash expenditure

	Total future cash expenditure		Group funded future cash expenditure	
	Undiscounted £m	Discounted £m	Undiscounted £m	Discounted £m
Balance at 1 April 2004	41,361	20,507	28,331	13,293
Revalorisation	1,388	1,150	948	745
Discharged in year	(1,059)	(1,059)	(725)	(725)
Other changes	255	(4)	101	(45)
Balance at 31 March 2005	**41,945**	**20,594**	**28,655**	**13,268**

d. Projected profile of future cash expenditure

The projected future cash expenditure profile over the next 150 years is as shown below:

Years	Liabilities discharged	Cash expenditure £bn
2005 to 2014	Construction and operation of waste management facilities, together with some reprocessing and decommissioning	11
2015 to 2065	Decommissioning the Group's nuclear facilities and waste management activities including waste disposal	16
2066 to 2150	Final stages of decommissioning the Group's nuclear facilities, together with costs associated with the construction and operation of a deep waste repository	15
		42

Notes to the accounts *(continued)*

26. Deferred taxation

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Capital allowances in advance of depreciation	**304**	436	**305**	424
Other timing differences	**(303)**	(289)	**(305)**	(424)
	1	147	**–**	–

The Group continues to provide for deferred taxation on a basis which is consistent with prior periods. Other timing differences relate principally to nuclear provisions. The movement in the year gives rise to a current year deferred taxation credit to the profit and loss account of £146million (Company £nil). The deferred taxation liability of £1million arises in overseas entities.

The Group has an unrecognised deferred taxation asset amounting to £1,050million (2004: £1,079million) consisting of fixed asset timing differences of £108million (2004: £109million), other timing differences of £664million (2004: £675million) and losses of £278million (2004: £295million). The unrecognised deferred taxation arises wholly in the UK and cannot be utilised to offset the overseas deferred taxation liability.

27. Other provisions

	Contract settlement provisions (a) £m	Decommissioning contract provisions (b) £m	Other contract provisions (b) £m	Restructuring and pension provisions (c) £m	Other provisions (d) £m	**Total £m**
Group						
Balance at 1 April 2004	126	104	468	249	92	**1,039**
Exchange adjustments	(3)	–	(4)	2	–	**(5)**
Revalorisation	5	4	5	11	–	**25**
Reclassifications	–	–	–	9	–	**9**
Charge in the year	35	38	276	99	43	**491**
Released in the year	(49)	–	(48)	(19)	(2)	**(118)**
Expenditure in the year	(39)	(17)	(103)	(45)	(21)	**(225)**
Balance at 31 March 2005	**75**	**129**	**594**	**306**	**112**	**1,216**
Company						
Balance at 1 April 2004	–	–	410	181	363	**954**
Revalorisation	–	4	4	11	–	**19**
Charge in the year	–	38	35	80	115	**268**
Released in the year	–	(17)	(15)	(24)	(5)	**(61)**
Balance at 31 March 2005	**–**	**25**	**434**	**248**	**473**	**1,180**

Notes to the accounts *(continued)*

27. Other provisions *(continued)*

a. Contract settlement provisions

Westinghouse has historic obligations in respect of steam generator and uranium supply contract settlements totalling £75million (2004: £126million).

A provision for steam generator supply contracts relates to the settlement of claims brought by US utilities regarding damages in connection with alleged tube degradation in steam generators sold as components of nuclear steam supply systems. The contracts require the provision of certain products and services at prices discounted at varying rates together with cash payments. The liabilities are expected to be satisfied over the next 10 to 12 years, with the majority of expenditure occurring over the next six years. The provisions are discounted at 3.2%. The provisions are sensitive to a number of factors including timing and amount of discounted products and services offered.

A provision for uranium supply contracts relates to the settlement of various contract suits which arose in the late 1970s. Settlements were agreed whereby Westinghouse provide equipment and fuel supplies of which one remains open as at 31 March 2005. The supply of equipment is essentially complete and the fuel supplies extend through to 2016. The provisions are discounted at 3.2%.

b. Decommissioning and other contract provisions

Other contract provisions relate to loss making contracts and sundry contractual claims. The majority of the provisions are expected to be utilised over the next 10 years. Following the creation of the NDA on the 1 April 2005, the beneficial interest on specified contracts has passed to the NDA.

c. Restructuring and pension provisions

The main elements of restructuring costs are voluntary severance obligations. The amounts provided are based on best estimates of the severance cost of employees who have left or will leave under voluntary severance terms. Accrued pension costs of £51million (2004: £55million) are also included. The majority of provisions are expected to be utilised over the next 10 to 15 years.

d. Other provisions

Other provisions within the Group include warranty provisions of £24million (2004: £22million) and insurance provisions of £42million (2004: £30million). The latter represents best estimates of existing self-insurance liabilities for claims incurred but not reported, calculated in accordance with established insurance industry practice. Other provisions within the Company reflect net liabilities of certain subsidiaries where the cost of investment is already fully provided.

28. Called up share capital

	2005 £m	2004 £m
Authorised		
43,000,000 ordinary shares of £1 each	**43**	43
Allotted, called-up and fully-paid		
32,668,244 ordinary shares of £1 each	**33**	33

29. Reserves

	Group Profit and loss account £m	Company Profit and loss account £m
Balance at 1 April 2004	(2,931)	200
Currency translation differences	16	–
Loss for the financial year	(344)	(101)
Balance at 31 March 2005	**(3,259)**	**99**

A separate profit and loss account for the Company has not been published as allowed under section 230 of the Companies Act 1985. Currency translation differences represent the exposure on foreign currency net assets held by the Group arising as a result of movements in exchange rates in the year.

30. Reconciliation of movements in Shareholders' funds

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Loss for the financial year	**(344)**	(194)	**(101)**	(75)
Currency translation differences	**16**	(10)	**–**	–
	(328)	(204)	**(101)**	(75)
Opening Shareholders' funds	**(2,898)**	(2,694)	**233**	308
Closing Shareholders' funds	**(3,226)**	(2,898)	**132**	233

Cumulative goodwill written off to reserves in respect of acquisitions before 1 April 1998 amounts to £119 million (2004: £119million). This goodwill had been eliminated as a matter of accounting policy prior to the adoption of FRS 10, which requires goodwill acquired as the result of acquisitions to be capitalised on the balance sheet. This will be charged in the profit and loss account if and when the businesses to which it relates are disposed of.

