MAGNOX ELECTRIC PLC

Registered No. 2264251

ANNUAL REPORT AND ACCOUNTS

31 March 1999

Magnox Electric plc

DIRECTORS
J J Taylor (Chairman)
D Joynson
M Morant
Dr C Smitton

SECRETARY
A J Shuttleworth

AUDITORS
Arthur Andersen
1 Surrey Street
London
WC2R 2PS

BANKERS
National Westminster Bank Plc
Spring Gardens
Manchester
M60 2DB

REGISTERED OFFICE
Risley
Warrington
Cheshire
WA3 6AS

Magnox Electric plc

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 March 1999

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £112m (1998: loss of £716m).

The Directors are unable to recommend a dividend (1998: £nil).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company's principal activity during the year continued to be the generation and supply of electricity.

The Company has restructured its activities into three main areas - electricity generation, liabilities management and reactor decommissioning. This structure allows it to more easily exploit the potential synergies existing between Magnox Electric plc ("Magnox") and its parent company British Nuclear Fuels plc ("BNFL"), and focuses management on the core elements of the business.

Safety

Safety is at the centre of Magnox's business, and significant amounts of management time and effort are devoted to it. For the fifth successive year there were no incidents above level 1 on the internationally agreed scale for rating nuclear events (this scale indicates the severity of nuclear events on a scale of 0 (no safety significance) to 7 (a major accident)).

There has been a small reduction in the number of lost time industrial accidents compared to the previous year, but the Company aims to reduce this number even further. In order to achieve this the Directors are promoting the systematic introduction of a behavioural safety programme at all sites which is expected to lead to improvements in safety and operations. There were no work related deaths or serious disabling injuries to Magnox staff during the year.

The collective radiation dose to employees and contractors was amongst the lowest ever recorded, despite the completion during the year of a large amount of project work requiring access to areas of substantial dose rate.

Following last year's integration with BNFL, Magnox will not produce its own Health, Safety and Environment annual report. These issues will be covered by the equivalent BNFL document.

Electricity Generation

During the year Magnox supplied 20.1TWh of electricity to the grid system (1998: 21.0TWh). The Company lost a full years output from Sizewell A's reactor 2 which has undergone extensive boiler repairs. All work was successfully completed by March 1999, and reactor 2 has now been returned to service.

DIRECTORS' REPORT (continued)

Future Developments

At the time of this report work is still ongoing with respect to the transfer of the appropriate licences and authorisations for Magnox stations to BNFL. This process is expected to be completed within the next twelve months.

Research and Development

Research and development is a key area in maintaining and improving the safety, reliability and performance of the magnox stations, and therefore the Company continues to invest accordingly. Magnox also takes part in a programme of work to address the needs of the Health and Safety Executive (HSE).

DIRECTORS

The Directors who served during the year were as follows:

J J Taylor (Chairman)
D Joynson
M Morant
Dr C Smitton

There were no Directors' interests requiring disclosure under the Companies Act 1985.

PERSONNEL

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees, and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, team briefings and the BNFL Group newsletter. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

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

CREDITOR PAYMENT POLICY

It is the policy of the Company to pay suppliers' invoices promptly in accordance with the relevant contract terms and to abide by the Prompt Payers Code of Practice drawn up by the CBI. Further information and copies of the Code can be obtained from The Group Finance Manager, Magnox Electric plc, Berkeley Centre, Berkeley, Gloucestershire GL13 9PB. Terms of payment are agreed with each supplier when agreeing the terms of each transaction.

At the balance sheet date, trade creditors represent 28 days purchases (1998 28 days).

