

Directors' Report & Accounts

For the year ended 31 March 1997

Magnox Electric plc

This report and accounts covers the first full year of operation of Magnox Electric plc (Magnox) since the sale of its advanced gas-cooled reactor (AGR) stations and pressurised water reactor (PWR) station and acquisition of the Hunterston A magnox station on 31 March 1996. Magnox owns nine magnox power stations, operates six of them and is decommissioning the other three. During the year under report Magnox generated nearly 7% of the electricity sold in England and Wales.

The Directors' report and the accounts for the Group form part of a suite of reports on Magnox's activities. We also produce reports on power station performance, health & safety, the environment and progress with the discharge of nuclear liabilities including decommissioning.

Magnox Electric plc
Berkeley Centre
Berkeley
Gloucestershire
GL13 9PB

Company Number 2264251



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Chairman's Statement



Magnox Electric's first full year of operation ended with high levels of electricity generation from our magnox stations. This is a credit to our staff who have worked hard and successfully to resolve many of the technical issues that limited production in the first half of the year. Our efforts to drive down the costs of discharging our nuclear liabilities, including those arising from magnox operations in the past, have also borne fruit. I am indebted to the staff who have improved the way we manage that important area of our business. Throughout the Company our people have worked to establish Magnox's identity, its position in the market and its strategy for the future. My fellow Directors and I wish to place on record our thanks for their loyalty and commitment.

I expect the coming year to be dominated by the prospect of an integration of Magnox and British Nuclear Fuels plc (BNFL). The Government announced in May 1995 its intention to integrate the two companies to provide clear incentives to drive down reprocessing and other costs and to get the best out of the magnox stations. I believe that integration in a form that achieves these aims offers the best prospects for Magnox and its staff as well as for the Government as our shareholder. My Board and I will do our best to pursue integration on such terms.

The two companies have been working closely with the Department of Trade and Industry to establish a satisfactory basis for the merger. I will continue to press for early decisions on the way ahead for Magnox and its staff.

Mark Baker
Chairman

Directors' Report for the year ended 31 March 1997

The Directors present their report and Group accounts for the year ended 31 March 1997.

Principal Activity

The Group's principal activity is the generation and supply of electricity.

Review of the Business

In its first full year of operation Magnox has established itself as a new company with a new identity. It has established a market presence as a major public sector generator. Magnox has continued to place the safety of its operations at the heart of its activities. The Directors have carried out a major strategic review and are now pursuing substantial performance improvements under the banner of Magnox's 'Performance Challenge'. This aims to achieve improvements in Magnox's three main business streams: electricity generation, nuclear liabilities management and new business development.

During the year the Group sold its North American uranium exploration and mining interests to Cameco Corporation Inc for £62 million, making a pre-tax profit of £18 million.

Magnox has been working with BNFL and the Department of Trade and Industry to develop a basis for the integration of Magnox and BNFL. The aim of the merger is to give the combined company a clear incentive to get the best net revenues from magnox generation, to reduce to a minimum all magnox related reprocessing and other back end costs and to maintain the business development capability of the enlarged company. The Directors believe that, if a merger is achieved on such a basis, it will be in the best interests of Magnox and its staff.

Electricity Generation

During the year Magnox sold 19.1TWh (net) of electricity to the grid system (1996 20.1TWh). This 5% reduction in output compared with last year arose largely from technical difficulties at Hinkley Point A and Dungeness A which caused both reactors at these stations to be out of service in the early part of the year. Those difficulties were resolved satisfactorily and the plants have operated reliably since then. Both reactors at Sizewell A were also out of service at the start of the year to complete work associated with the periodic safety review which Magnox carries out at all its stations to show that they continue to operate safely. Reactor 1 returned to operation in September but Reactor 2 remained out of service for the rest of the year for detailed examination of the boiler structures and other related safety work. The latter part of the year brought much better output levels from Magnox's stations with load factors regularly exceeding 90%.

During the year the Nuclear Installations Inspectorate (NII) agreed, subject to certain conditions, that Magnox could operate Dungeness A and Sizewell A Reactor 1 beyond a 30 year operating life and up to a potential 40 years.

The NII also agreed that Magnox could increase from two to three years the interval between Oldbury power station's statutory overhaul and inspections. This was the first time a Magnox station has achieved such consent. It was the result of a detailed assessment of the plant and a review of inspection findings. The NII's decision has allowed Magnox to defer an Oldbury reactor overhaul that was planned for summer 1997 and has increased the potential availability of the station for the future.

Liabilities Management

When the Government restructured the UK nuclear generation industry on 31 March 1996 Magnox took on the nuclear liabilities associated with magnox operation in Nuclear Electric plc, Scottish Nuclear Ltd and their predecessors. Magnox has developed further its catalogue of its nuclear liabilities. This includes a detailed analysis and record of future cash flows and uncertainties associated with the discharge of the Company's liabilities. The liabilities catalogue has allowed Magnox to improve the way in which it forecasts expenditure and makes sufficiently prudent provisions in its financial accounts. These provisions are based on the latest technical assessments of the processes and methods that will be needed in future years.

Magnox has worked closely with other holders of nuclear liabilities to achieve a coordinated approach to contracts with BNFL. It has identified more clearly the forward programme of work that BNFL will carry out under its contract for managing Magnox's historic wastes, and this has allowed Magnox to allocate risk more appropriately. There has been a reduction in the estimates of financial provisions in this area. During the year Magnox and BNFL have started to work in a more collaborative way on the fuel process (uranium procurement through to ultimate disposal). The aim is to improve the process and reduce costs.

During the year Magnox had been working closely with other customers of United Kingdom Nirex Limited (Nirex) to establish a Waste Disposal Services Agreement with Nirex. This would have increased still further customer involvement in the work programme for a deep waste repository. However, on 17 March 1997 the Secretary of State for the Environment rejected an appeal by Nirex against Cumbria County Council's decision to refuse a planning application for a rock characterisation facility at Longlands Farm, near Sellafield. Nirex customers then agreed that it was not timely to pursue further a Waste Disposal Agreement. Magnox is reviewing the way forward with Nirex and other radioactive waste producers in the light of the Secretary of State's decision.

Magnox's preferred strategy for decommissioning its nuclear power stations is called 'safestore'. The Company has made good progress during the year towards establishing this as the way forward. Magnox believes safestore to be the best practical option available in terms of environmental impact and discounted costs. As Magnox justifies the technical case for safestore at individual sites, it will progressively base its decommissioning provisions on the safestore strategy.

Business Development

Magnox staff have a wide range of expertise and project management skills in the safe and cost-effective decommissioning of nuclear power plant and plant late life management. Magnox has been establishing its position in this growing market and has secured business that includes a major contract with the United Kingdom Atomic Energy Authority (UKAEA) to dismantle the core of the Windscale Advanced Gas-Cooled Reactor (WAGR).

Magnox currently generates around 7% of the electricity sold in England and Wales and seeks to build on its inheritance by getting the best value from its sites and other assets. The Company is investigating options, including the development of sites, for securing the best available commercial benefit.

Financial Results and Dividends

Turnover from electricity generation for Magnox's stations in 1996-97 was £528 million compared with £522 million last year. While electricity output fell, the average market price earned by Magnox rose to £25.30 per MWh from £24.70 per MWh. Earnings from the nuclear premium ceased on the privatisation of British Energy plc although arrears of amounts due to Magnox are still being collected.

Operating profit before revision of previous years' nuclear liabilities was £261 million (1996 £324 million for the continuing Magnox business). Profit fell mainly because of reduced nuclear premium earnings and the need to build up previously shared services as the magnox operations became a separate business.

Revision of previous years' nuclear liabilities amounted to a credit to the profit and loss account of £730 million (1996 a charge of £105 million for the continuing Magnox business).

After financing charges and taxation there was a profit in the year of £633 million (1996 £(31) million loss for the continuing Magnox business).

The Directors are unable to recommend payment of a dividend.

The Group had negative shareholder funds of £682 million at 31 March 1997 (1996 £1,328 million).

Review of Financial Performance

The Magnox business comprises the management of three principal activities - electricity generation, nuclear liabilities management and new business development. New business development revenues are not yet material and are included below in the generation figures. Total cash flow for the Magnox business can be analysed as follows:

	Cash Flow Analysis	
	1996-97	1995-96
	£ million	Continuing Operations £ million
Generation		
Operating profit/(loss) before levy	662	(154)
Exclude non-cash items	(545)	319
Operating cash flow before levy and working capital movements	117	165
Less: capital expenditure	(30)	(32)
Cash contribution from generation before working capital movements	87	133
Nuclear liabilities discharged	(427)	(280)
Movements in working capital, sale of subsidiaries and other corporate costs	(70)	5
Cash management - interest received	180	181
Tax paid	(52)	(32)
Levy received	803	1,034
Net increase in cash and liquid resources	521	1,041

Electricity Generation

Better average market prices have, in part, offset reduced electricity generation. Despite lower output and additional costs, the generating operations have produced a positive cash flow of £87 million (1996 £133 million) while the cost of additional liabilities arising from the year's operation amounted to £21 million (1996 £3 million).

Magnox has reassessed individual station accounting lives in the light of current regulatory consents relating to continued operation beyond 30 years. Accounting lives now fall within the range of 32 to 39 years.

