

# **MAGNOX ELECTRIC LTD**

Registered No 2264251

## **ANNUAL REPORT AND ACCOUNTS**

31 March 2007

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COMPANIES HOUSE

## **Magnox Electric Ltd**

### **DIRECTORS**

M D Parker (Chairman)  
M Morant  
Dr C J Marchese  
T J Joyce  
A R Brandwood  
A J Shuttleworth  
J F Edwards

### **AUDITORS**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

### **BANKERS**

National Westminster Bank Plc  
Spring Gardens  
Manchester  
M60 2DB

### **REGISTERED OFFICE**

1100 Daresbury Park  
Daresbury  
Warrington  
WA4 4GB

# Magnox Electric Ltd

## DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 March 2007

### RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £8M (2006 profit of £4,168m). In addition a capital contribution of £12m by British Nuclear Fuels plc to facilitate sectionalisation of the Magnox Electric Group of the Electricity Supply Pension Scheme (ESPS) has been recorded in the Statement of Total Recognised Gains and Losses. The Directors are unable to recommend a dividend (2006 £nil).

### BUSINESS REVIEW

During the year the company has acted under contract to the Nuclear Decommissioning Authority (NDA) providing services in relation to the generation and supply of electricity, and the defuelling and decommissioning of non-generating sites.

The Company's fee is earned by meeting certain contractual criteria as defined and agreed with the NDA for the provision of the services stated above. The gross turnover for the year to 31 March 2007 is £34M (2006 £29M) which includes a base fee of £17M (88% of maximum), an enhanced generation fee of £2M and a fee of £15M for meeting efficiency savings targets.

Under the Management & Operations contract the Company's principal measure of operational performance are schedule performance index (SPI) and cost performance index (CPI) against a baseline programme of work, the target for SPI being 1.00 and the target for CPI being greater than 1.08. The results for the year to 31 March 2007 were a SPI of 0.99 and CPI 1.15. This performance was achieved on an enhanced programme of work valued at £693M delivered at a cost of £606M showing an overall cost saving of £87M.

During the year the Company exceeded its targets for electricity generation and spent fuel movements achieving 11.6TWh and 585tU respectively, which has resulted in an additional £2M of fee income. Electricity generation targets were exceeded at Dungeness A, Oldbury and Sizewell A but due to unplanned outages Wylfa only achieved 95% of its site target.

Due to the way in which the Company operates, substantially all risks and rewards from operating activities except the fee income are borne by the NDA.

On 30 March 2006, the NDA published its current Government approved strategy. The strategy details that the NDA intend to compete two contracts for the management operation of the Magnox sites. This requires Magnox Electric to separate into two legal entities. An Organisational Change Programme is being undertaken to safely separate Magnox Electric into Magnox North and Magnox South in time for the NDA competition process.

During the year under review the Shareholder took the decision to sell its Reactor Sites business. To facilitate the sale all the issued share capital of the Company was transferred from British Nuclear Group Limited to Reactor Sites Management Company Limited.

### SAFETY

Our overall Environment, Health, Safety & Quality performance remains excellent having achieved three years of sustained good performance. Nine of our ten indicators continue to show an improving trend. In some areas, such as conventional safety we are approaching world class performance.

We did receive the first regulatory action for three years, a Direction, for an event where a 40 year old pipe fractured releasing pond water, all of which was contained in the engineered sump or discharged through an authorised route. There was no injury to people or harm to the environment. However there were lessons to learn and 'learning' is a key improvement objective for the coming year.

A key milestone was achieved when both Sizewell and Dungeness were shut down as planned for the last time celebrating some 40 years of safe and successful electricity generation. The closure of Sizewell and Dungeness also brought a successful closure to the UK's steel pressure vessel programme.

This level of performance was achieved against a backdrop of major organisational change as we support the Nuclear Decommissioning Authority's competition schedule. To attain and maintain the current level of safety performance against such a background of major change is a very significant achievement.

Throughout 2006/07 a programme of major change continued as Magnox Electric prepares to separate into two legal entities. At the same time Reactor Sites Management company is leaving the BNFL family and going through a sale process.