31. Financial commitments

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Capital commitments contracted for but not provided	**210**	138	**208**	133

The Group's operating leases relate primarily to head office facilities in the US. The annual commitments are not significant and amount to approximately £5million per annum (2004: £5million).

Notes to the accounts *(continued)*

32. Pensions and other post-retirement benefits

a. Contributions

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

	2005 £m	2004 £m
The Combined Pension Scheme	–	–
BNFL Group Pension Scheme	14	5
Westinghouse Electric Company Pension Scheme	18	26
Electricity Supply Pension Scheme	82	20
	114	51

b. The Combined Pension Scheme

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

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

The most recent triennial actuarial valuation of the scheme which has been completed is as at 31 March 2000. The 31 March 2000 valuation indicated a market value of the notional investments of £2,436million with a level of notional funding of 130%. The entry age method was used with the following long-term assumptions:

	%
Notional investment yield (net of pay increase)	2.0
Notional investment yield (net of price inflation)	3.5
Inflation assumption	3.5

Whilst we have not received an updated triennial valuation, it is possible that the current contributions holiday will be curtailed. A resumption of payments will impact the Group's nuclear provisions.

c. The BNFL Group Pension Scheme

The BNFL Group Pension Scheme is a funded scheme. The subsidiaries contribute to the scheme at rates recommended by the scheme's professionally qualified actuaries. From 1 July 2005 employer contributions will increase from 14.5% to 14.7%. To repair the deficit, additional employer contributions of £8.6million per annum will be made for seven years with effect from March 2005. The most recent triennial actuarial valuation was at 31 March 2004 using the projected unit method. The market value of the scheme's assets was £107million with a 69% level of funding. The underlying assumptions used in the valuation were:

		Past service %	Future service %
Investment return	- pre-retirement	6.6	6.5
	- post-retirement	5.6	6.5
Salary increase		4.8	4.5
Pensions increase		2.8	2.5
Inflation assumption		2.8	2.5

d. Westinghouse Electric Company Pension Plan

Westinghouse Electric Company employees are provided with certain pension and post-retirement benefits through funded schemes. The post-retirement benefits include medical, dental and life insurance benefits. As part of the acquisition of the Westinghouse Electric Company business, there is an agreement to provide similar benefits, subject to the previous owner retaining a pension liability related to accrued benefits in respect of employees and former employees for service prior to the date of completion of the acquisition. Westinghouse Electric Company is therefore only liable for benefits accruing to employees after 22 March 1999. The most recent actuarial valuation of the scheme took place on 31 December 2002. This indicated a market value of the scheme's assets of £77million and a 66% level of funding. The unit credit cost method was used with the following underlying assumptions:

	%
Discount rate	7.0
Expected long-term rate of return on assets	8.7
Salary increase	3.5
Inflation assumption	2.6
Pensions increase	1.1

e. The Electricity Supply Pension Scheme

Magnox Electric plc employees are members of the Electricity Supply Pension Scheme (ESPS). The ESPS is a funded scheme which, as at the date of the most recent triennial actuarial valuation dated 31 March 2004, had assets with a market value of £1,206million, equating to a level of funding of 89.1%. Subsequent to the last formal valuation, the net value of the scheme's assets has fallen as a result of adverse financial conditions and increasing life expectancies. In light of this, the Company has made a one-off payment of £36million in the year ended 31 March 2005 and committed to make further payments, in addition to the normal level of contributions, of £25million per annum between 2006 and 2011.

The projected unit method was used to calculate the 31 March 2004 valuation with the following underlying assumptions:

	%
Investment return (pre-retirement)	6.7
Investment return (post-retirement)	5.0
Salary increase	3.9
Pensions increase	3.0
Inflation adjustment	2.9

Notes to the accounts *(continued)*

f. FRS 17 valuations

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

	CPS			BNFL Group Pension Scheme		
	2005 %	2004 %	2003 %	**2005 %**	2004 %	2003 %
Rate of increase in salaries	**4.9**	4.9	4.9	**4.9**	4.3	4.0
Rate of increase in pensions	**3.4**	3.4	3.4	**2.9**	2.8	2.5
Inflation assumption	**3.4**	3.4	3.4	**2.9**	2.8	2.5
Discount rate	**7.0**	7.0	7.0	**5.4**	5.5	5.4

	Westinghouse Plan			ESPS		
	2005 %	2004 %	2003 %	**2005 %**	2004 %	2003 %
Rate of increase in salaries	**3.5**	2.6	2.8	**3.9**	3.9	3.6
Rate of increase in pensions	**1.2**	1.1	1.2	**3.0**	3.0	2.7
Inflation assumption	**2.6**	2.6	2.6	**2.9**	2.9	2.6
Discount rate	**5.8**	6.0	6.6	**5.4**	5.5	5.4

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

	CPS			BNFL Group Pension Scheme		
	2005 £m	2004 £m	2003 £m	**2005 £m**	2004 £m	2003 £m
Equities	**1,968**	1,774	1,342	**89**	73	56
Bonds	**347**	313	301	**37**	32	24
Property	**–**	–	–	**–**	–	–
Other	**–**	–	–	**9**	1	–
Total market value of assets	**2,315**	2,087	1,643	**135**	106	80
Present value of scheme liabilities	**(1,866)**	(1,684)	(1,554)	**(206)**	(141)	(120)
Net surplus/(deficit)	**449**	403	89	**(71)**	(35)	(40)
Restriction on surplus	**(449)**	(403)	(89)	**–**	–	–
Net pension liability	**–**	–	–	**(71)**	(35)	(40)

	Westinghouse Plan			ESPS		
	2005 £m	2004 £m	2003 £m	**2005 £m**	2004 £m	2003 £m
Equities	**75**	66	54	**886**	822	660
Bonds	**36**	28	23	**293**	268	242
Property	**4**	–	–	**104**	96	91
Other	**–**	–	–	**74**	22	4
Total market value of assets	**115**	94	77	**1,357**	1,208	997
Present value of scheme liabilities	**(224)**	(197)	(166)	**(1,471)**	(1,339)	(1,249)
Net pension liability	**(109)**	(103)	(89)	**(114)**	(131)	(252)

In the case of the CPS, the assets and any surplus or deficit are notional only. Due to the notional nature of the assets supporting the scheme and the fact that the Group has no rights to the surplus other than as allowed by the scheme managers, the Group does not consider that on full implementation of FRS 17 it would be prudent or appropriate to recognise any surplus on the balance sheet. The surplus of £449million as disclosed above for the CPS has therefore been restricted in accordance with the requirements of FRS 17. A proportion of the deficit noted against the Westinghouse Electric Company valuation relates to unfunded schemes in Sweden and Germany. These schemes are provided for on the balance sheet and funded out of future operational cash flows.