Liabilities Management

The analysis of movements in nuclear liabilities set out below shows Magnox's performance in liabilities management:

	Statement of Changes in Nuclear Liabilities		
	Undiscounted	Discounted at 3%	Provided
	£ billion	£ billion	£ billion
At 1.4.96	18.2	8.9	8.4
Revalorisation	0.5	0.5	0.5
Revision of previous years' cost estimates	-	(0.8)	(0.7)
Discharged in year	(0.4)	(0.4)	(0.4)
Additional liabilities arising from continued generation	0.2	0.2	-
Provided in year	-	-	0.1
At 31.3.97	18.5	8.4	7.9

Reprocessing and waste management liabilities of £12.1 billion gross (£6.6 billion discounted) include £6.3 billion gross (£3.1 billion discounted) relating wholly to the generation of electricity by or for the Central Electricity Generating Board (CEGB) or the South of Scotland Electricity Board before 1 April 1989.

Magnox has reviewed fully the risk profile of its nuclear liabilities. This review takes account of factors including the rejection by the Secretary of State for the Environment of an appeal by Nirex against Cumbria County Council's decision to refuse a planning application for a rock characterisation facility at Longlands Farm, near Sellafield.

During the year, Magnox identified savings in total liabilities which, although they resulted in no reduction in gross costs, yielded a reduction of £0.8 billion (discounted). Improved analysis of the cost estimates and risks associated with the outstanding liabilities, particularly in respect of Magnox's share of the projected costs of BNFL's site decommissioning and waste management activities, contributed to this. The reassessment of station lives gives additional lifetime fuel reprocessing liabilities of £0.2 billion. This will be more than offset by the additional contribution that Magnox expects to get from the stations.

Investment Performance

Interest earned on investments during 1996-97 was £188 million (1996 £201 million).

The average return earned was 6.7% (4.1% real) pre-tax compared with 7.6% (4.9% real) in the previous year. The fall reflects general market conditions.

	Investments			
	31.3.97		31.3.96	
	£ million		£ million	
	Book Value	Market Value	Book Value	Market Value
Long term gilts	511	572	505	536
Cash deposits & investments	2,928	2,928	2,591	2,591
Total investments	3,439	3,500	3,096	3,127

Secretary of State's Undertaking

The Undertaking escalates at a compound rate of 4.5% above inflation. Magnox will not receive any of this amount in cash until it needs it to meet the Company's liabilities.

Taxation

The taxation charge of £375 million represents an effective rate of 37% on the pre-tax profit. The effective rate is higher than the standard rate because certain of the nuclear provisions set aside by the Company are not allowed until discharged.

The Company's tax losses were fully absorbed in 1996. The Company has a potential deferred tax asset of £532 million (1996 £251 million), principally owing to provisions which are not currently tax deductible.

As the asset is not expected to crystallise for a significant period of time, its value is not reflected in these accounts.

Insurance

The Company carries a range of commercial insurance policies. Some of these are placed with its captive insurance companies.

Future Developments

Magnox will continue to work with BNFL and the Department of Trade and Industry to seek a satisfactory basis for the integration of the two companies.

Magnox will continue to focus on improving its business performance with safety as the foundation of its business. The Company will take full account of the environmental impact of all its operations. It will seek to get the best possible profit contribution from electricity sales by operating its generating plant as fully, and for as long, as is consistent with safety. It will meet all its nuclear liabilities as cost-effectively as possible; maintain and develop its core skills and capabilities to meet its current and future operational needs; and use these skills and capabilities in profitable areas of new business.

To achieve this, the Directors will drive towards the objectives that Magnox has set itself as part of its 'Performance Challenge'. They believe that the work they put in hand to meet this challenge will be as relevant and important to magnox operations after the intended integration with BNFL as they are to Magnox today.

In line with the 'Performance Challenge' the Magnox generation business aims to achieve an operating contribution of £200 million no later than the turn of the century. Liabilities management will focus on substantial reductions in the cost of discharging Magnox's existing liabilities. Magnox will also develop its capability and position in pursuit of appropriate new business and will seek to secure contracts to bring income with a good return on investment.

Going Concern

As explained in note 2 to the accounts, the Directors consider it appropriate to draw up the accounts on the going concern basis as the Group is, and will remain, able to meet its liabilities as they fall due.

Research and Development

Magnox promotes nuclear research activities which aim to secure further improvements in the reliability and performance of its generating plant. The Company also undertakes and promotes research and development in waste treatment methods and decommissioning techniques that minimise environmental impact and reduce costs. Magnox, in common with other major UK nuclear companies, takes part in a collaborative programme of generic nuclear safety research which addresses the needs of the Health and Safety Executive (HSE).

Board of Directors

A list of the Directors of Magnox Electric plc during 1996-97 appears below:

Executive Directors

Mr M A W Baker

Age: 57

- Appointed Chairman on 1 April 1996.
- Previously Executive Director, Corporate Affairs & Personnel, Nuclear Electric plc.
- Earlier Secretary of the United Kingdom Atomic Energy Authority (UKAEA) and other UKAEA posts including Authority Personnel Officer.
- Director of Electricity Association Ltd.
- Director and Chairman of the Board of Electricity Pensions Ltd.
- President Elect, Institute of Energy.
- Member of the Confederation of British Industry (CBI) Council and of the CBI Energy Policy Committee.

Mr R W Hall CBE FEng (retiring on 30 September 1997)

Age: 63

- Appointed Chief Executive on 1 April 1996.
- Previously Executive Director, Operations, Nuclear Electric plc.
- Earlier Divisional Director of Generation, Director of Personnel and Corporate Training Manager within CEGB and Station Manager, Hinkley Point and Trawsfynydd Nuclear Power Stations.
- Chairman of World Association of Nuclear Operators (WANO) Paris Centre.
- Member of the World Governing Board of WANO.
- Chairman of Organisation des Producteurs d'Energie Nucleaire (OPEN).

Mr D Joynson (Managing Director, Operations from 1 October 1997)

Age: 54

- Appointed Executive Director, Liabilities and Decommissioning on 1 April 1996.
- Previously Station Manager, Sizewell B Nuclear Power Station.
- Earlier Station Manager, Oldbury Nuclear Power Station and other posts at conventional and nuclear power stations.
- Director of United Kingdom Nirex Limited.

Mr S R Ogle

Age: 53

- Appointed Executive Director, Finance and Commercial on 1 April 1996.
- Previously Financial Control Director, Nuclear Electric plc.
- Earlier employment in Management Consultancy Division, Coopers & Lybrand.
- Director, Electricity Producers Insurance Company (EPIC), Nuclear Insurance Limited (NIL), CEGB Exploration (America) Inc and United Kingdom Nirex Limited.

Dr C Smitton

Age: 51

- Appointed Executive Director, Generation on 1 April 1996.
- Previously Quality Director, Nuclear Electric plc.
- Earlier Change Programme Director and Generation Director, Nuclear Electric plc and Station Manager, Hartlepool and Oldbury Nuclear Power Stations.

Non Executive Directors

Mr N N Broadhurst

Age: 55

- Appointed Non Executive Director on 1 April 1996.
- Finance Director, Railtrack plc.
- Previously similar finance posts with VSEL Consortium plc and United Engineering Steels Ltd.
- Earlier Financial Controller and then Divisional General Manager, Finance and Administration, China Light and Power Company, Hong Kong.
- Director, Railtrack Group plc, Railtrack Insurance Ltd, Railtrust Holdings Ltd, Railways Pension Trustee Company Ltd.

Mr J D Rimington CB

Age: 62

- Appointed Non Executive Director on 1 April 1996.
- Previously Director General of the Health and Safety Executive (HSE).
- Earlier posts in the Department of Employment, the Office of the UK Permanent Representative to the European Commission, the Manpower Services Commission and the HSE.
- Director and national council member, Consumers' Association.

Mr M H Spence CBE

Age: 62

- Appointed Non Executive Director on 1 April 1996 (previously Non Executive Director, Nuclear Electric plc).
- Consulting engineer, formerly Group Director of Strategic Development, Dowty Group plc covering commercial and technical strategy for the Group.
- Earlier posts in Dowty Group plc including Managing Director of Aerospace Division and Managing Director of Industrial Division.

Ms S E Stoessl

Age: 60

- Appointed Non Executive Director on 1 April 1996 (previously Non Executive Director, Nuclear Electric plc).
- Previously Head of Broadcasting Research at the BBC.
- Earlier Director General, Market Research Society and Head of Marketing for Channel 4 TV.
- Non Executive Director of Ealing Hospital NHS Trust, Chairman of Find your Feet and Director of the Amarant Trust.

The Secretary of State for Trade and Industry was a shadow Director of the Company within the meaning of Section 741 of the Companies Act 1985 during the year under review.

Corporate Governance

A statement on corporate governance appears on pages 15 to 17 and the auditors' report on Magnox's statement of compliance appears on page 20. The report of the Remuneration Committee appears on pages 18 and 19.

Payment of Creditors

Magnox's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction. The Company makes its suppliers aware of the terms of payment. The Company Accounting and Treasury Manager, Magnox Electric plc, Berkeley Centre, Berkeley, Gloucestershire GL13 9PB can give further information. The average age of invoices outstanding at 31 March 1997 was 31 days.