Recognition of our performance has been made by third parties such as RoSPA with awards at site and company level, Det Norske Veritas audit ratings and the Nuclear Decommissioning Authority in their 2005/06 Annual Health, Safety, Security of Environmental Report.

# Magnox Electric Ltd

## DIRECTORS' REPORT (continued)

### DIRECTORS

The Directors who served during the year were as follows

M D Parker (Chairman) (Appointed 15 February 2007)  
L J Haynes (Resigned 31 March 2007)  
J F Edwards (Appointed 15 February 2007)  
A J Shuttleworth (Appointed 15 February 2007)  
M Morant  
Dr C J Marchese  
T J Joyce  
B T Tenner (Resigned 19 December 2006)  
D R Bonser (Resigned 01 July 2006)  
A R Brandwood

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

### PERSONNEL

The average number of people employed by the Company during the year was 3,608 (2006 3,532) At 31 March 2007 the total number of people employed by the Company was 3,755 (2006 3,496) The Company attaches importance to the involvement of its employees in the Company's development and has continued to keep them informed of matters affecting them as employees and on the performance of the Company Recognising that the Company was working towards restructuring to comply with the NDA's strategy for completing Management & Operations contracts, the Company continued to provide continuous and regular communications to its employees and the recognised trade unions.

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

### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company has continued its commitment to the Prompt Payers Code of Practice drawn up by the Confederation of British Industry (CBI) with rigorous monitoring of payment performance. Copies of the Code are available from CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. The Company's main payment terms are net monthly. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. The average age of invoices outstanding at 31 March 2007 was 19 days (2006 13 days)

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

### POLITICAL AND CHARITABLE DONATIONS

During the year the Company made donations to charitable organisations totalling £129,356 (2006 £158,018) funded by the NDA. The Company made no contributions to political parties.

### AUDITORS

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

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

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Ernst and Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

T J Joyce  
Company Director  
29<sup>th</sup> May 2007

## Magnox Electric Ltd

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

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

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

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

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

# Magnox Electric Ltd

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNOX ELECTRIC LIMITED

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of Directors and auditors

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

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

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

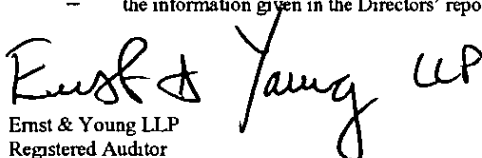
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

#### In our opinion

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

  
Ernst & Young LLP  
Registered Auditor  
London  
May 2007

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# Magnox Electric Ltd

## PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2007

	Note	2007 Continuing operations £M	2006 Continuing operations £M	2006 Discontinued operations £M	2006 Total £M
Gross revenue (including Site Licence Company costs under management)		640	577	-	577
Site Licence Company costs under management		(606)	(548)	-	(548)
Gross turnover		34	29	-	29
Operating costs and expenses	3	(33)	(29)	-	(29)
Operating profit		1	-	-	-
Exceptional items					
Profit on disposal of business	2	-	-	4,077	4,077
Profit before investment income, interest and taxation		1	-	4,077	4,077
Interest receivable and similar income	6	-	-	419	419
Interest payable and similar charges	7	-	-	(202)	(202)
Profit on ordinary activities before taxation		1	-	4,294	4,294
Tax on profit on ordinary activities	8	(9)	-	-	(126)
(Loss)/profit on ordinary activities after taxation	14	(8)	-	-	4,168
(Loss)/profit transferred to reserves		(8)	-	-	4,168

In 2006 the operations that transferred as part of the restructuring under the Energy Act 2004 are disclosed as discontinued operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2007

	2007 £M	2006 £M
(Loss)/profit for the financial year	(8)	4,168
Actuarial (loss) / gain recognised in the pension scheme (note 15)	(113)	63
Actuarial (loss) / gain borne by the NDA	113	(63)
Capital contribution to facilitate sectionalisation of Electricity Supply Pension Scheme (ESPS)	12	-
Taxation charge	(4)	-
Total recognised gains and losses relating to the financial year	-	4,168