DIRECTORS' REPORT (continued)

YEAR 2000

The Company began its Year 2000 compliance programme in February 1997 with the aim of protecting business operations and interests from the impact of the Year 2000 date change and making sure the Company's systems, infrastructure, equipment and services operate to plan throughout the period and beyond. The Company's key priorities are: safety; fulfilling regulatory duties; running generation plant economically; and safeguarding electricity trading and electricity sales income. The Company is carrying out all aspects of the programme in a planned, quality-assured and auditable way. The programme has the following phases:

- Identifying the scope of the programme	*Completed*
- Building staff awareness and commitment; developing ways of working	*Completed*
- Establishing and assessing a full inventory of issues; setting strategy; identifying resource needs; planning remedial work; refining contract arrangements	*Completed*
- Carrying out remedial work; testing systems to prove the effectiveness of remedial work; subsequent proving of (or assessing residual risk to) critical processes; undertaking supply chain assessment and risk mitigation; contingency planning and carrying out any further necessary work.	*In progress, with over 95% of all internal systems now Year 2000 ready. Contingency requirements have been identified and are being implemented*
- Completing remedial work on safety-related and other priority systems	*Completed*
- Assessing any outstanding issues and closing the programme	*Post April 2000*

Because the problem is so complex, and may be affected by external influences, the directors cannot guarantee that no Year 2000 problems will remain. However, progress through 1998/99 has been excellent and the Directors believe the Company will be in a satisfactory state of readiness.

Programme funding is based on estimates for internal and external costs and is kept under review. Allowance has been made for costs of £11.5M with £9M already having been spent and £2.5M expected to be spent during 1999/2000.

AUDITORS

A resolution will be proposed at the Annual General Meeting to appoint Ernst & Young as the Company's auditors.

By order of the Board

A J Shuttleworth
Company Secretary
8 July 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT 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 profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company 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 Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Magnox Electric plc

We have audited the accounts on pages 7 to 28 which have been prepared under the historical cost convention, modified to include the market value of certain fixed and current asset investments, and on the basis of the accounting policies set out on pages 10 to 13.

Respective responsibilities of Directors and Auditors

As described on page 5 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 March 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
8 July 1999

Magnox Electric plc

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1999

	Notes	1999 £M	1998 Restated (Note 23) £M
TURNOVER		**592**	597
Net operating costs and expenses before exceptional items		**(554)**	(944)
Exceptional items		**-**	(581)
	3	**(554)**	(1525)
OPERATING PROFIT/(LOSS)		**38**	(928)
Profit on disposal of fixed assets	6	**23**	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INVESTMENT INCOME, INTEREST AND TAXATION		**61**	(928)
Investment income	7	**150**	268
Other interest receivable and similar income	8	**410**	285
Interest payable and similar charges	9	**(484)**	(448)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		**137**	(823)
Tax on profit/(loss) on ordinary activities	10	**(25)**	107
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	21	**112**	(716)

All operations of the Company continued throughout both periods and no operations were acquired or discontinued.

Magnox Electric plc

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 1999

	1999	1998 Restated (Note 23)
	£M	£M
Profit/(loss) for the financial year	**112**	(716)
Unrealised gains on investments at market value	**12**	4
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	**124**	(712)
Prior year adjustments (Note 23)	**(61)**	
TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT	**63**	

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 March 1999

	1999	1998 Restated (Note 23)
	£M	£M
Reported profit/(loss) on ordinary activities before taxation	**137**	(823)
Realisation of gains on gilts	**25**	-
HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	**162**	(823)
HISTORICAL COST PROFIT/(LOSS) FOR THE YEAR RETAINED AFTER TAXATION	**137**	(716)

Magnox Electric plc

BALANCE SHEET
at 31 March 1999

	Notes	1999 £M	1998 Restated (Note 23) £M
FIXED ASSETS			
Tangible assets	11	**224**	244
Investments	12	**215**	215
		439	459
CURRENT ASSETS			
Stocks	13	**66**	64
Secretary of State's Undertaking due after more than one year	14	**3,949**	3,700
Debtors	15	**3,176**	178
Investments	16	-	2,933
Cash at bank and in hand		**139**	-
		7,330	6,875
CREDITORS: *Amounts falling due within one year*	17	**(639)**	(403)
NET CURRENT ASSETS		**6,691**	6,472
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,130**	6,931
Represented by:			
CREDITORS: Amounts falling due after more than one year	18	**1,447**	1,412
PROVISIONS FOR LIABILITIES AND CHARGES	19	**7,049**	7,009
CAPITAL AND RESERVES			
Called up share capital	20	-	-
Revaluation reserve	21	-	13
Profit and loss account	21	**(1,366)**	(1,503)
SHAREHOLDERS' FUNDS - EQUITY		**(1,366)**	(1,490)
		7,130	6,931