Directors' Interests in Shares

The Secretary of State for Trade and Industry had, during the year under review, an interest in 50,000 ordinary £1 shares in the Company. None of the Directors of the Company has, according to the register kept under Section 325 of the Companies Act 1985, any interest in shares or debentures of the Company, nor has any right to subscribe for shares in the Company been granted to or exercised by any Director or members of his or her immediate family.

Employment of Disabled People

Magnox's equal opportunities policy describes its commitment to make sure that, in all aspects of employment practice, it does not discriminate against disabled people on grounds of their disability. Magnox will explore all the practicable options available to meet the needs of employees who become disabled. The Company is keen to develop initiatives that will help disabled people and provide them with appropriate work experience and training.

Employee Participation

Magnox has continued to drive for Investors in People accreditation. Some business units have successfully achieved this status and others have plans in place to do so.

The Magnox Joint Council has continued to operate as a joint negotiating body and a forum for constructive discussions on consultative issues. The Company Health and Safety Committee has continued to address a wide range of health and safety issues.

Political and Charitable Contributions

During the year Magnox made donations to charitable organisations totalling £168,000 (1996 £234,000). Magnox made no contributions to political parties.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be reappointed auditors of the Company will be put to the Annual General Meeting.

The Board of Directors approved this report on 16 July 1997.

Signed on behalf of the Board



S M Hall

Company Secretary

Company number 2264251

Statement on Corporate Governance

Magnox fully supports the Code of Best Practice published in December 1992 by the Cadbury Committee on Financial Aspects of Corporate Governance (the Cadbury Code). Magnox also fully supports the report of the Study Group on Directors' Remuneration (the Greenbury Report).

Statement of Compliance

The Group has, throughout the year ended 31 March 1997, complied with the Cadbury Code. The Auditors' report on the Company's statement of compliance appears on page 20.

Board Committees

Non Executive Directors played an important role in ensuring high standards of corporate governance through their participation in the following meetings and committees during the year:

Audit Committee

Chairman: Mr N N Broadhurst

The Audit Committee reviews the annual and interim financial results and the procedures by which Magnox maintains and controls proper systems and standards of internal control. It reviews the scope and adequacy of internal and external audit. It makes recommendations on the appointment and remuneration of external auditors.

Health, Safety and Environment Review Committee

Chairman: Mr J D Rimington CB

The Health, Safety and Environment Review Committee provides the focus for the discharge of the Board's formal accountability for health, safety and environmental protection. It reviews policy, recommends performance targets and reviews performance.

Nominations Committee

Chairman: Mr M A W Baker

The Nominations Committee monitors the succession management health of the Company. It advises on appointments for posts at or immediately below Board level.

Pensions Committee

Chairman: Mr S R Ogle

The Pensions Committee maintains an overview of the Company's participation in the Electricity Supply Pension Scheme (ESPS). It ensures compliance with the Scheme's rules. It appoints trustees, monitors appeals against trustees' decisions and grants special terms where appropriate.

Remuneration Committee

Chairman: Mr M H Spence CBE

The Remuneration Committee makes recommendations to the Company's shareholder on remuneration and conditions of employment of the Executive Directors.

Communications Review Committee

Chairman: Ms S E Stoessl

The Communications Review Committee considers and advises on the quality and effectiveness of Magnox's communication strategy and the perception of the Company by its stakeholders and customers.

Schemes Committee

Chairman: Mr R W Hall CBE FEng

The Schemes Committee oversees the Company's investment appraisal process and how Magnox applies it.

Internal Financial Control

The Directors are responsible for ensuring that the Company has the system of internal financial control it needs to give them reasonable assurance that the financial information that Magnox uses within the business is reliable and that Magnox safeguards its assets. There are inherent limitations in any system of internal financial control. Accordingly, even the most effective system can give only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the financial statements appear under the following headings:

Control Environment

The system includes:

- a documented organisational structure;
- a documented and understood primary delegation of authority from the Board to Directors and secondary delegation to operating units; and
- established policies and procedures, including a code of conduct, to foster a strong ethical climate.

Identification and Evaluation of Business Risks and Control Objectives

The Board has the primary responsibility for:

- identifying the major business risks facing Magnox; and
- developing appropriate policies to manage those risks.

The risk management approach is used to:

- focus the work of the internal audit function on the Company's most significant areas of risk; and
- determine key control objectives.

Information Systems

There is a comprehensive planning and budgeting system. The Board approves an annual budget. The Company reports monthly actual results against budget to identify any significant deviation from approved plans. The Company prepares regularly revised forecasts for the year. The Company also reports to its shareholder and regulators on a regular basis.

Year 2000

A year 2000 compliance programme is well under way. This aims to ensure that Magnox's business, operations and interests are fully protected from the impact of the year 2000 date change. This programme includes work within Magnox and cooperation in the industry sector to address external issues.

Main Control Procedures

Magnox has identified a number of key matters on which the Board receives regular reports. These include financial performance, treasury matters, capital scheme expenditure and environmental issues. The Company sets out in procedural manuals the details of financial controls and procedures including information system controls. These controls include defined procedures for seeking and obtaining approval for major transactions and organisation changes. They also include organisation controls involving the segregation of incompatible duties. The Chief Executive monitors the discharge of delegated authority and accountability to all levels of Magnox through quarterly accountability reviews.

Monitoring

Magnox's internal audit function monitors the operation of the system. The internal audit function reports regularly to management and to the Audit Committee.

The Audit Committee has reviewed the effective operation of the Company's system of internal financial controls operated throughout the period. It has reported to the Board on the results of this review.

The Board is not aware:

- of any weaknesses in the effectiveness of the systems that have led, during the last year, to any material losses or contingent liabilities; or
- of any material developments between the balance sheet date and the date of this report.

Report of the Remuneration Committee

Membership of the Remuneration Committee

All current Non Executive Directors are members of the Remuneration Committee.

Compliance

The Committee's constitution and operation comply with the Greenbury Code of Practice, subject to the guidelines issued by Her Majesty's Treasury for public sector bodies. Decisions on Directors' remuneration are a matter for the Company's shareholder. The Committee makes recommendations to the shareholder about these decisions. In framing its recommendations, the Committee has given full consideration to the Greenbury Code.

Policy on Directors' Remuneration

The Committee takes a range of factors into account in making its recommendations. These include the need to recruit, retain and motivate and the need to make relevant remuneration comparisons. The elements of the remuneration package are as follows:

- (i) Basic salary
- (ii) Annual bonus Targets for annual bonus are set by the shareholder. The targets in 1996-97 related to such matters as: safety; costs and contribution; and liabilities reduction. The maximum bonus available under the scheme was 40% of salary.
- (iii) Benefits Taxable benefits include such items as company cars, fuel, life assurance and medical expenses insurance.
- (iv) Pension Executive Directors are eligible to be members of the Electricity Supply Pension Scheme (ESPS) subject to its rules and clauses and to Inland Revenue limits. The ESPS is a final salary scheme. Only basic salary is pensionable.

Non Executive Director fees are set by the shareholder.

Contracts of Service

Directors' contracts are subject to an initial fixed term period of one year. They are subject after that to a notice period of one year.

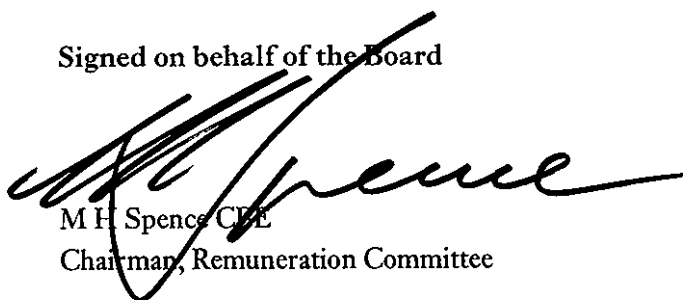
External Appointments

Directors may, subject to the agreement of the Board, hold up to two Non Executive Directorships, if appropriate.

Directors' Remuneration for the Year

The full details of each Director's remuneration package for the year, including basic salary, benefits in kind and bonus appear on pages 47 and 48.

Signed on behalf of the Board



M H Spence CBE
Chairman, Remuneration Committee

16 July 1997

Auditors' Report to Magnox Electric plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have been requested by the Directors to review the Directors' statement on page 15 on the Company's compliance with those paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange for companies listed on that exchange and on page 10 concerning their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.



Opinion

With respect to the Directors' statement on internal financial control on pages 16 and 17 and on going concern on page 10, in our opinion the Directors have provided the disclosures required by the London Stock Exchange and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 15 appropriately reflects the Company's compliance with the other aspects of the Code specified for review by the London Stock Exchange.

A handwritten signature in black ink, reading 'Binder Hamlyn', written in a cursive style.

Binder Hamlyn
Chartered Accountants
London

16 July 1997

Statement of Directors' Responsibilities

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

- 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Auditors' Report to the Members of Magnox Electric plc

We have audited the financial statements on page 23 to 49 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 23 to 27.



Respective Responsibilities of Directors and Auditors

As described on page 21 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.



Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1997 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn
Chartered Accountants
Registered Auditors
London

16 July 1997

Statement of Accounting Policies

Basis of Accounting

These accounts have been prepared under the historical cost convention in accordance with applicable UK reporting and accounting standards, applying the same accounting policies as in the previous year.

Basis of Consolidation

The accounts consolidate this year the accounts of Magnox and all its subsidiary undertakings (together 'the Group') up to 31 March.

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account has been presented for the Company.

