MAGNOX ELECTRIC PLC

Registered No. 2264251

ANNUAL REPORT AND ACCOUNTS

31 March 2003

Magnox Electric plc

DIRECTORS
J Edwards (Chairman)
Dr C Smitton
Dr C Marchese
S Dauncey
Dr S Brosnan
W Root

SECRETARY
A J Shuttleworth

AUDITORS
Ernst and Young LLP
100 Barbirolli Square
Manchester
M2 3EY

BANKERS
National Westminster Bank Plc
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Magnox Electric plc

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 March 2003.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £358M (2002: loss of £1,073M).

The Directors are unable to recommend a dividend (2002: £nil).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

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

Safety

There has been a steady improvement in Magnox's health, safety and environmental performance that has been underpinned by significant enhancements in safety and environmental leadership, culture and health awareness.

There were no incidents above INES Level 1, described as an anomaly on the International Nuclear Event Scale. Looking at the trend in the number of events over time there is an underlying reducing trend of INES 1 events for the Magnox fleet.

Considerable effort has gone into integrating environmental issues into Magnox's management systems together with awareness and competence improvements. There has been a marked reduction in environmental events and more evidence of proactive care for the environment.

New certificates of authorisation were issued under the Radioactive Substances Act by the Environment Agency in December 2002. At the same time the Berkeley and Trawsfynydd sites were relicensed to BNFL.

Magnox has maintained a high standard of industrial safety. Lost time accidents incurred have not involved any significant injury but reflected in a higher than predicted Days Away Case Rate (DACR) indicator out-turn. Specific action was taken at the small number of sites contributing to this increase and the performance at other sites has been exemplary.

Collective radiation dose continues to reduce. This can be attributed to cessation of generation at some sites and in part, to the use of electronic personal dosemeters at all sites.

Electricity Generation

During the year Magnox supplied 16.8TWh of electricity to the grid system (2002: 15.3TWh). This represents an excellent performance by all of the power stations which operated throughout the year with no major unplanned shutdowns.

Future Developments

The Company will continue to operate its generating power stations and decommission its closed sites as efficiently as possible so as to maximise the available revenue and minimise the potential costs.

In conjunction with its shareholder British Nuclear Fuels plc, the company is working to ensure that the creation of the new Nuclear Decommissioning Authority (NDA), currently being set up in order to separate the ownership of assets and liabilities from the work of dealing safely and efficiently with the UK's nuclear legacy, is a success.

DIRECTORS' REPORT (continued)

Research and Development

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

DIRECTORS

The Directors who served during the year were as follows:

J Edwards (Chairman)
Dr C Smitton
Dr C Marchese
T Joyce (resigned 6 December 2002)
Dr S Brosnan
W Root
S Dauncey (appointed 12 December 2002)

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

PERSONNEL

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

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

CREDITOR PAYMENT POLICY

It is the policy of the Company to pay suppliers' invoices promptly in accordance with the relevant contract terms and to abide by the Prompt Payers Code of Practice drawn up by the CBI. Further information and copies of the Code can be obtained from The Group Head, Financial Services, Magnox Electric plc, Berkeley Centre, Berkeley, Gloucestershire GL13 9PB. Terms of payment are agreed with each supplier when agreeing the terms of each transaction. At the balance sheet date, trade creditors represent 27 days purchases (2002: 29 days).

POLITICAL AND CHARITABLE DONATIONS

During the year the Company made donations to charitable organisations totalling £33,000 (2002 £45,000). The Company made no contributions to political parties.

AUDITORS

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

By order of the Board

A J Shuttleworth
Company Secretary

16 OCT 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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

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

Magnox Electric plc

INDEPENDENT AUDITORS' REPORT
to the members of Magnox Electric plc

We have audited the company's accounts for the year ended 31 March 2003 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 23. These accounts have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

We read 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Fundamental Uncertainty

In forming our opinion we taken note of the fundamental uncertainty inherent in the estimation of nuclear liabilities which is described in note 17. Our opinion is not qualified in this aspect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Manchester

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Magnox Electric plc

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2003

	Notes	2003 £M	2002 £M
TURNOVER		**341**	338
Net operating costs and expenses	3	**(711)**	(1,409)
OPERATING LOSS		**(370)**	(1,071)
Profit on disposal of fixed assets	6	**3**	-
LOSS ON ORDINARY ACTIVITIES BEFORE INVESTMENT INCOME, INTEREST AND TAXATION		**(367)**	(1,071)
Other interest receivable and similar income	7	**557**	348
Interest payable and similar charges	8	**(588)**	(327)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(398)**	(1,050)
Tax on loss on ordinary activities	9	**40**	(23)
LOSS FOR THE FINANCIAL YEAR	19	**(358)**	(1,073)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2003

There were no material recognised gains or losses in 2003 or 2002 other than the loss for the year, and no statement of recognised gains or losses is presented.