Notes to the accounts *(continued)*

32. Pension and other post-retirement benefits *(continued)*

f. FRS 17 valuations *(continued)*

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

	CPS			BNFL Group Pension Scheme			Westinghouse Plan			ESPS		
	2005 %	2004 %	2003 %	**2005 %**	2004 %	2003 %	**2005 %**	2004 %	2003 %	**2005 %**	2004 %	2003 %
Equities	**7.0**	7.0	7.0	**7.0**	7.0	7.0	**8.0**	8.5	8.8	**7.7**	7.7	7.6
Bonds	**4.5**	4.5	4.5	**4.7**	4.7	4.5	**4.8**	6.7	7.3	**4.7**	4.8	4.8
Property	**–**	–	–	**–**	–	–	**6.0**	–	–	**6.7**	6.7	6.6
Other	**–**	–	–	**4.7**	4.7	4.5	**–**	–	–	**4.8**	4.3	3.8

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

	CPS £m	BNFL Group Pension Scheme £m	Westinghouse Plan £m	ESPS £m	**Total excluding CPS £m**
Surplus/(deficit) in scheme at 1 April 2004	403	(35)	(103)	(131)	**(269)**
Current service cost	(44)	(9)	(15)	(21)	**(45)**
Contributions	–	14	18	82	**114**
Past service cost	–	(3)	–	(33)	**(36)**
Expected return on pension scheme assets	137	7	8	10	**25**
Interest on pension scheme liabilities	(101)	(9)	(12)	–	**(21)**
Actuarial gains/(losses):					
Actual return less expected return on pension scheme assets	118	4	1	44	**49**
Experience gains and losses arising on the scheme liabilities	–	(19)	1	(27)	**(45)**
Changes in assumptions underlying the present value of the scheme liabilities	(64)	(21)	(7)	(38)	**(66)**
Surplus/(deficit) in scheme at 31 March 2005	**449**	**(71)**	**(109)**	**(114)**	**(294)**

g. Impact on the Group's primary statements

If the assets and liabilities of the BNFL Group Scheme, the Magnox Electric Group part of the ESPS and the Westinghouse Electric Company Pension Plan had been recognised in the Group's accounts, the Group would have additional net liabilities and consequently reduce the profit and loss reserve by £265million as a net provision of £29million has already been included within Westinghouse. The impact on the consolidated profit and loss account would have been:

	2005 £m	2004 £m
Analysis of the amount that would have been charged to operating profit		
Current service cost	**45**	43
Past service cost	**36**	8
Total operating charge	**81**	51
Analysis of amount that would have been credited/(charged) to other finance income		
Expected return on pension scheme assets	**25**	12
Interest on pension scheme liabilities	**(21)**	(18)
Net return/(expense)	**4**	(6)

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

	2005 £m	2004 £m
Analysis of amount that would have been recognised in STRGL		
Actual return less expected return on pension scheme assets	**49**	186
Experience gains and losses arising on the scheme liabilities	**(45)**	(7)
Changes in assumptions underlying the present value of the scheme liabilities	**(66)**	(61)
Actuarial (loss)/gain that would have been recognised in STRGL	**(62)**	118

Notes to the accounts *(continued)*

32. Pension and other post-retirement benefits *(continued)*

h. History of experience gains and losses

	2005	2004	2003
Actual return less expected return on pension scheme assets (£million)	**49**	186	(346)
Percentage of scheme assets	**1%**	5%	(12)%
Experience gains and losses arising on the scheme liabilities (£million)	**(45)**	(7)	47
Percentage of the present value of scheme liabilities	**(1)%**	nil	2%
Total amount recognised in STRGL (£million)	**(62)**	118	(390)
Percentage of the present value of scheme liabilities	**(2)%**	4%	(13)%

33. Contingent liabilities

a. At 31 March 2005, the Group had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the directors, no material losses are expected to arise.

i. Guarantees, indemnities and charges have been given to banks, insurance companies and other organisations in respect of credit and foreign exchange facilities of £419million (2004: £387million) relating to overseas subsidiaries and £46million relating to subsidiaries located in the UK.

ii. Letters of support have been provided to certain subsidiaries, in particular Magnox Electric plc, in order for them to continue operating safely and to meet their liabilities as they fall due for the foreseeable future. The net liabilities of Magnox Electric plc, as disclosed in its accounts, amount to approximately £4.1billion (2004: £3.7billion).

iii. The Company and its subsidiaries have entered into various guarantees in respect of contract performance, working capital facilities, technical services and plant maintenance, in the ordinary course of business.

iv. £74million (2004: £91million) of funds within current asset investments and short-term deposits (within note 17) are held within charge over deposit accounts (CODAs). These represent funds provided by customers which are held in accounts controlled and owned by the Company, but over which the customer has a legal charge until the associated work has been completed.

v. Bank pooling guarantees in respect of the Company and certain UK subsidiaries.

b. On 21 March 1994, four residents of Dundalk, Ireland commenced proceedings in the High Court of Dublin against Ireland and the Attorney General and BNFL. The first part of the plaintiffs' claim relates to regulatory matters, specifically to allegations that EC Directives have not been fully complied with in the UK. Following a trial of this part of the claim, the Irish Court decided that it did not have jurisdiction to determine these issues or grant the remedies requested by the plaintiffs. Subject to a possible appeal by the plaintiffs, this judgement in effect, brings to an end this element of the claim. The plaintiffs did appeal this judgement and the appeal is to be listed before the Supreme Court of Ireland in the early part of 2006. The second part is a tort claim in which damages are sought for alleged assault, nuisance, trespass, wrongful acts and unlawful interference with the plaintiffs' constitutional right of bodily integrity, which it is claimed have arisen as a result of discharges from Sellafield. This aspect of the claim remains in its early stages and no orders have been made as to the future management of the case. It is therefore difficult to assess the financial consequences of the case though BNFL remains committed to vigorously defending the allegations, which it believes have no merit.

c. As described in note 24, fundamental uncertainties remain regarding the measurement of nuclear liabilities and the timing of the cash flows. Until the European State Aid's review is successfully completed, the impact of any additional liabilities could materially affect the results of operations and financial condition of the Group.