# Magnox Electric Ltd

## BALANCE SHEET

At 31 March 2007

	Notes	£M	2007 £M	£M	2006 £M
<b>Current assets</b>					
Debtors					
Amounts falling due within one year	10	256		331	
Amounts falling due after one year	15	84		-	
		<u>339</u>		<u>331</u>	
Cash at bank and in hand		-		1	
		<u>339</u>		<u>332</u>	
 Creditors amounts falling due within one year	11	<u>(256)</u>		<u>(332)</u>	
<b>Net current assets</b>			<u>84</u>		<u>-</u>
<b>Total assets less current liabilities</b>			84		
<b>Creditors</b>					
Pension amount to the benefit of the NDA	15	-		(9)	
			<u>-</u>		<u>(9)</u>
<b>Net assets/(liabilities) excluding pension (liability)/asset</b>			84		(9)
<b>Pension (liability) / asset</b>	15		<u>(84)</u>		<u>9</u>
<b>Net assets including pension (liability)/asset</b>			<u>-</u>		<u>-</u>
 <b>Capital and reserves</b>					
Called up share capital	12	-		-	
Profit and loss account	14	-		-	
<b>Shareholders' Funds - Equity</b>	13		<u>-</u>		<u>-</u>

On behalf of the Board of Directors



T. J. Joyce  
Company Director  
29<sup>th</sup> May 2007

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS

At 31 March 2007

### 1 ACCOUNTING POLICIES

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

**a Accounting convention**

The accounts are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

These accounts have been prepared on a going concern basis.

**b Group accounts**

The Company 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.

As the Company is a wholly owned subsidiary of Reactor Sites Management Company Ltd, the Company's voting rights are controlled within the group headed by British Nuclear Fuels Plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of British Nuclear Fuels Plc, within which this Company is included, can be obtained from the address given in note 17.

**c Turnover**

Turnover is net of costs recoverable from the NDA and represents the net fees earned under contract with the NDA.

**d Taxation**

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, with the following exceptions:

- Deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing difference can be deducted, and
- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets
- Deferred taxation is measured on a non-discounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date

**e 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.

**f Pensions**

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

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

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

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

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 2 PROFIT ON DISPOSAL OF BUSINESS

The profit on disposal of business relates to the accounting year ended 31 March 2006

The balances below were subject to restructuring under the Energy Act 2004

	2007 £M	2006 £M
Internal loan write off	-	(854)
Transfer of business operations and associated provisions	-	11,180
Termination of Secretary of State's Undertaking	-	(6,375)
Group contribution to tax charge (note 8)	-	126
	-	4,077

On 1 April 2005, certain assets and liabilities of the Company were transferred to the NDA by means of transfer schemes under the Energy Act 2004. The nuclear sites and relevant installations on these nuclear sites owned by the Company were designated and transferred to the NDA and the Company now operates these sites under M&O contracts with the NDA.

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

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

Assets transferred under the Energy Act 2004 include tangible fixed assets, the Secretary of State's Undertaking and cash. Liabilities for which the NDA now take responsibility include nuclear provisions and other provisions.

Transfers of assets and liabilities under the Energy Act 2004 have either been charged or credited to the profit and loss account as an exceptional item.

### 3 NET OPERATING COSTS AND EXPENSES

	2007 £M	2006 £M
Management fees paid to parent Company	34	29
Reduction in amount due from the NDA following payment into the pension scheme by British Nuclear Fuels plc	12	-
Bonus paid to employees	4	-
Reimbursement from British Nuclear Group Ltd for bonus paid to employees	(4)	-
Reimbursement of taxation charge from British Nuclear Fuels plc	(13)	-
	33	29

Auditors' remuneration was £107,000 (2006 £157,000). This represents £87,000 for statutory audit fees (2006 £124,000) and £20,000 (2006 £33,000) for other services.

### 4 EMPLOYEE INFORMATION (including Executive Directors)

	2007 £M	Restated 2006 £M
Wages and salaries	167	153
Social security costs	15	14
Pension costs	44	35
Other staff costs	21	9
	247	211

The directors have reviewed the disclosure of staff costs included in the accounts for the year ended 31 March 2006 in light of changes in the pension arrangements for the company outlined in note 15. Following this review, pension costs disclosed in this note in respect of the year ended 31 March 2006 have been restated. Pension costs have increased from £20M to £35M. There is no impact on any other amounts included in the accounts.