Magnox Electric plc

BALANCE SHEET
at 31 March 2003

	Notes	**2003 £M**	2002 £M
FIXED ASSETS			
Tangible assets	10	**5**	5
Investments	11	**-**	-
		5	5
CURRENT ASSETS			
Stocks	12	**22**	21
Secretary of State's Undertaking due after more than one year	13	**5,159**	4,784
Debtors	14	**2,823**	2,441
Cash at bank and in hand		**111**	18
		8,115	7,264
CREDITORS: amounts falling due within one year	15	**(1,130)**	(583)
NET CURRENT ASSETS		**6,985**	6,681
TOTAL ASSETS LESS CURRENT LIABILTIES		**6,990**	6,686
Represented by:			
CREDITORS: amounts falling due after more than one year	16	**1,852**	1,776
PROVISIONS FOR LIABILITIES AND CHARGES	17	**8,648**	8,062
CAPITAL AND RESERVES			
Called up share capital	18	**-**	-
Profit and loss account	19	**(3,510)**	(3,152)
SHAREHOLDERS' FUNDS – EQUITY		**(3,510)**	(3,152)
		6,990	6,686

On behalf of the Board of Directors

S Dauncey, Director

16 OCT 2003

NOTES TO THE ACCOUNTS
at 31 March 2003

1. ACCOUNTING POLICIES

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

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

Cash flow statement
Under FRS1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated accounts.

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

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

Magnox power stations	-	38 - 40 years
Non-operational buildings	-	40 years
Short term assets	-	3 years

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

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

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

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

Research and development
Research and development expenditure is written off as incurred.

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

1. ACCOUNTING POLICIES (continued)

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

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

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 topped up as detailed in c) below.

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

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

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

a) 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.

b) 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.

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

1. ACCOUNTING POLICIES (continued)

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date (note 9).

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.

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

2. GOING CONCERN BASIS OF ACCOUNTING

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

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

b) the Company has received confirmation from British Nuclear Fuels plc that it will provide financial support to enable Magnox Electric plc to continue to operate safely, and to meet its liabilities as they fall due, for the foreseeable future. Although British Nuclear Fuels plc has net liabilities, the Directors have taken account of its cash resources and the Ministerial statement containing proposals for the management of the public sector civil nuclear liabilities, and subsequent confirmation from the Secretary of State for Trade and Industry of the Government's continuing resolve to implement the proposals set out in the statement.

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

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

3. NET OPERATING COSTS AND EXPENSES

Net operating costs and expenses include:

	2003 £M	2002 £M
Raw materials and consumables	**93**	91
Employee costs (see note 4)	**149**	139
Depreciation	**117**	47
Provisions for liabilities and charges	**481**	1,011
Contractual amounts recovered	**(216)**	-
Research and development expenditure	**3**	4
Other external and operating charges	**106**	134
Own work capitalised	**(10)**	(9)
Other operating income	**(12)**	(8)
	711	1,409

Following the review of the Historic Waste Management Strategy last year, which resulted in an increase in provisions for liabilities and charges of £877 million, a separate exercise to review the station decommissioning has commenced. During the 2003 financial year new baseline decommissioning plans have been completed for the care and maintenance preparation phase for the Hinkley and Bradwell stations. These have resulted in an exceptional charge of £415 million to cover the anticipated future cost increases. The completion of this exercise for the remaining nine stations is scheduled to be completed over the next three years. Although there are likely to be further charges in the future, the uncertainties inherent in the calculations mean that it would be inappropriate to anticipate any further charges for each station until the plan for that station has been revised.

The contractual amount recovered has arisen following the application of performance clauses in the contract connected with back end fuel services.

Auditors' remuneration was £160,000 (2002: £157,000). Fees paid to the auditors for services other than statutory audit during the year totalled £nil (2002: £29,000).

The depreciation charge for the year includes an impairment charge of £117M (2002: £47M). The underlying depreciation charge for the year was £nil (2002: £nil).

4. EMPLOYEE INFORMATION (including Executive Directors)

Employee costs during the year were as follows:

	2003 £M	2002 £M
Wages and salaries	**122**	118
Social security costs	**10**	10
Pension costs	**10**	8
Other employee costs	**7**	3
	149	139

The average monthly number of employees during the year was 3,333 (2002: 3,394).