Group Cash Flow Statement

The Group has adopted Financial Reporting Standard No 1 (FRS1 revised) 'Cash Flow Statements' issued by the Accounting Standards Board in October 1996 and comparative figures have been restated accordingly.

Acquisitions and Disposals

The results of companies and businesses acquired or sold during the year are dealt with from the date of acquisition or to the date of sale using the principles of acquisition accounting. Fair values are attributed to the Group's share of the separable net assets acquired. Where the cost of the acquisition exceeds the values attributable to such net assets, the difference is recognised as goodwill. Goodwill is written off against reserves in the year of acquisition.

Associated Undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet under the equity method of accounting.

Turnover

Turnover represents amounts receivable for sales of electricity including fees under contracts for differences, revenue from the related goods and services, and nuclear premium income. The Directors consider there to be one class of business and one geographical market, that of England and Wales. Third party sales by the Group's subsidiary undertakings are immaterial.

The Company's primary business is the generation of electricity by nuclear power. It also produces hydro-electricity from Maentwrog power station for which it is obliged to make a separate business return to The Office of Electricity Regulation. These results are immaterial to the primary business and have not been identified separately in these accounts.

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 in equal instalments 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.

Research and Development

Research and development expenditure is charged to the profit and loss account as incurred.

Pension Costs

Contributions to the Electricity Supply Pension Scheme (ESPS) are assessed by a qualified actuary and are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Company. 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 result from actuarial valuations, are expressed as a percentage of pensionable salaries and amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated either as provisions or prepayments in the balance sheet.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange at the date of the balance sheet.

Profits and losses of overseas subsidiaries are translated into sterling at weighted average rates of exchange during the year, with the year end adjustment to closing rates being taken to reserves. Gains or losses arising on the retranslation of opening net assets of overseas subsidiary undertakings at closing rates are taken to reserves.

All other exchange differences are taken to the profit and loss account.

Tangible Fixed Assets and Depreciation

Fixed assets comprise assets acquired or constructed by the Group that are expected to have a useful life of at least five years. Expenditure incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is also capitalised. Other expenditure, including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are included in the balance sheet at the lower of cost less accumulated depreciation, and economic value. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

The charge for depreciation of fixed assets is based on the straight line method, so as to write off the cost of assets over their estimated useful lives. Depreciation starts in the year following the year of expenditure except for power stations which are depreciated from the date of commissioning.

The lives adopted are subject to regular review and are currently:

Magnox power stations	32 - 39 years
Non-operational buildings	40 years
Short term assets	5 years

The estimated costs associated with decommissioning the Group's nuclear power stations are provided for when stations begin operating commercially, are capitalised as part of the cost of construction, and are depreciated over the same lives as the stations. These estimated costs are discounted having regard to the timescale whereby work will take place over many years after station closure. The estimated costs include the demolition and site clearance of the stations' radioactive and non-radioactive facilities and management of both decommissioning and operational wastes.

Fixed Asset Investments

Fixed asset investments comprise investments in Government gilt-edged stocks ('gilts') and loans to the associated undertaking, together, in the Company's accounts, with investments in and loans to subsidiary undertakings.

The Company's investment in gilts has been treated as a fixed asset investment since it is the Directors' intention to hold this investment for the long term. Gilts are stated at cost less any permanent diminution in value and any realised gains or losses are taken to the profit and loss account.

Leases

Assets held under finance leases, which result in substantially all the risks and rewards of ownership being transferred to the Group, are capitalised where material and included in tangible fixed assets. The amount capitalised is the present value of the minimum lease payments. Each asset is depreciated over the shorter of the lease term and its useful life.

The obligations relating to finance leases net of financing charges in respect of future periods are included within creditors (due within or after one year). The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

All other leases are treated as operating leases and the rentals are charged to the profit and loss account.

Stocks of Nuclear Fuel, Stores and Spares

Stocks of nuclear fuel, stores and spares are valued at the lower of cost and net realisable value. An obsolescence charge for the diminution in the value of stores and spares is charged to the profit and loss account each year.

Current Asset Investments

Current asset investments are valued at the lower of cost and market value.

Taxation

Corporation tax payable is provided on taxable profits at the rate applicable in the year.

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

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*

The accounts include provision for the full cost of decommissioning the Group's nuclear power stations. Provision is made on the basis of the 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. The provision established at the start of a station's operating life is capitalised as part of the costs of the station. When the provision is subsequently adjusted the corresponding fixed asset cost at commissioning date is restated, and any difference in net book value is taken to the profit and loss account in the current year. Provisions are discounted and revalorised as detailed in (c) below.

(c) *Discounting and Revalorisation*

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 the revalorisation of liabilities required to:

- remove one year's discount from liabilities recognised in prior years; and
- restate those liabilities at current price levels.

Group Profit and Loss Account

for the year ended 31 March 1997

	Notes	Continuing operations		Discontinued operations	Total
		1997 £m	1996 £m	1996 £m	1996 £m
Electricity generation		528	522	1,113	1,635
Nuclear premium	3	329	373	790	1,163
Other income	4	39	44	75	119
Turnover		896	939	1,978	2,917
Operating costs before exceptional items	5	(635)	(632)	(1,119)	(1,751)
Exceptional items	5	-	17	(798)	(781)
Operating costs after exceptional items	5	(635)	(615)	(1,917)	(2,532)
Operating profit before revision of previous years' nuclear liabilities		261	324	61	385
Revision of previous years' nuclear liabilities	7	730	(105)	(31)	(136)
Operating profit		991	219	30	249
Profit on sale of subsidiary undertakings	12	18	-	-	-
Profit on ordinary activities before financing and taxation		1009	219	30	249
Financing charges (net)	8	(1)	(191)	(174)	(365)
Profit/(loss) on ordinary activities before taxation		1,008	28	(144)	(116)
Taxation	10	(375)	(52)	-	(52)
Profit/(loss) on ordinary activities after taxation		633	(24)	(144)	(168)
Minority interests		-	(7)	-	(7)
Profit/(loss) for the financial year		633	(31)	(144)	(175)

The Group has no material recognised gains or losses in 1997 or 1996 other than the profit/(loss) for the year and no statement of total recognised gains or losses is presented. Movements in the Group's reserves and shareholder's funds are set out in Note 21 to the accounts.

Balance Sheets

at 31 March 1997

		Group	Group	Company	Company
	Notes	1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible assets	11	207	240	207	224
Investments	12	511	505	769	742
		718	745	976	966
Current assets					
Stocks	13	66	68	66	69
Secretary of State's Undertaking due after more than one year	14	3,997	3,724	3,997	3,724
Debtors due within one year	15	256	726	294	717
Investments	16	2,928	2,591	2,524	2,210
Cash at bank and in hand		61	4	1	-
		7,308	7,113	6,882	6,720
Creditors - amounts falling due within one year					
Nuclear liabilities	18	(241)	(251)	(241)	(251)
Other	17	(562)	(445)	(549)	(437)
Net current assets		6,505	6,417	6,092	6,032
Total assets less current liabilities		7,223	7,162	7,068	6,998
Represented by:					
Creditors - amounts falling due after more than one year					
Nuclear liabilities	18	1,283	1,307	1,283	1,307
Other	17	15	15	15	9
Provisions for liabilities and charges					
Nuclear liabilities	18	6,364	6,865	6,364	6,865
Other provisions	19	243	303	243	303
Capital and reserves					
Called-up share capital	20	-	-	-	-
Profit and loss account	21	(682)	(1,328)	(837)	(1,486)
Shareholder's funds (all equity)		(682)	(1,328)	(837)	(1,486)
		7,223	7,162	7,068	6,998

The financial statements on page 23 to 49 were approved by the Board of Directors on 16 July 1997 and signed on its behalf by:

M A W Baker



Chairman

R W Hall CBE FEng



Chief Executive

S R Ogle



Executive Director, Finance and Commercial

Group Cash Flow Statement

for the year ended 31 March 1997

	Notes	1997 £m	Restated 1996 £m
Cash inflow from operating activities	22	367	908
Returns on investments and servicing of finance	22	180	181
Taxation	22	(52)	(32)
Capital expenditure and financial investments	22	(36)	(221)
Acquisitions and disposals	22	62	(226)
Cash inflow before management of liquid resources		521	610
Management of liquid resources	22	(337)	(743)
Increase/(decrease) in cash		184	(133)

Notes to the Accounts

1 - Corporate Restructuring

(a) BNFL Integration

On 24 April 1997 a Memorandum of Understanding between BNFL and Magnox Electric plc was signed relating to the proposed integration. BNFL and the Government are in the early stages of discussing the financial terms appropriate for integration. It is intended that the first step towards full integration would be for Magnox to become a wholly owned subsidiary of BNFL.

(b) Discontinued Operations

On 31 March 1996, the Company sold to a new company, Nuclear Electric Limited, the business, assets and liabilities associated with its AGR and PWR power stations. The discontinued operations shown for the comparative period relate to this AGR and PWR business.