M Morant Director, 8 July 1999

NOTES TO THE ACCOUNTS
at 31 March 1999

1. ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention, modified to include the market value of certain fixed and current asset investments, and in accordance with applicable accounting standards. With the exception of the following change, due to the publication of a new accounting standard, the same policies have been applied as in the previous year.

a) Provisions
The Company has changed its accounting policy with regard to provisions in order to comply with the requirements of FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'. The main changes are in relation to the station decommissioning provisions. Further details are included in the nuclear liabilities policy note and in note 23.

Group accounts
The Company is a wholly owned subsidiary of a parent undertaking incorporated in the European Community and as such is exempt from preparing group accounts in accordance with section 228 of the Companies Act 1985. Accordingly the accounts present information about the Company as an individual undertaking and not about its Group.

Cashflow statement
Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated accounts.

Turnover
Turnover represents amounts receivable for sales of electricity including fees under contracts for differences and revenue from the related goods and services. The Directors consider there to be one class of business and one geographical market, that of England and Wales.

Tangible fixed assets
Tangible fixed assets are stated at the lesser of cost, net of depreciation, and economic value. The carrying values of tangible fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation is provided on all tangible fixed assets, other than assets in the course of construction and freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Magnox power stations	-	35-39 years
Non-operational buildings	-	40 years
Short term assets	-	5 years

Accumulated depreciation includes additional charges made where necessary to reflect impairments in value.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

1. ACCOUNTING POLICIES *(continued)*

Investments

Fixed asset investments comprise investments in and loans to subsidiaries and joint ventures and are stated at cost less any provision for impairment.

Current asset investments comprise fixed and call deposits, a portfolio of Government gilt-edged securities (gilts) and a managed portfolio of gilts. The gilts portfolio is stated in the balance sheet on the basis of cost adjusted so as to amortise that cost to redemption value over the period of maturity. 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 market value at the balance sheet date. Any unrealised gains or losses arising from changes in market value together with related taxation are taken to the revaluation reserve. Realised gains and losses are taken to the profit and loss account. All other current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product/service to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Research and development

Research and development expenditure is written off as incurred.

Fuel costs - Front End

Front end fuel costs consist of costs of procurement of uranium ore and fuel element fabrication. Fabrication costs consist of fixed and variable elements. The fixed element is charged to the profit and loss account over the contract term. The variable element is included in the cost of fuel stocks, being charged to the profit and loss account in proportion to the amount of fuel burnt.

Fuel costs - Back End

Fuel elements extracted from the reactors are sent for reprocessing and/or long term storage with eventual disposal of resulting waste products. Back end fuel costs comprise the estimated cost of this process at prices discounted back to current price levels in respect of both the amount of irradiated fuel burnt during the year and an appropriate proportion of unburnt fuel which will remain in the reactors at the end of their lives. All back end costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt. Due to the nature of the fuel process, there will be some unburnt fuel in the reactors at station closure. The cost of this fuel is provided for over the estimated useful life of each station on a straight line basis.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

1. ACCOUNTING POLICIES *(continued)*

Nuclear liabilities
In matching the costs of generating electricity against the income from sales, accruals and provisions are made in respect of the following:

a) Fuel costs
Accruals and provisions for fuel costs cover the reprocessing and storage of spent nuclear fuel and long term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements and the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Accruals based on contracted fixed price arrangements are stated in the balance sheet at current price levels and included within creditors. Provisions are based on long term cost forecasts which are reviewed regularly and adjusted where necessary, and included within provisions for liabilities and charges. These accruals and provisions are discounted and revalorised as detailed in c) below.

b) Decommissioning of nuclear power stations
Full provision for decommissioning the nuclear power stations is made at the date of commissioning and an equivalent amount is capitalised and depreciated accordingly. Provisions are made based on latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The technical assessments are reviewed regularly and the estimates of decommissioning costs are updated accordingly. Provisions are discounted and topped up as detailed in c) below. Changes in estimates are treated as adjustments to the assets concerned.