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 4 EMPLOYEE INFORMATION (Continued)

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

The average number of employees during the year was 3,608 (2006 3,532)

Employee costs are directly recoverable from the NDA.

### 5 DIRECTORS' EMOLUMENTS

	2007 £000	2006 £000
Aggregate emoluments	609	866
Retirement benefits are accruing to 3 Directors (2006 4) under a defined benefit scheme		
Aggregate emoluments for the highest paid Director	275	358
Defined benefit pension scheme for highest paid Director		
Accrued pension at end of year	15	35

All Directors are employed by the Company's parent or ultimate parent undertaking. Those employed by the parent undertaking are seconded to the Company. The emoluments detailed above include no remuneration in respect of Mr Brandwood. All of Mr Brandwood's emoluments for the year were borne by another group undertaking.

### 6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £M	2006 £M
Interest receivable from Secretary of State's Undertaking	-	419

Finance income from the pension scheme in both the current and previous year has been attributable to the NDA.

### 7 INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £M	2006 £M
Revaluation on nuclear provisions		
Changes in price levels	-	104
Reversal of one year's discounting	-	98
	-	202

Finance payable on the pension scheme in both the current and previous year has been borne by the NDA.

### 8 TAX ON PROFIT ON ORDINARY ACTIVITIES

#### a) Analysis of tax charge in year

	2007 £M	2006 £M
Corporation tax		
Current tax on income for the period	2	126
Adjustments in respect of prior periods	7	-
Tax on profit on ordinary activities	9	126

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 8 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

#### b) Factors affecting tax charge for year

The tax assessed on the profit on ordinary activities for the year is different from the standard rate of Corporation tax in the UK of 30%. The differences are reconciled below

	2007 £M	2006 £M
Profit on ordinary activities before taxation	1	4,294
Tax on profit at 30% (2006 30%)	-	1,288
Effects of		
Expenses not deductible for corporation tax purposes	2	(1,162)
Adjustments to tax charge in respect of prior periods	7	-
Current tax charge for the year	9	126

In 2006 the corporation tax liability arose primarily in respect of income from the Secretary of State's Undertaking (the derecognition of which was delayed due to the State Aid review process). The tax liability was met by British Nuclear Fuels PLC. The company has an unrecognised deferred tax asset amounting to nil (2006 nil)

### 9 INVESTMENTS

	Shares in subsidiary undertakings £M
Cost	
At 1 April 2006 and 31 March 2007	2
Provisions	
At 1 April 2006 and 31 March 2007	(2)
Net Book Value	
At 31 March 2006 and 31 March 2007	-

The investment in Energy Sales and Trading Limited has been 100% impaired as any proceeds from disposing of the investment will be remitted directly to the NDA.

Details of the principal investment in which the Company held more than a 20% participating interest during the year is as follows

Name	Country of Incorporation	Holding	Proportion Held	Nature of Business
Energy Sales and Trading Limited	England and Wales	Ordinary Shares	100%	Electricity trading and risk management services

### 10 DEBTORS

	2007 £M	2006 £M
Amounts falling due in less than one year		
Amounts owed by Group Undertaking	19	-
Amounts owed by Parent Undertaking	-	126
Working capital recoverable from the NDA	237	205
	256	331

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 11 CREDITORS amounts falling due within one year

	2007 £M	2006 £M
Trade creditors	74	75
Amounts owed to parent undertaking	19	13
Amounts owed to other group undertakings	4	19
Corporation tax	13	126
Other taxes and social security costs	4	9
Accruals and deferred income	98	54
Other creditors	44	36
	<b>256</b>	<b>332</b>

### 12 SHARE CAPITAL

	2007 £	2006 £
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
	<b>12,502</b>	<b>12,502</b>

### 13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £M	2006 £M
(Loss)/profit for financial year	(8)	4,168
Actuarial (loss) / gain recognised in the pension scheme	(113)	63
Actuarial (loss) / gain borne by the NDA	113	(63)
Capital contribution by British Nuclear Fuels plc to facilitate sectionalisation of the Magnox Electric Group of the Electricity Supply Pension Scheme (ESPS)	12	-
Taxation charge recognised in Statement of Recognised Gains and Losses	(4)	-
	-	4,168
Opening shareholders funds	-	(4,168)
Closing shareholders funds	-	-