2 - Going Concern Basis of Accounting

The accounts are drawn up on the going concern basis, on the footing that the Group 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) the major part of the Group'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 (as disclosed in Note 18);
- (b) the Company received assurances from the then Secretary of State for Energy in 1990 which have been reaffirmed each year that:
 - (i) the Government will ensure that adequate funds are made available to enable the Company to meet its financial obligations in respect of qualifying expenditure (within the meaning of Schedule 12 to the Electricity Act 1989), as they fall due, subject to a limit (which is currently £1,000 million and can be increased to £2,500 million by order) contained in that Schedule not being exceeded and subject to the necessary monies being voted by Parliament; and
 - (ii) the Government will seek approval from Parliament (including if necessary further legislative provisions) and the European Commission to ensure that adequate funds are available to enable the Company to meet its financial obligations in respect of any further qualifying expenditure beyond that limit, as those obligations fall due.

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

3 - Nuclear Premium

Under the terms of its contract with the Non-Fossil Purchasing Agency, the Company received a specified premium per unit in respect of output up to a pre-determined level. The premium received each year was specified in the contract, and was adjusted at the beginning of each financial year by the annual movement in the retail price index as shown at the preceding October.

Premium payments to the Company ceased at the time of privatisation of British Energy plc, in July 1996, except as necessary to enable the Company to collect monies equivalent to those due to it (but unpaid) prior to privatisation.

4 - Other Income	1997 £m	1996 £m
Direct sales	25	98
Insurance premiums	-	5
Uranium sales	14	16
	39	119

5 - Analysis of Operating Costs

In order to meet the requirements of Financial Reporting Standard No 3, the table below analyses the total operating costs of the Group, including revision of previous years' nuclear liabilities, over the main cost categories.

Analysis of operating costs	Note	Continuing operations		Discontinued operations	Total
		1997 £m	1996 £m	1996 £m	1996 £m
Operating costs before exceptional items					
Fuel		242	297	266	563
Materials and services		222	160	453	613
Staff costs		128	115	160	275
Depreciation		43	60	240	300
Total		635	632	1,119	1,751
Exceptional items					
Materials and services					
- reduction in future losses on inherited contract for second tier supply		-	(19)	-	(19)
- reduction in insurance provision		-	-	(25)	(25)
- establishment of new operating structure		-	8	19	27
Staff costs		-	(11)	(6)	(17)
- reduction in pension provisions		-	(6)	(9)	(15)
Depreciation					
- first-of-a-kind costs written off		-	-	813	813
Total		-	(17)	798	781
Operating costs after exceptional items		635	615	1,917	2,532
Revision of previous years' nuclear liabilities					
Fuel		(851)	105	31	136
Materials and services		58	-	-	-
Decommissioning		66	-	-	-
Decommissioning fixed asset adjustment	11	(3)	-	-	-
Total	7	(730)	105	31	136
Total operating costs (including revision of previous years' nuclear liabilities)					
Fuel		(609)	402	297	699
Materials and services		280	149	447	596
Staff costs		128	109	151	260
Depreciation		43	60	1,053	1,113
Decommissioning		66	-	-	-
Decommissioning fixed asset adjustment		(3)	-	-	-
Total		(95)	720	1,948	2,668

6 - Staff Costs

	1997 £m	1996 £m
Expenditure in respect of salaries and other staff costs was as follows:		
Salaries	122	259
Social security costs	10	23
Pension costs		
- continuing	11	25
- exceptional	-	(15)
Redundancy and severance costs	13	44
	156	336
Amounts capitalised	(6)	(17)
Amounts charged against provisions	(22)	(59)
	128	260

The average number of employees of the Group during the year was 3,930 (1996 8,900).

The average full time equivalents during the year was 3,910 (1996 8,815).

At 31 March 1997 the Group had 3,764 full time equivalent employees.

7 - Revision of Previous Years' Nuclear Liabilities

	Note	Continuing operations		Discontinued operations	Total
		1997 £m	1996 £m	1996 £m	1996 £m
The effect of revisions to previous years' nuclear liabilities on cumulative fuel costs and decommissioning costs, arising from the reassessment of cost estimates is as follows:					
Reprocessing of fuel and waste management	18	(937)	-	(25)	(25)
Waste disposal costs	18	78	115	54	169
Station decommissioning		66	-	-	-
On-site operational waste		58	-	-	-
Other refinements of the cost base		8	(10)	2	(8)
	18	(727)	105	31	136
Decommissioning fixed asset adjustment	11	(3)	-	-	-
		(730)	105	31	136

8 - Financing Charges

	1997 £m	1996 £m
Interest payable	-	16
Financing costs resulting from revalorisation of nuclear liabilities and other provisions		
(a) Changes in price levels	226	286
(b) Notional interest (at 3%)	236	264
	462	566
Interest and dividends receivable	(188)	(201)
Escalation of Secretary of State's Undertaking	(273)	-
	1	365

9 - Profit/(Loss) on Ordinary Activities Before Taxation

	1997 £m	1996 £m
The profit/(loss) on ordinary activities before taxation is stated after charging:		
Research and development expenditure	32	46
Auditors' remuneration £227,433 (1996 £298,818)		
Fees paid to the auditors for services other than statutory audit during the year totalled £78,933 (1996 £1,500,00).		

10 - Taxation

	1997 £m	1996 £m
United Kingdom corporation tax at 33% (1996 33%)	369	51
Overseas tax		
- operations	1	1
- sale of subsidiaries	5	-
	375	52

No provision for deferred tax has been made as no liability or asset is expected to crystallise in the foreseeable future.

The full potential deferred tax asset calculated at the corporation tax rate of 31% comprises:

	1997 £m	1996 £m
Accelerated capital allowances	29	26
Short term timing differences	33	67
Long term timing differences	470	158
Potential deferred tax asset	532	251

11 - Tangible Fixed Assets

	Nuclear power stations £m	Other land and buildings £m	Other plant and equipment £m	Assets in the course of construction £m	Total £m
Group					
Cost					
At 1 April 1996	910	69	146	14	1,139
Additions	14	2	12	-	28
Decommissioning adjustment	3	-	-	-	3
Reclassifications	14	-	-	(14)	-
Disposals	(15)	(1)	(37)	-	(53)
At 31 March 1997	926	70	121	-	1,117
Depreciation					
At 1 April 1996	784	24	91	-	899
Charge for the year	30	4	9	-	43
Disposals	(15)	(1)	(16)	-	(32)
At 31 March 1997	799	27	84	-	910
Net book value					
At 31 March 1997	127	43	37	-	207
At 31 March 1996	126	45	55	14	240
Nuclear power stations include the following capitalised costs of decommissioning				1997 £m	1996 £m
Decommissioning discounted cost				47	61

11 - Tangible Fixed Assets (continued)

	Nuclear power stations £m	Other land and buildings £m	Other plant and equipment £m	Assets in the course of construction £m	Total £m
Company					
Cost					
At 1 April 1996	910	68	117	14	1,109
Additions	14	2	6	-	22
Decommissioning adjustment	3	-	-	-	3
Reclassifications	14	-	-	(14)	-
Disposals	(15)	-	(2)	-	(17)
At 31 March 1997	926	70	121	-	1,117
Depreciation					
At 1 April 1996	784	23	78	-	885
Charge for the year	30	4	8	-	42
Disposals	(15)	-	(2)	-	(17)
At 31 March 1997	799	27	84	-	910
Net book value					
At 31 March 1997	127	43	37	-	207
At 31 March 1996	126	45	39	14	224

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

	1997 £m	1996 £m
Freehold	57	59
Short leasehold	-	-
	57	59

The cost of freehold land included in the above is £5 million (1996 £5 million).

12 - Fixed Asset Investments

	Group and Company Gilts £m	Loans to associated undertakings £m	Group Total £m	Company Investments in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Company Total £m
Cost						
At 1 April 1996	505	143	648	215	22	885
Additions	6	17	23	14	-	37
Disposals	-	-	-	-	(5)	(5)
Amounts written back/(written off) during year	-	(8)	(8)	12	-	4
At 31 March 1997	511	152	663	241	17	921
Provision for diminution in value						
At 1 April 1996	-	143	143	-	-	143
Increase	-	17	17	-	-	17
Disposals	-	-	-	-	-	-
Amounts written off during year	-	(8)	(8)	-	-	(8)
At 31 March 1997	-	152	152	-	-	152
Net book value						
At 31 March 1997	511	-	511	241	17	769
At 31 March 1996	505	-	505	215	22	742

Loans have been made to the associated undertaking, United Kingdom Nirex Limited, to fund development expenditure for building a repository to store intermediate level nuclear waste. These loans have been fully provided against in the accounts.

The Group's share of the results of the associated undertaking for each of the two years ended 31 March 1997 and 31 March 1996, and the share of its net assets as at 31 March 1997 and 31 March 1996 are not material to the Group's accounts.

The Company's investment in gilts had a market valuation of £572 million as at 31 March 1997 (1996 £536 million).

12 - Fixed Asset Investments (continued)

The Company holds shares in the following companies:

	Country of incorporation and operation	Class of share	Shareholding %	Principal activity
Principal subsidiary undertakings				
Nuclear Insurance Limited	Isle of Man	Ordinary Preference	100 100	Insurance
Electricity Producers Insurance Company Limited	Isle of Man	Ordinary	100	Insurance
Central Electricity Generating Board Exploration (America) Inc.	USA	Ordinary	100	Uranium exploration and mining
Associated undertaking				
United Kingdom Nirex Limited	UK	Ordinary	35	Disposal of radioactive waste

Sale of subsidiary undertakings

On 1 January 1997 the Company transferred its shareholdings in Power Resources Inc and Central Electricity Board Exploration (Canada) Limited to Central Electricity Generating Board Exploration (America) Inc, who then disposed of these interests giving rise to a Group profit on disposal of £18 million.