c) Discounting and top-up
Liabilities in respect of fuel and decommissioning costs are stated in the balance sheet at current price levels, discounted at a long term real rate of interest to take account of the timing of payments. Each year the financing charges in the profit and loss account include a 'top-up' charge to remove one year's discount from liabilities made in prior years and to restate those liabilities to current price levels.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the foreseeable future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

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 translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. Exchange differences are taken to the profit and loss account.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

1. ACCOUNTING POLICIES *(continued)*

Pensions

The Company operates a defined benefit pension scheme which requires contributions to be made to a separately administered fund. The contributions to this fund are based on independent actuarial valuations designed to secure the benefits as set out in the rules. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company. The regular cost is attributed to individual years using a projected unit method. The capital cost of ex-gratia and supplementary pensions, to the extent not covered by the scheme, is charged to the profit and loss account in the accounting period in which they are granted. 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.

2. GOING CONCERN BASIS OF ACCOUNTING

The accounts are drawn up on the going concern basis, on the grounds that the Company is, and will remain, able to meet its liabilities as they fall due. In drawing up the accounts on this basis, the Directors have taken into account that:

a) a major part of the Company's liabilities are in respect of long term liabilities for nuclear fuel reprocessing, waste management and decommissioning costs, most of which will not fall due for payment for a considerable number of years; and

b) the Company has received confirmation from British Nuclear Fuels plc that it will provide financial support to enable Magnox Electric plc to continue to operate safely, and to meet its liabilities as they fall due, for the foreseeable future.

In light of the foregoing considerations, the Directors consider the preparation of the accounts on the going concern basis to be appropriate.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

3. NET OPERATING COSTS AND EXPENSES

Net operating costs and expenses include:

	1999	1998 Restated
	£M	£M
Raw materials and consumables	120	127
Employee costs (see note 4)	158	146
Depreciation	35	991
Provisions for liabilities and charges	109	(453)
Exceptional amount written off current assets	-	581
Research and development expenditure	6	9
Other external and operating charges	149	150
Own work capitalised	(6)	(3)
Other operating income	(17)	(23)
	554	1525

The exceptional amount written off current assets in 1998 of £581M represents the write down of the Secretary of State's Undertaking following integration with BNFL.

Auditors remuneration was £153,000 (1998 £185,000). Fees paid to the auditors for services other than statutory audit during the year totalled £17,000 (1998 £27,000).

4. EMPLOYEE INFORMATION (including Executive Directors)

Employee costs during the year were as follows:

	1999	1998
	£M	£M
Wages and salaries	113	113
Social security costs	9	10
Pension costs	11	11
Other employee costs	25	12
	158	146

The average monthly number of employees during the year was 3,505 (1998 3,732).

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

5. DIRECTORS' EMOLUMENTS

	1999 £000	1998 £000
Aggregate emoluments	**422**	663
Compensation for loss of office	-	311

Retirement benefits are accruing to 2 Directors (1998 2) under a defined benefit scheme.

	1999	1998
Aggregate emoluments for the highest paid director	**176**	147
Defined benefit pension scheme for highest paid Director: Accrued pension at end of year	**50**	59

6. PROFIT ON DISPOSAL OF FIXED ASSETS

The profit on disposal of fixed assets relates to Sudbury House, the Central Electricity Generating Board's former Head Office. This asset was previously carried at a book value of £14M and was sold for £37M. This transaction gave rise to a tax charge of £7m.

7. INVESTMENT INCOME

	1999 £M	1998 £M
Dividends from Group Undertakings	**33**	44
Income from current asset investments	**117**	224
	150	268

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

8. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1999 £M	1998 £M
Interest receivable from Group Undertakings	157	-
Bank interest	4	1
Escalation of Secretary of State's Undertaking	249	284
	410	285

9. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £M	1998 Restated £M
Adjustments to opening provisions arising from changes in price levels and interest credited (see note 19)	470	448
Realised exchange losses	4	-
Other	10	-
	484	448

10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	1999 £M	1998 Restated £M
Corporation tax	22	97
	22	97
Adjustments in respect of prior years		
Corporation tax	3	(204)
	25	(107)

The Company has an unrecognised deferred tax asset amounting to £764M (1998 (Restated): £538M). This comprises fixed asset timing differences of £27M (1998 £19M) and other timing differences of £737M (1998 (Restated): £519M).