34. Related party transactions and controlling party

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

	Undertakings under common control £m	Joint ventures £m	Associated undertakings £m
2005			
Turnover	**192**	**1**	**2**
Purchases	**33**	**–**	**4**
Trading amounts due from related parties at 31 March	**187**	**–**	**12**
2004			
Turnover	243	6	5
Purchases	12	8	3
Trading amounts due from related parties at 31 March	82	1	9

At the year end gross amounts owed by undertakings under common control was £240million (MoD: £210 million, UKAEA: £30million), of which £187million (MoD: £157million, UKAEA: £30million) was recognised on the balance sheet at 31 March 2005.

The ultimate controlling party of the Company is considered by the directors to be Her Majesty's Government. Undertakings under common control of the Government are the Ministry of Defence (MoD) and the UKAEA. For further details regarding equity and loan transactions with joint ventures, refer to note 12.

Included in the trading balances disclosed above, £109million (2004: £162million) is owed to the Group by the MoD. This represents reimbursement by the MoD of advances made by the Group to United Kingdom Nirex Limited in respect of the disposal cost of waste arising on BNFL sites to 31 March 2001. £109million (2004: £55million) is included within other debtors falling due within one year and £nil (2004: £109million) is included within other debtors falling due after more than one year.

Notes to the accounts *(continued)*

35. Derivatives and other financial instruments

As explained on page 42 note (o), the Group uses derivatives and other financial instruments in managing the risk associated with its business. With the exception of commodity contracts in respect of electricity trading (dealt with in note 35d below), the Group does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board. The following numerical analysis gives an indication of the significance of these instruments to the Group.

a. Fair value of derivatives and other financial instruments

Set out below is a comparison of the book values and fair values of the Group's derivatives and other financial instruments (excluding short-term debtors and creditors). Fair values have been based on published market prices (for listed instruments) or estimates made from discounted cash flow analysis (for unlisted instruments). The fair value of the net financial assets and derivatives is £277million (2004: £257million) in excess of book value. Certain other assets and liabilities held by the Group, most notably the Secretary of State's Undertaking, have not been assigned a fair value as the instruments are not readily traded or because their book value approximates to their fair value.

	Book values		Fair values	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Financial assets				
Nuclear Liabilities Investment Portfolio (note 12f)	**3,750**	4,016	**3,990**	4,253
Gilt investments (note 17)	**109**	228	**137**	244
Managed investments (note 17)	**399**	608	**399**	608
Short-term deposits (note 17)	**859**	686	**859**	686
Loans and advances to associated undertakings and joint ventures (note 14)	**12**	10	**12**	10
Debtors falling due after more than one year	**24**	132	**24**	132
Trade investments (note 12e)	**3**	3	**3**	3
Cash	**136**	128	**136**	128
	5,292	5,811	**5,560**	6,064
Financial liabilities				
Overdraft (note 18)	**(4)**	(9)	**(4)**	(9)
Loans (note 20)	**(26)**	(27)	**(26)**	(27)
Obligations under finance leases (note 18)	**(2)**	(2)	**(2)**	(2)
Other creditors falling due after more than one year (note 19)	**–**	(12)	**–**	(12)
	(32)	(50)	**(32)**	(50)
Derivatives				
Foreign currency contracts (see 35b(ii) below)	**7**	15	**16**	19
Net financial assets and derivatives	**5,267**	5,776	**5,544**	6,033

b. i. Currency exposure

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

	Net foreign currency monetary assets			
Functional currency of operation	US Dollar £m	Euro £m	Other £m	**Total £m**
Sterling	138	6	19	**163**
At 31 March 2005	138	6	19	**163**
Sterling	11	1	19	**31**
At 31 March 2004	11	1	19	**31**

Notes to the accounts *(continued)*

35. Derivatives and other financial instruments *(continued)*

b. ii. Hedges
Board policy is that all significant firm foreign exchange transaction exposures should be hedged. This is done by forward contracts, currency options or, where appropriate, by matching receipts and payments in the same currency. Where their guidelines permit, the investment managers of the Captive Insurance subsidiaries may invest in non-sterling instruments; this is controlled by limiting the amount of such investments which may be left unhedged to a percentage of the total portfolio. At 31 March 2005, the Captives held no significant unhedged exposures.

The fair value of derivatives of £16million (2004: £19million) as disclosed in note 35a relates to the following:

	2005		2004	
	Gains £m	**Losses £m**	Gains £m	Losses £m
Recognised as at 31 March	**7**	**–**	15	–
Unrecognised as at 31 March	**22**	**(13)**	16	(12)
	29	**(13)**	31	(12)

Recognised gains in the table above relate to currency options. The unrecognised gains/(losses) are expected to be recognised as follows:

	2005		2004	
	Gains £m	**Losses £m**	Gains £m	Losses £m
Within one year	**7**	**(8)**	7	(7)
After more than one year	**15**	**(5)**	9	(5)
	22	**(13)**	16	(12)

c. Interest rate risk

The tables below summarise the interest rate profile of the Group's financial instruments (excluding short-term debtors and creditors) after taking into account the effect of any interest rate or currency derivatives used to manage the risk associated with these instruments. Financial assets and liabilities are as analysed in note 35a.