	£m
Profit up to date of disposal	1
Profit for last financial year	11
Net assets disposed of and the related sale proceeds were as follows:	
	£m
Fixed assets	21
Current assets	19
Creditors	(9)
Net assets	31
Sale proceeds	62
	31
Less goodwill previously written off	13
Profit on sale of subsidiary undertakings	18

13 - Stocks

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Nuclear fuel	56	58	56	59
Stores	10	10	10	10
	66	68	66	69

14 - Secretary of State's Undertaking Due After More Than One Year

	Group and Company £m
At 1 April 1996	3,724
Escalation during the year	273
At 31 March 1997	3,997

The Secretary of State's Undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and the Company. It represents consideration for amounts due in respect of business transfer agreements relating to the privatisation of British Energy plc.

The Secretary of State has undertaken to make payment of such part of the total amount of £3,997 million as is needed to enable the Company to meet its financial obligations as they fall due.

Amounts outstanding in respect of the Undertaking are compounded by a rate equal to 4.5% above inflation.

15 - Debtors Due Within One Year

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Trade debtors	139	613	139	613
- nuclear premium	55	55	54	45
- other	50	47	89	48
Other debtors	12	11	12	11
Prepayments				
	256	726	294	717

16 - Current Asset Investments

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Fixed and call deposits	2,556	2,222	2,524	2,210
Quoted fixed interest securities	325	327	-	-
Other investments - equities	47	42	-	-
Total	2,928	2,591	2,524	2,210

The market value of current asset investments is not materially different from cost.

17 - Creditors Other Than Nuclear Liabilities

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Amounts falling due within one year				
Bank overdrafts	18	145	18	145
Trade creditors	27	49	14	41
Retentions	1	2	1	2
Corporation tax	367	53	367	53
Other taxes and social security	5	96	5	96
Pension fund	1	1	1	1
Accruals	143	99	143	99
	562	445	549	437
Amounts falling due after more than one year				
Other creditors	2	6	2	-
Pension fund	13	9	13	9
	15	15	15	9

18 - Nuclear Liabilities

	Note	Creditors Fuel reprocessing & waste management £m	Fuel reprocessing & waste management £m	Provisions Station decommissioning £m	Other £m	Total £m
At 1 April 1996		1,558	4,493	1,642	730	8,423
Reclassification (see below)		-	730	-	(730)	-
Charged/(credited) to profit and loss account						
- operating costs		149	17	-	-	166
- financing charges		88	273	92	-	453
- revisions	7	(12)	(781)	66	-	(727)
Spent in year		(259)	(146)	(22)	-	(427)
At 31 March 1997		1,524	4,586	1,778	-	7,888

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

	Group and Company	
	1997	1996
	£m	£m
The liabilities are shown in the balance sheet as follows:		
Creditors falling due within one year	241	251
Creditors falling due after more than one year	1,283	1,307
Provisions	6,364	6,865
	7,888	8,423

Reprocessing of Fuel and Waste Management

Accruals for fuel services relating to irradiated fuel received by BNFL after 1 April 1989 are based on terms of contracts with BNFL which specify fixed prices subject to indexation for inflation. The contracts in respect of services provided after 1 April 1989 for magnox irradiated fuel delivered prior to that date and for certain other services specifies that those services will be carried out through a series of detailed work packages to be agreed at fixed prices or under incentivised cost plus agreements. In the absence of agreed terms for these services the related provisions at 31 March 1996 recognised the consequential uncertainties of the contractual arrangements. During the year further cost estimates and analyses of work to be performed have been received from BNFL regarding the costs of providing these services. Related provisions have, therefore, been based on these cost estimates which have been subjected to a full risk appraisal. This has resulted in a reduction of £937 million in these provisions.

18 - Nuclear Liabilities (continued)

Waste Disposal Costs

The Secretary of State for the Environment has announced his dismissal of United Kingdom Nirex Limited's appeal against Cumbria County Council's refusal of planning permission for a rock characterisation facility at the proposed site near Sellafield. The potential impact of this decision on waste management and disposal costs has been assessed and the waste management provisions have been adjusted accordingly.

Reclassification

The costs of the Group's share of decommissioning BNFL's power stations and facilities at Calder Hall and Chapelcross are now included by BNFL in the revised cost estimates referred to above and have been reclassified from Other Nuclear Liabilities accordingly.

Total Nuclear Liabilities

Based on current estimates of station lives and lifetime output projections, the following table shows the estimated undiscounted payments, in current prices, still to be made by the Group and the equivalent sums discounted at 3% to the balance sheet date.

	Undiscounted £bn	Total payable Discounted £bn	Provided to date £bn
Reprocessing of fuel and waste management	12.1	6.6	6.1
Station decommissioning	6.4	1.8	1.8
Total	18.5	8.4	7.9

The differences between the total discounted amounts and those provided to date will be charged to the profit and loss account over the remaining station lives since they relate to future use of fuel and station facilities. The differences between the total discounted and undiscounted amounts reflect the fact that the costs concerned will not fall due for payment for a number of years.

Under the terms of the contracts with BNFL referred to above, and the projected pattern of payments for decommissioning and other liabilities, future payments are expected to become payable as follows:

	Within 5 years £bn	6 to 10 years £bn	11 to 25 years £bn	26 to 50 years £bn	51 years and over £bn	Total £bn
Future payments	3.2	2.9	3.1	2.1	7.2	18.5

19 - Other Provisions

	At 1 April 1996	Utilised in the year	Charged/ (credited) to profit & loss account	At 31 March 1997
	£m	£m	£m	£m
Restructuring	109	(18)	-	91
Insurance	28	-	(3)	25
Future losses on inherited contract for second tier supply	166	(27)	(12)	-
Total Group and Company	303	(45)	(15)	243

20 - Called Up Share Capital

	1997 £	1996 £
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

21 - Movements in Reserves and Shareholder's Funds

	Group Profit and loss account £m	Company Profit and loss account £m
At 1 April 1996		
Profit for the year	(1,328)	(1,486)
Sale of subsidiary undertakings - goodwill previously written off (see Note 12)	633	649
	13	-
At 31 March 1997	(682)	(837)

22 - Notes on the Group Cash Flow Statement

	1997 £m	Restated 1996 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit (before financing and taxation)	991	249
Depreciation charges	43	1,113
Decommissioning fixed asset adjustment	(3)	-
Nuclear liabilities (credited)/charged to operating costs	(561)	463
Nuclear liabilities discharged	(427)	(701)
Other provisions credited to operating costs	(24)	(91)
Other provisions discharged	(45)	(87)
Loss on disposal of fixed assets	-	(2)
Exchange difference on consolidation	-	3
(Increase)/decrease in stocks	(3)	17
Decrease/(increase) in debtors	460	(105)
(Decrease)/increase in creditors	(64)	49
Net cash inflow from operating activities	367	908
Analysis of cash flows		
Returns on investments and servicing of finance		
Interest received	182	183
Interest paid	(2)	(2)
Net cash inflow	180	181
Taxation		
UK Corporation tax paid	(52)	(32)
Net cash outflow	(52)	(32)
Capital expenditure and financial investments		
Purchase of tangible fixed assets	(30)	(226)
Purchase of gilts	(6)	(6)
Receipts from sale of tangible fixed assets	-	11
Net cash outflow	(36)	(221)
Acquisitions and disposals		
Sale of subsidiary undertaking	62	-
Transferred on sale of AGR/PWR business	-	(226)
Net cash flow inflow/(outflow)	62	(226)
Management of liquid resources		
Movement in current asset investments	(337)	(743)
Net cash outflow	(337)	(743)

The Group includes as liquid resources term deposits of less than one year.

22 - Notes on the Group Cash Flow Statement (continued)**Analysis and reconciliation of net funds**

	1 April 1996 £m	Cash Flow £m	31 March 1997 £m
Cash at bank and in hand	4	57	61
Bank overdrafts	(145)	127	(18)
Total cash	(141)	184	43
Current asset investments	2,591	337	2,928
Net funds	2,450	521	2,971

23 - Contingent Liabilities

- (i) The Company is involved in a number of claims and disputes arising in the ordinary course of business which are not expected to have a material effect on the Company's financial position.
- (ii) During the year, 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 may be taken to the Court of Appeal.

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 £35 million plus accrued interest.

24 - Financial Commitments

- (i) Capital expenditure in respect of which the Group has entered into commitments amounted to approximately £6 million at 31 March 1997 (1996 £23 million).
- (ii) At 31 March 1997 and 31 March 1996, the Company had no material commitments under non-cancellable operating leases.
- (iii) Magnox Electric participates in the Electricity Supply Pension Scheme (ESPS), which is a defined benefit scheme, funded and subject to periodic actuarial valuation. Prior to 31 March 1996, the Magnox Electric Group of the ESPS was known as the Nuclear Electric Group.

The most recent actuarial valuation of the Nuclear Electric Group of the ESPS was carried out as at 31 March 1995. The assumptions which have the most significant effect on the result of the valuation are those relating to the return on investments and the rates of increase in salaries and pensions. Adopting the projected unit method, it was assumed that the investment returns would be 9% per annum, that salary increases would be 6.5% per annum and that pensions would increase at the rate of 5% per annum.