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

11. TANGIBLE FIXED ASSETS

	Nuclear power stations	Other land and buildings	Other plant and equipment	Total
	£M	£M	£M	£M
Cost				
At 1 April 1998	868	71	38	977
Change in accounting policy (note 23)	1,041	-	-	1,041
At 1 April 1998 (restated)	1,909	71	38	2,018
Reallocations	2	-	(2)	-
Additions	26	1	6	33
Disposals	(47)	(25)	(3)	(75)
At 31 March 1999	**1,890**	**47**	**39**	**1,976**
Depreciation				
At 1 April 1998	749	29	11	789
Change in accounting policy (note 23)	985	-	-	985
At 1 April 1998 (restated)	1,734	29	11	1,774
Charge for year	31	1	3	35
Disposals	(45)	(10)	(2)	(57)
At 31 March 1999	**1,720**	**20**	**12**	**1,752**
Net book value				
At 31 March 1999	**170**	**27**	**27**	224
At 31 March 1998 (restated)	175	42	27	244

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

11. TANGIBLE FIXED ASSETS *(continued)*

Decommissioning costs capitalised:

	Nuclear power stations	Other land and buildings	Other plant and equipment	Total
	£M	£M	£M	£M
Cost	999	-	-	999
Depreciation	(954)	-	-	(954)
Net book value				
At 31 March 1999	**45**	-	-	**45**
At 31 March 1998 (restated)	56	-	-	56

The net book value of tangible fixed assets includes the following amounts in respect of land and buildings:

	1999	1998
	£M	£M
Freehold	**38**	55

The cost of freehold land included in the above is £3M (1998 £5M).

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

12. INVESTMENTS

	Shares in subsidiary undertakings	Loans to joint venture	Total
	£M	£M	£M
Cost			
At 1 April 1998	215	164	379
Additions	-	16	16
At 31 March 1999	**215**	**180**	**395**
Provisions			
At 1 April 1998	-	164	164
New provisions	-	16	16
At 31 March 1999	**-**	**180**	**180**
Net book value			
At 31 March 1999	**215**	**-**	**215**
At 31 March 1998	215	-	215

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

12. INVESTMENTS *(continued)*

Details of the principal investments in which the Company holds more than a 20% participating interest are as follows:

Name	*Country of incorporation*	*Holding*	*Proportion held*	*Nature of business*
Subsidiary Undertakings				
Nuclear Insurance Limited	Isle of Man	Ordinary shares	100%	Insurance
		Preference shares	100%	
Electricity Producers Insurance Company Limited	Isle of Man	Ordinary shares	100%	Insurance
Joint Venture				
United Kingdom Nirex Limited	England and Wales	Ordinary shares	35%	Disposal of radioactive waste

13. STOCKS

	1999	1998
	£M	£M
Nuclear fuel	**53**	52
Other raw materials and consumables	**13**	12
	66	64

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

14. SECRETARY OF STATE'S UNDERTAKING DUE AFTER MORE THAN ONE YEAR

	£M
At 1 April 1998	3,700
Interest accrued during the year	249
At 31 March 1999	**3,949**

The Secretary of State has undertaken to pay Magnox Electric plc £3.7 billion together with interest at a rate of 4.5% above inflation on the outstanding amount. Payments will 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 Company cause a reassessment of the nuclear related liabilities of the BNFL Group attributable to the magnox fuel cycle (Magnox 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.

General reviews in relation to (a) above will take place at 1 April 2003 and every five years thereafter and special reviews may take place at any time if the financial impact of events between general review dates is significant.

Reductions in provisions falling within (b) above are to be shared between the Company 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 £800M escalated by 2.5% above inflation from 1 April 1998.