i. Financial assets

					Fixed rate instruments	
	Floating rate £m	Fixed rate £m	Non interest bearing £m	**Total £m**	Weighted average interest rate %	Weighted average period to maturity Years
Sterling	3,278	1,542	310	**5,130**	5.3	1.9
US Dollar	149	–	1	**150**	–	–
Euro	–	–	12	**12**	–	–
Other	–	–	–	**–**	–	–
Total financial assets at 31 March 2005	**3,427**	**1,542**	**323**	**5,292**	**5.3**	**1.9**
Sterling	3,578	1,577	473	5,628	4.1	2.3
US Dollar	141	–	–	141	–	–
Euro	26	–	9	35	–	–
Other	7	–	–	7	–	–
Total financial assets at 31 March 2004	3,752	1,577	482	5,811	4.1	2.3

Notes to the accounts *(continued)*

35. Derivatives and other financial instruments *(continued)*

c. Interest rate risk *(continued)*

i. Financial assets (continued)

Financial assets bearing no interest can be analysed as follows:

	2005 £m	2004 £m
Funds within Nuclear Liabilities Investment Portfolio	**22**	21
Investments and short-term deposits: equity investments in Captive Insurance subsidiaries	**268**	321
Debtors falling due after more than one year	**18**	127
Advances to associated undertakings and joint ventures	**12**	10
Trade investments	**2**	3
Cash	**1**	–
	323	482

Debtors falling due after more than one year have a weighted average period to maturity of 5.35 years (2004: 1.1 years).

ii. Financial liabilities

					Fixed rate instruments	
	Floating rate £m	Fixed rate £m	Non interest bearing £m	Total £m	Weighted average interest rate %	Weighted average period to maturity Years
Sterling	4	–	–	**4**	–	–
US Dollar	26	2	–	**28**	7.7	2.0
Euro	–	–	–	**–**	–	–
Total financial liabilities at 31 March 2005	**30**	**2**	**–**	**32**	7.7	2.0
Sterling	2	–	10	12	–	–
US Dollar	30	2	–	32	7.7	3.0
Euro	6	–	–	6	–	–
Total financial liabilities at 31 March 2004	38	2	10	50	7.7	3.0

Included within financial liabilities bearing no interest in 2004 were creditors due after more than one year of £10million with a weighted average period to maturity of 3.0 years.

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

d. Commodity contracts

Under the electricity trading arrangements effective from 27 March 2001, a small number of low value contracts are entered into, in order to take trading positions in the market. The fair value of these instruments at 31 March 2005 is negligible (2004: £nil). The estimate is based on a comparison between the contracted price (specified at the date of the deal) and the price for a similar contract at the year end (based on available market data). All of these instruments will expire in the course of the next financial year.

e. British Energy contracts

The Group has contracts with British Energy for the supply and reprocessing of nuclear fuel that includes elements that are dependent on the market price of electricity. These elements of the contract are effectively financial derivatives. Under the fuel supply contract, the income the Group receives is reduced for drops in market price of electricity below £19.1\Mwh with a floor at £15.9\Mwh. The Group's maximum annual exposure under this arrangement is £16million. At the year end, based on forecasts of electricity prices, the estimated fair value of the derivative is £nil. Under the fuel reprocessing contract the Group receives additional monies if the market price of electricity exceeds £16.9\Mwh, up to a ceiling of £22\Mwh. Alternatively income is reduced if the market price of electricity drops below £16.9\Mwh with a floor at £15.7\Mwh. The Group maximum annual exposure under this arrangement is £22million. At the year end, based on forecasts of electricity prices the estimated fair value of the derivative is £690million.

As a result of these contracts the Group now shares part of the risk of fluctuating electricity prices with its customer. The Board has considered this risk but, based on its view of medium-term electricity prices, has concluded that the costs of hedging the risk would outweigh the potential benefits.

Notes to the accounts *(continued)*

36. Post balance sheet events

a. Group Reorganisation

On 1 April 2005, British Nuclear Fuels plc re-registered as a private limited company and was renamed British Nuclear Group Sellafield Limited and is now the site licensee company for Sellafield, Drigg and Capenhurst. British Nuclear Group Sellafield Limited is now part of a Group of Companies headed by a newly established ultimate parent company which has taken the name British Nuclear Fuels plc ("BNFL") and is 100% owned by Her Majesty's Government. Investments in subsidiary companies previously held by the old parent Company, currently named British Nuclear Group Sellafield Limited, transferred either to the new ultimate parent, BNFL or to another newly created Company within the Group or, in the case of Direct Rail Services Limited, transferred to the Nuclear Decommissioning Authority (NDA).

The following subsidiaries became operational on the 1 April 2005: British Nuclear Group Limited; British Nuclear Group Project Services Limited; Energy Sales and Trading Limited; Nexia Solutions Limited and Springfields Fuels Limited.

European Commission State Aid Review

The NDA was established under the Energy Act 2004 ("Energy Act") to secure the operation, decommissioning and clean-up of designated nuclear sites and relevant installations on those nuclear sites. On 1 April 2005, certain assets and liabilities of the Group were transferred to the NDA and the Secretary of State by means of transfer schemes under the Energy Act. The nuclear sites and relevant installations on these nuclear sites owned by the Group were designated and transferred to the NDA and the Group now operates these sites under site management and operations contracts with the NDA.

The intention is that the NDA will take full financial responsibility for the decommissioning and clean-up of the designated nuclear sites and relevant installations transferred. However on1 December 2004, the European Commission announced that they had instigated a formal State Aid investigation ("investigation") in respect of the creation and funding of the NDA. Transitional arrangements have therefore been put in place until this investigation has been completed. These arrangements ensure no new resources are made available to the NDA and no advantage is conferred to the Group during the transitional period. They achieve this by, among other things, capping the NDA's financial responsibility in respect of economic liabilities and commercial costs relating to the nuclear sites formerly owned by the Group to the value of the net assets transferred out of the Group and the net income the NDA receives from them.

If, and when, the European Commission's investigation reaches a satisfactory conclusion, further transfers out of the Group will take place and the limits on the NDA's financial responsibility will be terminated. The details are discussed later in this note.

Effect of transitional arrangements on the Group consolidated balance sheet

The transfer of assets and liabilities out of the Group, especially given the transitional arrangements, are unique transactions. Consideration has been given to the respective responsibilities of BNFL and the NDA, in order to determine which categories of assets and liabilities should continue to be recognised within the Group's accounts. The resulting balance sheet impact is laid out in the table below.