### 14 RESERVES

	Profit and loss account £m
Balance at 1 April 2006	-
Loss for the financial year	(8)
Capital contribution by British Nuclear Fuels plc to facilitate sectionalisation of the Magnox Electric Group of the Electricity Supply Pension Scheme (ESPS)	12
Taxation charge recognised in Statement of Recognised Gains and Losses	(4)
Balance at 31 March 2007	-

**NOTES TO THE ACCOUNTS (continued)**

**At 31 March 2007**

**15 PENSIONS**

**Defined contribution scheme**

The Combined Pension Scheme (CPS) is a multi-employer scheme which provides defined benefits to its members. In common with other unfunded public sector schemes the CPS does not have the attributes of typical private sector pension schemes. Any surplus of contributions made in excess of benefits paid out in any year is surrendered to the Consolidated Fund and any liabilities are met from the Consolidated Fund via the annual Parliamentary vote. Her Majesty's Government does not maintain a separate fund.

Prior to 1 April 2006 the scheme valuation was based on a theoretical calculation as to how a typical UK pension scheme would have invested the historical surplus of contributions over payments. In year ended 31 March 2006, the Group disclosed the FRS 17 valuation of the scheme which was based on a theoretical calculation to derive notional assets and a notional surplus. This surplus was not recognised at 31 March 2006 in accordance with FRS 17 due to the notional nature of the assets supporting the scheme and the fact that the Group has no rights to the surplus other than as allowed by the scheme manager.

On 1 April 2006 the funding arrangements for the scheme changed, employer contributions are now set using the SCAPE (Superannuation Contributions Adjusted for Past Experience) methodology. Under this methodology the notional assets are no longer deemed to exist, the accrued liabilities at 1 April 2006 were deemed to be secured and no notional surplus or deficit is ascribed to the Group at that date. Future employer contributions will be adjusted to reflect the liability experience after 1 April 2006.

The Company has a continuing obligation to the CPS to pay contribution rates for active members specified by the actuary in the periodic valuation reports. Contributions payable by the company for the year amounted to £2.16M (2006 £Nil) of which £0.17M (2006 £Nil) was outstanding as at 31 March 2007.

**Defined benefit scheme**

The Electricity Supply Pension Scheme is a funded scheme. Magnox Electric Ltd employees are covered by the Magnox Electric Group of the scheme. The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2004. The projected unit method was used and the main long-term assumptions made were as follows:

Discount rate	4.9% per annum
Salary increase	4.0% per annum
Pension increase	3.0% per annum
Inflation assumption	3.0% per annum

The results of the valuation were as follows:

Market value of scheme assets	£1,205.5M
Level of funding	89.1%

In light of the valuation results Magnox Electric agreed to:

- Increase future service contributions to 16.1% of pensionable salaries with effect from 31 March 2005
- Pay a contribution of £35.98M no later than 31 March 2005
- Pay contributions of £24.9M no later than each 31 March, from 2006 to 2011 inclusive

The latest actuarial valuation has also been updated by a qualified independent actuary to 31 March 2007 on a basis consistent with FRS17.

The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £18M, (2006 £75M). These contributions payable are recoverable from the NDA. There were no outstanding contributions at the year end.

The major financial assumptions used by the actuary for the FRS17 actuarial assessment were:

	2007	2006	2005
Discount rate	5.4%	4.9%	5.4%
Rate of increase in salaries	4.2%	4.0%	3.9%
Rate of increase in pensions	3.2%	3.0%	3.0%
Inflation assumption	3.2%	3.0%	2.9%

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 15 PENSIONS (continued)

Under FRS17 the fair value of the assets and liabilities of the Magnox Electric Group of the Electricity Supply Pension Scheme is detailed below