15. DEBTORS

	1999	1998
	£M	£M
Trade debtors	**60**	57
Amounts owed by Group Undertakings	**3,031**	-
Prepayments and accrued income	**8**	3
Other debtors	**77**	118
	3,176	178

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

16. INVESTMENTS

	1999 £M	1998 £M
Fixed and call deposits	-	2,322
Gilts investments	-	440
Managed gilts investments	-	171
	-	2,933

17. CREDITORS: amounts falling due within one year

	1999 £M	1998 Restated £M
Bank loans and overdraft	-	6
Trade creditors	**10**	17
Amounts owed to Group Undertakings	**156**	84
Corporation tax	**157**	31
Other taxes and social security costs	**3**	4
Accruals and deferred income	**90**	82
Fuel reprocessing and waste management creditors (note 19)	**199**	176
Other creditors	**24**	3
	639	403

18. CREDITORS: amounts falling due after more than one year

	1999 £M	1998 £M
Fuel reprocessing and waste management creditors (note 19)	1,446	1,409
Other creditors	1	3
	1,447	1,412

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

19. PROVISIONS AND NUCLEAR LIABILITIES

	Creditors	Provisions			
	Fuel reprocessing & waste management (note a)	Fuel reprocessing & waste management (note a)	Decom-missioning (note a)	Other (note b)	Total
	£M	£M	£M	£M	£M
At 1 April 1998	1,585	2,909	3,798	178	8,470
Change in accounting policy (note 23)	-	-	124	-	124
At 1 April 1998 (restated)	1,585	2,909	3,922	178	8,594
Adjustment arising from changes in price levels and interest credited	88	161	216	5	470
Charge/(release) in the year	181	17	(84)	(5)	109
Expenditure in the year	(209)	(184)	(31)	(55)	(479)
At 31 March 1999	**1,645**	**2,903**	**4,023**	**123**	**8,694**
Analysed as follows:					
Due within one year	199	155	47	52	453
Due after more than one year	1,446	2,748	3,976	71	8,241
	1,645	**2,903**	**4,023**	**123**	**8,694**

(a) Nuclear liabilities which are based on contracted fixed price arrangements have been classified as creditors.

The Company has provided in full for its obligations to decommission nuclear reactors and has provided for its share of the costs of decommissioning BNFL's sites and facilities. These provisions cover complete demolition together with disposal of associated waste. In addition provisions have been made for fuel reprocessing and related waste management. In all cases the provisions are based on detailed technical assessments of the processes and methods likely to be used to discharge the obligations and the best estimates are derived from a combination of latest technical knowledge available, the existing regulatory regime and commercial arrangements. The amount and timing of each obligation is therefore sensitive to each of these three factors.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

19. PROVISIONS AND LIABILITIES (continued)

(b) Other provisions can be analysed as follows:

	Restructuring	Insurance	Contract loss provision	Total
	£M	£M	£M	£M
Balance at 1 April 1998	75	22	81	178
(Release)/Charge in year	(31)	(2)	33	-
Expenditure in the year	(26)	-	(29)	(55)
Balance at 31 March 1999	**18**	**20**	**85**	**123**
Analysed as follows:				
Amounts due within one year	18	3	31	52
Amounts due after more than one year	-	17	54	71
	18	**20**	**85**	**123**

20. SHARE CAPITAL

	1999	1998
	£	£
Authorised:		
50,000 ordinary shares of £1 each	**50,000**	50,000
Allotted and called up:		
2 ordinary shares of £1 each fully paid	**2**	2
49,998 ordinary shares of £1 each 25p paid	**12,500**	12,500
	12,502	12,502

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

21. RESERVES

	Revaluation reserve	Profit and loss account
	£M	£M
At 1 April 1998	13	(1,442)
Changes in accounting policies (note 23)	-	(61)
At 1 April 1998 (restated)	13	(1,503)
Retained profit for the year	-	112
Surplus on revaluation	12	-
Transfer on disposal of investments	(25)	25
At 31 March 1999	**-**	**(1,366)**