Whilst the transitional arrangements are in place, the Group has only recognised a recoverable from the NDA equal to the value of the net assets transferred out of the Group. Under the transitional arrangements, monies in excess of the Group's working capital requirements have been retained by the Group but ring-fenced. Draw down of these funds is allowed in specific circumstances which have been agreed with the Secretary of State for Trade and Industry.

The assets and liabilities noted below as transferring to NDA are valued in line with BNFL's accounting policies. BNFL's policies are based on the Group being a commercial operation. The NDA, as a Non Departmental Public Body with specific statutory decommissioning responsibilities, may deem alternative accounting policies to be more appropriate.

None of the transfers of assets and liabilities via the transfer schemes give rise to taxation liabilities. The UK deferred taxation relating to capital allowances and other timing differences was eliminated on 1 April 2005 with the transfer of the related trade and assets to the NDA and the losses, as detailed in note 26, were extinguished under the transfer scheme.

As one of the first steps in restructuring the Group's balance sheet, a £575million debenture to the benefit of the DTI, paying 7.5% interest, has been introduced pursuant to a direction made under the Energy Act. Interest payments start in December 2006.

As a result of the reorganisation on 1 April 2005, British Nuclear Group Sellafield Limited, which was previously the parent company and thus prepared consolidated accounts, became a subsidiary with a new parent which will in due course produce consolidated accounts. The table below uses a proforma presentation in order to present a clearer picture of the impact of these transfers on the Group balance sheet.

Notes to the accounts *(continued)*

36. Post balance sheet events *(continued)*

		Consolidated balance sheet as at 31 March 2005	Adjustments resulting from transitional arrangements		Proforma consolidated balance sheet post NDA transfers at 1 April 2005
	£m	£m	£m	£m	£m
Fixed assets					
Intangible assets		627	–		627
Tangible assets		7,020	(6,479)		541
Investments:					
Joint ventures	6		–	6	
Associated undertakings	130		–	130	
Nuclear Liabilities Investment Portfolio (NLIP)	3,750		(685)	3,065	
Other	3		–	3	
Total investments		3,889	(685)		3,204
Total fixed assets		11,536	(7,164)		4,372
Current assets					
Stocks	543		(135)	408	
Debtors:					
Amounts falling due within one year	1,206		(106)	1,100	
Amounts falling due after more than one year:					
Customer recoverable relating to nuclear liabilities	4,441		(4,441)	–	
NDA recoverable relating to nuclear liabilities	–		4,143	4,143	
Secretary of State's Undertaking	5,956		–	5,956	
Other debtors	24		(19)	5	
Total amounts falling due after more than one year	10,421		(317)	10,104	
Investments and short-term deposits	1,367		(947)	420	
Cash at bank and in hand	136		263	399	
	13,673		(1,242)	12,431	
Creditors: Amounts falling due within one year	(1,612)		1,019	(593)	
Net current assets		12,061	(223)		11,838
Total assets less current liabilities		23,597	(7,387)		16,210
Creditors: Amounts falling due after more than one year	(4,762)		4,183	(579)	
Provisions for liabilities and charges	(22,058)		2,629	(19,429)	
		(26,820)	6,812		(20,008)
Net liabilities		(3,223)	(575)		(3,798)
Capital and reserves					
Called up share capital	33		(33)	–	
Profit and loss account	(3,259)		(542)	(3,801)	
Shareholders' funds		(3,226)	(575)		(3,801)
Minority interests		3	-		3
		(3,223)	(575)		(3,798)

Notes to the accounts *(continued)*

36. Post balance sheet events *(continued)*

The distribution of assets and liabilities between individual companies in the Group is still being finalised. This is not expected to materially affect the overall Group position shown above.

Effects of the transitional arrangements on the Group Consolidated Profit and Loss
The risks and rewards from the Group's historic contracts on the UK nuclear sites have transferred to the NDA (subject to the transitional arrangements noted above). From the 1 April 2005, the Group will manage the sites under contracts with the NDA and earn performance based fees from those contracts. As noted above, the Group will continue to record the nuclear provisions. Movements on nuclear provisions (e.g. revalorisation and increases) will be reported in the Group's profit and loss accounts during the transitional period.

Expected final position if State Aid Approval is received
If and when the European Commission's investigation reaches a satisfactory conclusion, further transfer schemes under the Energy Act will be made. The balance of the NLIP will pass to the Secretary of State and the Secretary of State's Undertaking will be extinguished. In addition, the mechanism whereby the NDA's financial responsibility in respect of the nuclear sites and relevant installations formerly owned by the Group is limited will terminate. BNFL envisages that there would be no net effect of nuclear liabilities on its balance sheet at that time. It is expected that the overall impact of these transactions will address the balance sheet deficit.

b) Thorp Feed Clarification Cell
On 19 April 2005, the Group identified that a pipe had failed in a heavily shielded cell in the Thorp Head End plant at Sellafield. Liqour leaked into the purpose built secondary containment. The leak has now been recovered and we are committed to getting the plant ready to re-start reprocessing operations as soon as it is safe to do so. We are not aware of any material impact on the accounts as presented. Thorp is one of the assets which transferred to the NDA on 1 April 2005 and we are undertaking current clean-up activities under our contract with the NDA.

Background to nuclear liabilities

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

Background

The Group's nuclear liabilities arise from the operation of facilities for the production of nuclear fuel, the generation of electricity using first generation Magnox nuclear reactors, reprocessing of fuel to separate reusable nuclear materials from the small amount of waste product and, most significantly, managing the legacy of historical nuclear industry activity. The major part of this latter activity is carried out at Sellafield. A significant amount of the Company's plant and equipment used in this process was already in existence when BNFL was formed in 1971 to take over the assets and activities previously carried out by the UK Atomic Energy Authority (UKAEA). Those activities stemmed from a military programme during the Cold War, and the priority when the plants were built was to make them operational and effective as quickly as possible. When these plants were designed, limited thought was given to treating and disposing of the waste produced and their ultimate decommissioning and demolition. As a result the costs of so doing are now very considerable. Similarly, the age of the Group's Magnox reactors and their differing designs also mean that decommissioning is complex and costly.