	Expected Return 2007	Fair Value 2007 £M	Expected Return 2006	Fair Value 2006 £M	Expected Return 2005	Fair Value 2005 £M
Equity	7.9%	571	7.5%	833	7.7%	886
Government bonds	4.7%	763	4.3%	515	4.7%	209
Corporate bonds	5.2%	93	4.7%	99	5.2%	84
Property	6.9%	123	6.5%	120	6.7%	104
Other (including cash)	5.5%	79	4.6%	89	4.8%	74
Total fair value of assets		1,629		1,656		1,357
Present value of scheme liabilities		(1,713)		(1,647)		(1,470)
(Deficit)/Surplus in the scheme		(84)		9		(113)
Net pension (liability) / asset		(84)		9		(113)
Amount to the cost/(benefit) of the NDA		84		(9)		-
Net pension (liability) / asset		-		-		(113)

#### Analysis of the movement in scheme surplus / (deficit) during the year

	2007 £M	2006 £M
Surplus/(Deficit) at beginning of the year (excluding deferred tax)	9	(113)
Current service cost	(26)	(21)
Contributions paid	47	81
Past service costs	(16)	(14)
Other finance income	20	13
Actuarial (loss)/gain	(113)	63
(Deficit)/Surplus prior to sectionalisation	(79)	9
Surplus transferred to other group companies on sectionalisation of the pension scheme at 31 March 2007	(5)	-
At 31 March	(84)	9

#### Analysis of the amount that has been charged to operating profit

	2007 £M	2006 £M
Current service cost	26	21
Past service cost	16	14
Total operating charge	42	35

Amounts charged to operating profit in both the current and previous year have been borne by the NDA.

#### Analysis of the amount credited to other finance income

	2007 £M	2006 £M
Expected return on pension scheme assets	100	92
Interest on pension scheme liabilities	(80)	(79)
Net return	20	13

Finance payable on the pension scheme in both the current and previous year has been borne by the NDA.

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

	2007 £M	2006 £M
Actual return less expected return on scheme assets	(59)	196
Experience loss on scheme liabilities	(18)	2
Changes in assumption underlying the value of the liabilities	(36)	(135)
Actuarial (loss)/gain recognised in STRGL	(113)	63

Actuarial losses and gains in both the current and previous year has been borne/for the benefit of the NDA.

# Magnox Electric Ltd

## NOTES TO THE ACCOUNTS (continued)

At 31 March 2007

### 15 PENSIONS (continued)

#### History of experience in gains and losses

The history of experience gains and losses set out below are in respect of the Electricity Supply Pension Scheme as a whole

	2007 £M	2006 £M	2005 £M	2004 £M	2003 £M
Actual return less expected return on scheme assets	(59)	196	44	174	(307)
Percentage of scheme assets at end of year	(3.5)%	11.8%	3.2%	14.4%	(30.8)%
Experience gains and losses on scheme liabilities	(18)	2	(27)	(8)	47
Percentage of scheme liabilities at end of year	(1.0)%	0.1%	(1.8)%	(0.5)%	3.8%
Total amount recognised in statement of total recognised gains and losses	(113)	63	(21)	125	(332)
Percentage of scheme liabilities at end of year	(6.5)%	3.8%	(1.4)%	9.4%	(26.6)%

In the year to 31 March 2007 and going forward the pension fund has been and will be 100% funded by the NDA. Any deficit on the fund is receivable from the NDA and consequently any surplus is to the benefit of the NDA.

### 16 ULTIMATE PARENT UNDERTAKING

The Company is a subsidiary undertaking of Reactor Sites Management Company Limited, a Company registered and incorporated in England and Wales. The ultimate parent undertaking is British Nuclear Fuels PLC. The consolidated accounts of this company are available to the public and may be obtained from 1100 Daresbury Park, Daresbury, Warrington, WA4 4GB.

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

### 17 RELATED PARTY TRANSACTIONS

As the Company is a wholly owned subsidiary of British Nuclear Fuels PLC, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Undertakings under common control of Her Majesty's Government include the NDA. During the year the company earned fee income of £34 million from the NDA for the provision of services related to the operation and decommissioning of the Magnox type power stations. Costs under management of £606 million were incurred on behalf of the NDA during the year in relation to the costs associated with the operation and decommissioning of the power stations. As at 31 March 2007 there was a balance owed by the NDA to the Company of £237 million.