At the date of the actuarial valuation the market value of the scheme assets that related to the Nuclear Electric Group was estimated at £1,606 million. The actuarial value of these assets represent 103% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the Company and employees remain at 12% and 6% of salaries respectively.

On 31 March 1996 the scheme was amended to provide for the block transfer of Nuclear Electric Limited members and beneficiaries to a new Nuclear Electric Limited Pension Group. In accordance with these amendments on 30 September 1996 and 20 November 1996 payments totalling the assets that relate to Nuclear Electric Limited members' and beneficiaries' pension liabilities were transferred to the new Nuclear Electric Limited Group within the ESPS.

25 - Directors' Remuneration

Directors' emoluments	Salary £000	Fees £000	Benefits £000	Bonus £000	Total emoluments	
					1997 £000	1996 £000
Executive Directors						
Mr M A W Baker - Chairman (appointed 1 April 1996)	129	-	12	19	160	136
Mr R W Hall CBE FEng - Chief Executive (appointed 1 April 1996)	124	-	14	18	156	136
Mr D Joynson	88	-	9	13	110	-
Mr S R Ogle	93	-	7	13	113	-
Dr C Smitton	93	-	12	13	118	-
Non Executive Directors						
Mr N N Broadhurst	-	12	-	-	12	-
Mr J D Rimington CB	-	14	-	-	14	-
Mr M H Spence CBE	-	13	-	-	13	18
Ms S E Stoessl	-	11	-	-	11	15
Resigned or deceased on or before 31 March 1996	-	-	-	-	-	951
Total 1997	527	50	54	76	707	
Total 1996	863	84	100	209		1,256

25 - Directors' Remuneration (continued)

Directors' pension benefits	Accrued pension benefits		Increase after indexation	Transfer value of increase	Accumulated lump sum		Increase after indexation	Transfer value of increase
	1997	1996			1997	1996		
	£000	£000	£000	£000	£000	£000	£000	£000
Executive Directors								
Mr M A W Baker - Chairman	56	38	17	183	168	115	51	38
Mr R W Hall CBE FEng - Chief Executive	64	51	11	154	191	153	34	34
Mr D Joynson	32	26	6	65	96	77	17	13
Mr S R Ogle	26	23	2	19	77	69	6	4
Dr C Smitton	30	25	5	52	91	74	15	10
Total 1997	208		41	473	623		123	99
Total 1996		163				488		

During the year, two added years' pension contributions were purchased for Mr Baker as specified in his revised service contract, as from 1 April 1996, at a cost of £46,000.

Accrued pension benefits and lump sums are not applicable to non executive Directors.

It is not possible to determine the accrued pension benefits for 1995-96 relating to those Directors who resigned or deceased during the year ended 31 March 1996.

The remuneration of the Executive Directors is determined by the shareholder. It consists of a basic salary and performance related bonus based on corporate performance targets which are set annually. The targets in 1996-97 related to such matters as safety; cost and contributions; and liabilities reduction. The maximum bonus available under the scheme was 40% of salary.

26 - Related Party Transactions

There were no related party transactions involving officers or key management of the Company for the year ended 31 March 1997. Transactions involving other related parties are listed below.

Related Parties during the year ended 31 March 1997 were as follows:

British Nuclear Fuels plc	Supplier of fuel services
United Kingdom Nirex Limited	Supplier of waste disposal services
British Energy plc and its subsidiary undertakings:	Privatised in July 1996 part of whose
Nuclear Electric Limited, and	assets and liabilities were originally sold
Scottish Nuclear Limited	to HM Government by Magnox.

Transactions/Balances involving related parties are listed below:

	British Nuclear Fuels plc £m	United Kingdom Nirex Limited £m	British Energy plc £m
Purchase of services	318	17	12
Debtors/(creditors)	(1,550)	-	1
Loans	-	152	-
Provision against loans	-	(152)	-

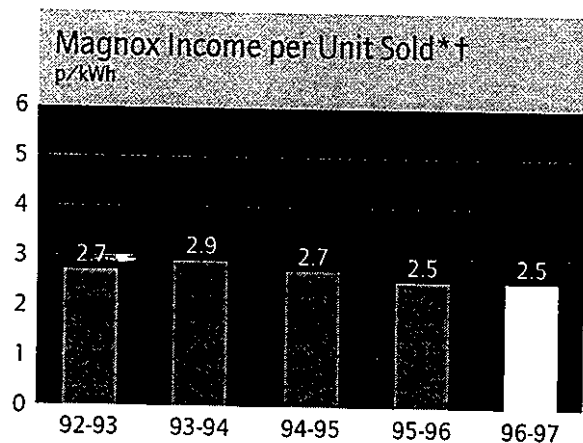
27 - Regulatory Accounts

In addition to the report and accounts, a separate set of regulatory accounts for the generation business will be available from 30 September 1997 free of charge, on request to the Company Secretary at the Registered Office:

Magnox Electric plc,
Berkeley Centre,
Berkeley,
Gloucestershire
GL13 9PB

Performance Summary

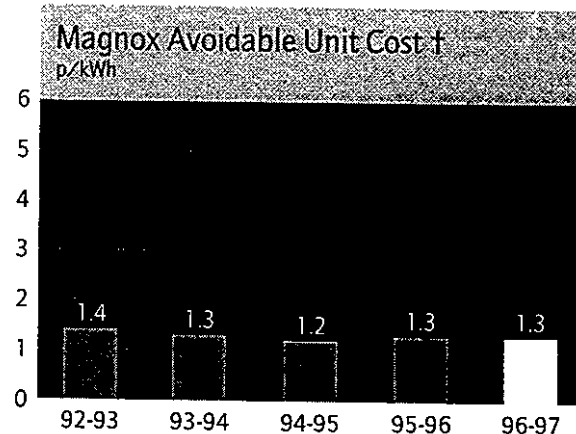
Financial Performance



* Represents electricity market price and excludes the nuclear premium

† All stated at 1996-97 price levels

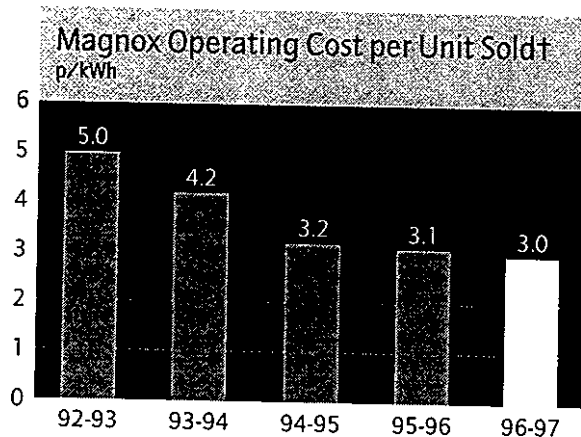
Income per unit sold is calculated by dividing the year's income applicable to electricity generation by the year's electricity output after excluding imported power.



† All stated at 1996-97 price levels

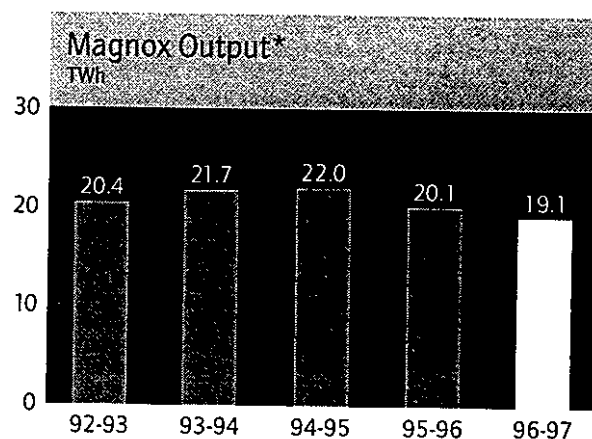
Avoidable unit cost is defined as the cost of continuing operation to the end of a station's assumed life minus the costs that would be incurred if the station was to close immediately divided by the projected future output.

Magnox's avoidable costs remain well below market electricity prices.



† All stated at 1996-97 price levels on gross/net/net basis of measurement

Operating unit cost is calculated by dividing the year's operating costs as reported in the accounts by the year's electricity output (gross/net/net).

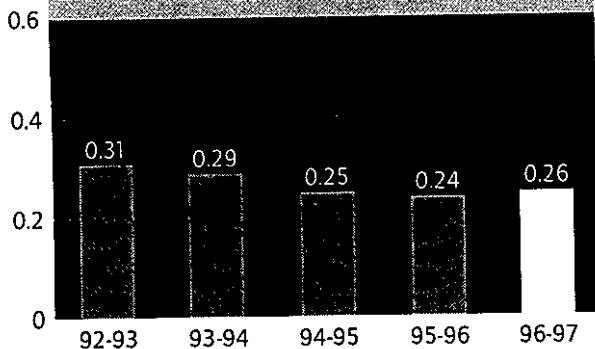


* Gross/net/net basis of measurement

Electricity production for 1996-97 is 1TWh down on last year's figure. Production levels were limited by technical problems in the early part of 1996-97. The latter part of the year brought a return to consistently high output at the Magnox stations.