The challenge of estimating future costs

The task of assessing how best to decommission the Group reactors, how waste can be retrieved from the original storage facilities and then treated for long-term storage/disposal, or how decommissioning and dismantling of these early plants should be carried out, is itself very difficult. For example, records of plant design and operations leave a number of unanswered questions, including the exact quantities and chemical composition of historic wastes. The long period over which these wastes have been stored, in some cases under water, has resulted in deterioration in the condition of the wastes and the storage facilities. Consequently, characterisation of the wastes, and design of technical solutions required to retrieve the wastes to enable treatment, will be difficult and demanding and will require innovative treatment solutions. New waste treatment plants that may be required to handle these wastes must be physically integrated into Sellafield's already complex infrastructure, and the construction of plants on such a site itself presents unique engineering challenges. Although the Group has considerable experience of delivering high quality safe solutions to such complex problems, considerable uncertainties remain, and will do so until work is done over a number of years to study further the historic wastes stored and the condition of the buildings. For plants designed and built later, waste treatment, decommissioning and dismantling issues were considered during the design and operation stage, and the relative costs are therefore lower, estimating these costs is therefore easier, and assumptions can be made with greater confidence.

Inherent uncertainty

The Company has made its estimates for many years by making assumptions about the likely safety and environmental requirements based on the best information available today. The process takes into account known and foreseeable developments in technology. This is then used as the basis for estimating the costs, which itself involves making judgements, not only about the likely duration of the individual tasks, the equipment required and the implications for costs, but also the likely range of possible variations around the judgements selected as the base, or working assumption. Once this has been estimated, a further allowance is calculated for possible but less likely outcomes or circumstances and for trends in labour costs. Estimates of cost, expressed in terms of today's money are then discounted to take into account the fact that the tasks will not be carried out for a long time, as described further below. Whilst the estimation process is carried out as thoroughly as possible, the inherent uncertainties arising from the nature and age of the facilities means that there can be no firm guarantee that the resulting provisions may not prove too large, nor on the other hand that they will necessarily prove adequate. As highlighted in note 24 to the accounts, in the particular area of historic wastes relating to the military and early civil nuclear programmes, work undertaken to revisit the waste retrieval and disposal strategy highlighted significant uncertainty as to the quantities and composition of these wastes. The Board has used the best available knowledge to estimate the related liabilities but, pending several more years' work, it is not possible to quantify the financial implications of a range of possible alternative outcomes or circumstances with the degree of certainty required to enable an estimate of this risk to be recorded in the balance sheet. The accounts, therefore, disclose this specific uncertainty which could result in a significant and material impact on the Group's results and financial position at the point at which it crystallises. As additional knowledge of the nature and quantity of waste becomes available the estimate will be refined.

Another key area of uncertainty relates to the Group's reactor decommissioning liabilities currently the subject of a strategic review in terms of waste handling/treatment operations as well as timescales for entry into the care and maintenance phase.

Timescales for decommissioning

Natural decay in radioactivity means that by delaying some decommissioning tasks, the radiation exposures to people engaged in dismantling plants reduces dramatically. For example, deferring final decommissioning until 135 years after a nuclear reactor shuts down would see radiation levels inside the reactor decrease to one millionth of their original levels. However, delay cannot be indefinite, because the physical structures of buildings ultimately deteriorate, even when these buildings are kept in a safe state by an ongoing process of routine maintenance. Therefore, for both safety, hazard reduction and cost reasons, decommissioning plans aim to achieve the best balance between deferring dismantling tasks to allow radioactivity to reduce, whilst ensuring that the expected state of buildings and structures is not itself the cause of increased risk and complexity.

The timescale ultimately assumed also has a profound effect on the estimate of the accounting provisions required today for future decommissioning and waste management costs. Changes in the assumed timescale could increase or reduce such costs significantly.

Destination of nuclear waste

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

Background to nuclear liabilities *(continued)*

arising from reprocessing and waste management, as high-level waste. The previous assumption of both Government and of the nuclear industry has been that intermediate and high-level wastes would be placed underground, whether permanently or in retrievable form, in facilities specially created for this purpose. Whilst this is now subject to public consultation, the question of where these wastes will be deposited is one of critical importance to the estimation of the future costs of waste disposal.

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

Intermediate and high-level waste are planned to be sent for underground storage, in separate repositories, which is significantly more costly than above ground storage. Furthermore, the estimation of costs is inherently difficult because it is dependent both on an estimate of the likely cost of facilities (which itself is much affected by the geological circumstance of the chosen location) and by the likely volume of wastes from all sources that would be placed there. United Kingdom Nirex Limited ("Nirex") based at Harwell in Oxfordshire, was set up in the early 1980s in agreement with the UK Government to examine the options for disposing radioactive waste in a deep underground repository. Its shareholders were BNFL (74.5%), British Energy (10.8%) and the UK Atomic Energy Authority (14.7%). The Group disposed of its 74.5% shareholding in Nirex during the year. Previously, we had based our calculations of waste disposal costs on updating estimates produced by Nirex some years ago for the costs of using an underground facility. With the passage of time, and the continuing absence of any proposed location for an underground disposal site, the Board of BNFL reassessed the reasonableness of continuing with the assumption that such a disposal facility would be built in the short- or medium-term future. Whilst the national strategy for ultimate waste disposal is reviewed, it remains the Board's view that underground disposal will not in fact be available in the short- to medium-term. As a result, we continue to make provision for maintaining safe and secure storage facilities for at least 100 years by which time it is assumed that a repository will be available and disposal will be underway.

Uranium and plutonium

The Group owns quantities of plutonium and treated uranium. Plutonium is of considerable value for civil purposes if used in fast breeder reactors and Mox fuel. Uranium has value in a continuing nuclear programme as it is the essential starting element in creating nuclear fuel. The Group's stocks of treated uranium and plutonium are regarded as assets, but all costs incurred in creating these have always been written off as incurred. As a result, these materials, which in some cases may require extensive treatment prior to reuse, are carried at nil value. Some of these stocks remain the property of customers, and all are subject to international non-proliferation agreements and to oversight by the international body responsible for the control of nuclear materials. There is no agreed process for disposing of plutonium if either the material is not required or treatment for reuse proves uneconomic, and pending reuse, therefore, the Group does not provide for disposal costs. All stocks are stored in secure conditions and, subject to demand for Mox fuel, are likely to remain so for a long time.