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999	1998 Restated
	£M	£M
Profit/(loss) for the financial year	**112**	(716)
Other recognised gains and losses (net)	**12**	4
Net addition/(decrease) in shareholders' funds	**124**	(712)
Opening shareholders' funds	**(1,490)**	(778)
Closing shareholders' funds	**(1,366)**	(1,490)

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

23. CHANGE IN ACCOUNTING POLICY

The Company has changed its accounting policy with regard to provisions in order to comply with the requirements of FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'. This has impacted station decommissioning provisions. In the previous year the policy was to build up provisions for station decommissioning over the operating lives of the stations. Provisions are now made in full at the date of commissioning and an equivalent amount is capitalised.

The effect of this change is as follows:

	1999 £M	1998 £M
Profit and loss account		
Increase/(decrease) in operating profit	13	(5)
Increase/(decrease) in profit on ordinary activities before taxation	6	(8)
Increase/(decrease) in profit for the financial year	6	(7)
Balance sheet		
Tangible fixed assets - cost	999	1,041
- depreciation	(954)	(985)
Increase in net book value	45	56
Decrease in creditors: amounts falling due within one year	6	7
Increase in nuclear provisions and liabilities	(106)	(124)
Decrease in reserves	(55)	(61)

24. CAPITAL EXPENDITURE AUTHORISED

	1999 £M	1998 £M
Contracted for but not provided for	2	2

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

25. PENSIONS

The Company participates in the Electricity Supply Pension Scheme (ESPS) which is a defined benefit (final salary) pension scheme and is available to all employees. The scheme is separately administered and is funded by contributions, partly from the employees and partly from the participating companies. The Company contributions are based on the results of independent actuarial triennial valuations using the projected unit method, the particulars of which are contained in the Group accounts of British Nuclear Fuels plc.

26. CONTINGENT LIABILITIES

During 1997, the Pensions Ombudsman ruled against The National Grid Company plc in relation to its use of surplus arising from the 1992 actuarial valuation of the Electricity Supply Pension Scheme (ESPS). National Grid appealed this ruling to the High Court. National Power PLC also sought a declaration from the High Court that its use of the 1992 and 1995 valuation surpluses was lawful. In both cases, the High Court held that the use of surplus was lawful. Both cases have been taken to the Court of Appeal, which has found in favour of the appellants, but has also given companies leave to appeal to the House of Lords.

A similar claim has been brought against Magnox Electric and the Trustees of the Magnox Electric Pension Group of the ESPS. Resolution of the case will depend in part on the final outcome of the National Grid and National Power cases. The maximum potential liability which could arise on Magnox Electric as a result of its use of the surplus is approximately £35M plus accrued interest.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1999

27. RELATED PARTY TRANSACTIONS

The ultimate holding company is British Nuclear Fuels plc, which is incorporated in Great Britain. Copies of the Group accounts of British Nuclear Fuels plc may be obtained from its registered office at Risley, Warrington, WA3 6AS. The Company is not included in any other Group accounts.

In the Directors' opinion, the Company's ultimate controlling party is Her Majesty's Government.

The Company, being a wholly owned subsidiary of British Nuclear Fuels plc has taken advantage of the exemption from the disclosure requirements as available in paragraph 3(c) of FRS8.

The following are also considered to be related parties:

(I) Undertakings under common control of the Government. The following entities have been identified within this category:

The Ministry of Defence
The United Kingdom Atomic Energy Authority

(ii) Associated undertakings/Joint ventures. The principal associated undertakings are listed in Note 12.

The following table summarises the disclosures required by FRS8 regarding related parties:

	Turnover	Purchases	Amounts due to/from Related Parties at 31 March 1999	Loan balances outstanding at 31 March 1999	Provisions against loan balances at 31 March 1999
1998/1999	£M	£M	£M	£M	£M
Undertakings under common control	1	-	-	-	-
Associated undertakings/ Joint ventures	-	16	-	180	(180)
1997/1998					
Undertakings under common control	-	-	-	-	-
Associated undertakings/ Joint ventures	-	12	-	164	(164)