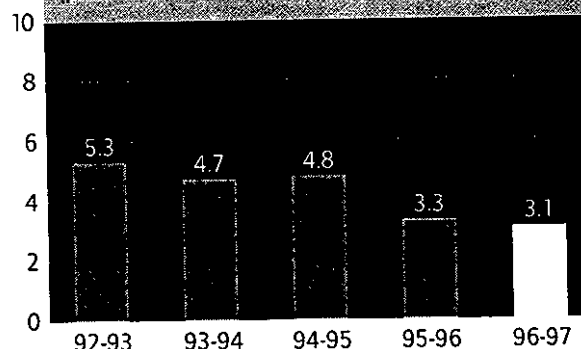
Safety Performance

Collective Radiation Dose per Reactor
From Operating Magnox Stations (Man-Sieverts)



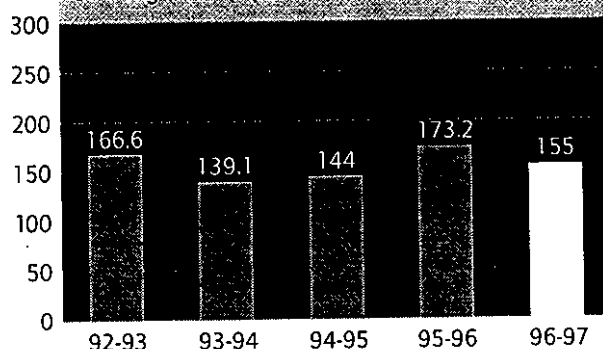
Over the last three years the collective dose per reactor has remained effectively constant. However, this follows major improvements in the preceding period. The overall downward trend is masked this year by the effect of major inspection work at several power stations. However, the 1996-97 figure is still only around half the level recorded for Magnox reactors in 1989-90.

Lost Time Industrial Accidents at
Operating Magnox Power Stations
(per million hours worked)



The level of lost time industrial accidents has reduced slightly since last year. This follows an approximately four-fold reduction since 1989-90.

Liquid Discharges from Operating
Magnox Stations
Excluding Tritium (Bq/kWh)



Following a reduction in liquid discharges by a factor of around three in the late 1980s, the liquid discharges over recent years have remained relatively steady.

The variation from year to year is caused in part by small differences in operational requirements and partly by changes in electricity production levels.

Number of Recorded INES Events at
Operating Magnox Stations

	Level 1	Level 2
1992-93	11	0
1993-94	15	1
1994-95	17	0
1995-96	16	0
1996-97	14	0

Level 1 = anomaly Level 2 = incident

The International Nuclear Event Scale (INES) gives an indication of the seriousness of events at nuclear installations. In 1996-97 there were no events at Level 2 or above on the seven point scale. The number of INES 1 events (anomalies) has remained effectively constant for the past five years with a small improvement over last year. There has been a significant reduction (by a factor of more than three) since 1989-90.

Glossary

A number of specific terms appear in this report. Their definitions appear below:

AGR	The advanced gas-cooled reactor which was developed from the earlier magnox reactor.
Bq	Becquerel - the radioactivity of a substance. We measure in becquerels the rate at which the decaying process takes place. A sample of radioactive material in which one decay takes place each second has activity of one becquerel.
Collective radiation dose	The total external whole body dose received by all personnel on site as a result of the station's operation.
FRS 8	Financial Reporting Standard No 8 'Related Party Disclosures'.
Gross/net/net	The electrical output measured at the national grid side of the transformer, less any imports from the grid.
INES	The International Nuclear Event Scale gives an indication of the severity of nuclear events. It runs on a scale of zero to seven. A level of zero has no safety significance. Level seven means a major accident with widespread consequences.
kWh	Kilowatt-hour - one thousand watt hours. The energy that a single bar electric fire uses in one hour.
MW	Megawatt - one million watts.
MWh	Megawatt hour - one million watt hours.
Magnox	The first generation of British gas-cooled, graphite-moderated reactors used for electricity generation. The name comes from the non-oxidising magnesium alloy can which surrounds the uranium fuel.
Man-Sievert	A unit of measure of the collective radiation dose that a given group of people receives.
PWR	The pressurised water reactor which is water-cooled and moderated.
Reference Unit Power	The maximum net electrical output capability.
Sv	Sievert - the amount of radiation is called the 'radiation dose'. Different types of radiation and their effects are taken into account, and the units used to measure the radiation are called sieverts. One sievert is a very large unit, so we usually express units of measurement in millisieverts.
Tritium	A radioactive isotope of hydrogen.
TWh	Terawatt hour - a unit of electrical energy equal to 1,000 million kWh.

Magnox Electric plc Locations

Bradwell Power Station
Magnox Electric
Bradwell-on-Sea
Southminster
Essex CM0 7HP

Dungeness A Power Station
Magnox Electric
Romney Marsh
Kent TN29 9PP

Hinkley Point A Power Station
Magnox Electric
Nr Bridgwater
Somerset TA5 1UD

Oldbury Power Station
Magnox Electric
Oldbury Naite
Thornbury
South Gloucestershire BS12 1RQ

Sizewell A Power Station
Magnox Electric
Nr Leiston
Suffolk IP16 4UE

Wylfa Power Station
Magnox Electric
Cemaes Bay
Anglesey
Gwynedd LL67 0DH

Maentwrog Power Station
Magnox Electric
Maentwrog
Blaenau Ffestiniog
Gwynedd LL41 4HY

Berkeley Power Station
Magnox Electric
Berkeley
Gloucestershire GL13 9PA

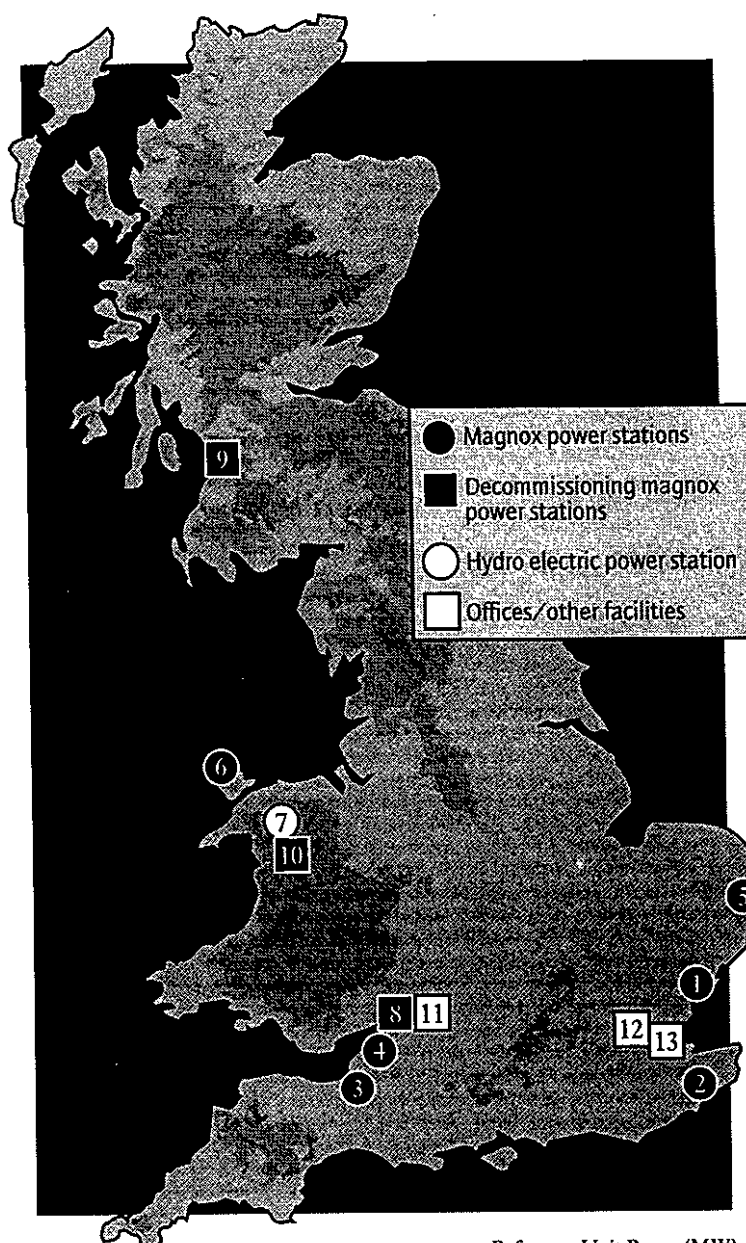
Hunterston A Power Station
Magnox Electric
West Kilbride
Ayrshire KA23 9QF

Trawsfynydd Power Station
Magnox Electric
Blaenau Ffestiniog
Gwynedd LL41 4DT

Berkeley Centre (HQ)
Berkeley
Gloucestershire
GL13 9PB

London Office
Magnox Electric
17 Waterloo Place
London SW1Y 4AR

Littlebrook Facility
Littlebrook Manor Way
Dartford
Kent DA1 5PY



Location	Station	Reference Unit Power (MW) at 31 March 1997
①	Bradwell Power Station	246
②	Dungeness A Power Station	440
③	Hinkley Point A Power Station	470
④	Oldbury Power Station	434
⑤	Sizewell A Power Station	420
⑥	Wylfa Power Station	950
⑦	Maentwrog Power Station	30
⑧	Berkeley Power Station	Decommissioning
⑨	Hunterston A Power Station	Decommissioning
⑩	Trawsfynydd Power Station	Decommissioning
⑪	Berkeley Centre (HQ)	
⑫	London Office	
⑬	Littlebrook Facility	