The ultimate status of sites

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

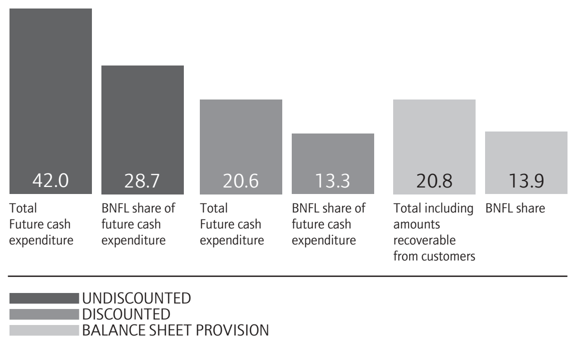
Discounting

The Group's provisions for nuclear liabilities are discounted to reflect the incidence of anticipated expenditures and the long delay before many of these expenditures are expected to occur. This follows required accounting practice. A discount rate of 2.5% is applied, reflecting an estimate of a long-term rate of investment return after accounting for risk and tax. The Group's investments and the terms of the financial undertaking from the Secretary of State in respect of certain nuclear liabilities related to the Magnox fuel cycle are expected to generate such a return. Each year, as we become one year closer to discharging our liabilities, our provisions are increased by 2.5% to reflect the removal of one year's discounting. This together with the impact of changes in price level is known as revalorisation. The charge is recognised as part of the Group's interest expense with interest earned on the investments and Secretary of State's Undertaking reflected as interest receivable.

Nuclear liabilities

The Group's nuclear liabilities can be analysed as illustrated in the chart below.

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



Principal subsidiary, associated undertakings and joint ventures

as at 31 March 2005

Subsidiary and associated undertakings and joint ventures whose results did not, in the opinion of the directors, materially affect the profit or the assets of the Group are not shown. Unless otherwise stated, subsidiaries are incorporated in the United Kingdom.

Subsidiary undertakings

Magnox Electric Limited
Co. No 2264251

It is wholly owned by BNFL and its purpose is to generate and supply electricity. The company re-registered as Private Limited Company on 1 April 2005.

Westinghouse Electric Company LLC

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

BNG America (formerly BNFL Inc.)

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

Westinghouse Electric UK Limited (formerly British Nuclear Group Limited) Co. No 2458109

It is wholly owned by BNFL and its purpose is to act as a holding company.

International Nuclear Fuels Limited (INFL)
Co. No 1144352

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

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

Uranium Asset Management Limited (formerly BNFL Uranium Asset Management Company Limited)
Co. No 3162046

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

Direct Rail Services Limited*

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

Deva Manufacturing Services Limited
Co. No 2763400

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

Fellside Heat and Power Limited
Co. No 2614535

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

Hinton Insurance Limited*

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

Rutherford Indemnity Limited*

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

Electricity Producers Insurance Company Limited

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

Electricity Producers Insurance Company (Bermuda) Limited

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

BNFL (Investments US) Limited
Co. No 4394408

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

BNFL Properties Limited
Co. No 2970356

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

BNFL Enrichment Limited
Co. No 4223635

It is wholly owned by BNFL and is the holding company for the Group's interest in Urenco Limited.

Associated undertakings

Urenco Limited (year ended 31 December 2004)

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

Enrichment Technology Company Limited

Its purpose is to provide centrifuges and centrifuge technology for uranium enrichment including plant design and research and development. The effective holding by BNFL is one third of the shares through both BNFL Enrichment Limited and Urenco Limited. The remainder are held by Dutch and German organisations.

Joint ventures

AWE Management Limited

Its purpose is to manage and facilitate the Aldermaston weapons facilities on behalf of the Ministry of Defence. BNFL holds 33% of the ordinary shares. The remainder are held by Lockheed-Martin and Serco.

*Transferred to NDA on 1 April 2005

Financial statistics

	2005	2004	2003	2002	2001	2000
	£m	£m	£m	£m	£m	£m
Results						
Group turnover	**2,364**	2,322	2,219	2,261	2,146	2,064
Loss before investment income, interest and taxation	**(387)**	(279)	(954)	(2,378)	(103)	(359)
Net financing (charges)/income	**(84)**	(20)	(134)	50	37	22
Loss on ordinary activities before taxation	**(471)**	(299)	(1,088)	(2,328)	(66)	(337)
Loss for the financial year	**(344)**	(194)	(865)	(2,090)	(46)	(262)
Loss transferred to reserves	**(344)**	(194)	(865)	(2,090)	(46)	(262)
Assets employed						
Fixed assets	**11,536**	11,969	12,233	12,662	12,168	11,407
Net current assets	**12,061**	11,975	11,112	11,088	10,629	10,687
Creditors: Amounts falling due after more than one year	**(4,762)**	(4,895)	(4,000)	(4,430)	(4,575)	(4,244)
Provisions for liabilities and charges	**(22,058)**	(21,944)	(22,035)	(21,163)	(17,969)	(17,538)
Net (liabilities)/assets	**(3,223)**	(2,895)	(2,690)	(1,843)	253	312
Financed by						
Share capital	**33**	33	33	33	33	33
Profit and loss account	**(3,259)**	(2,931)	(2,727)	(1,880)	218	277
Shareholders' funds	**(3,226)**	(2,898)	(2,694)	(1,847)	251	310
Minority interests	**3**	3	4	4	2	2
	(3,223)	(2,895)	(2,690)	(1,843)	253	312

The figures stated above have been taken from the published accounts for each year.

Glossary

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

BiTC Business In The Community

DOE Department Of the Environment (U.S.A)

DTI Department Of Trade and Industry

EH&S Environment, Health & Safety

INES International Nuclear Events Scale

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

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

NDA Nuclear Decommissioning Authority

NLIP Nuclear Liabilities Investment Portfolio

RoSPA Royal Society for the Prevention of Accidents

SMP Sellafield Mox Plant – Plant designed to make Mox fuel

TC-99 Technetium-99

Thorp Thermal Oxide Reprocessing Plant