Magnox Electric plc

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

5. DIRECTORS' EMOLUMENTS

	2003 £000	2002 £000
Aggregate emoluments	**685**	521
Retirement benefits are accruing to 4 Directors (2002: 5) under a defined benefit scheme		
Aggregate emoluments for the highest paid Director	**220**	196
Defined benefit pension scheme for highest paid Director:		
Accrued pension at end of year	**66**	59

6. DISPOSAL OF FIXED ASSETS

The profit on disposal of fixed assets in 2003 relates to the sale of a laboratory and various items of plant and equipment which were carried at a book value of £nil and sold for £3M.

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £M	2002 £M
Interest receivable from Group Undertakings	**178**	93
Escalation of Secretary of State's Undertaking	**375**	253
Other	**4**	2
	557	348

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £M	2002 £M
Adjustments to opening provisions arising from:		
Changes in price levels	**327**	94
Removal of one year's discounting	**251**	228
Other	**10**	5
	588	327

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

9. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of tax charge/(credit) in year

	2003 £M	2002 £M
Corporation tax		
Current year	-	-
Adjustments in respect of prior years	(40)	23
	(40)	23

b) Factors affecting tax (credit)/charge for year

The factors affecting the tax (credit)/charge for the year are set out below:

	2003 £M	2002 £M
Loss on ordinary activities before taxation	(398)	(1050)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(120)	(315)
Effects of:		
Permanent differences	(60)	8
Deferred tax not provided	40	307
Group relief claimed not paid	140	-
Adjustments in respect of prior year	(40)	23
Current tax (credit)/charge for period	(40)	23

The Company has an unrecognised deferred tax asset amounting to £930M (2002: £994M). This comprises fixed asset timing differences of £171M (2002: £170M) and other timing differences of £759M (2002: £824M), and has not been recognised in the accounts on the grounds that it is unlikely the asset will crystallise in the near future.

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

10. TANGIBLE FIXED ASSETS

	Nuclear power stations £M	Other land and buildings £M	Other plant and equipment £M	Total £M
Cost				
At 1 April 2002	1,083	33	79	1,195
Additions				
Capitalised decommissioning costs	55	-	-	55
Other	36	-	26	62
Disposals				
Capitalised decommissioning costs	(67)	-	-	(67)
Other	-	(5)	(1)	(6)
At 31 March 2003	**1,107**	**28**	**104**	**1,239**
Depreciation				
At 1 April 2002	1,078	33	79	1,190
Charge for year				
Provisions for diminution in value	91	-	26	117
Disposals				
Capitalised decommissioning costs	(67)	-	-	(67)
Other	-	(5)	(1)	(6)
At 31 March 2003	**1,102**	**28**	**104**	**1,234**
Net book value				
At 31 March 2003	**5**	**-**	**-**	**5**
At 1 April 2002	5	-	-	5

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

10. TANGIBLE FIXED ASSETS (continued)

Decommissioning costs included in tangible fixed assets:

	Nuclear Power Stations £M
Cost	380
Depreciation	(380)
Net book value at 31 March 2003	-
At 1 April 2002	-

The net book value of tangible fixed assets includes £2M in respect of freehold buildings (2002: £2M).

11. INVESTMENTS

Loans to joint venture

As at 1 April 2002 and 31 March 2003	£M
Cost	188
Provision	(188)
Net book value	-

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

11. INVESTMENTS (continued)

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

Name	Country of Incorporation	Holding	Proportion Held	Nature of Business
Joint Venture				
United Kingdom Nirex Limited	England and Wales	Ordinary shares	35%	Disposal of low and intermediate level waste

12. STOCKS

	2003	2002
	£M	£M
Nuclear fuel	**19**	15
Other raw materials and consumables	**3**	6
	22	21

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

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

	£M
At 1 April 2002	**4,784**
Interest accrued during the year	**375**
At 31 March 2003	**5,159**

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

a) Where actions taken by persons or bodies external to the BNFL Group cause or may cause a reassessment of the nuclear related liabilities of the Group attributable to the Magnox fuel cycle (Magnox liabilities). Magnox liabilities account for over 90% of the Group's nuclear liabilities.

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

The next review by Her Majesty's Government (HMG) in relation to (a) above was due on 1 April 2003. Given the progress being made to implement the proposals on the restructuring of UK Civil Nuclear Liabilities set out in the Ministerial statements made in the House of Commons on 28 November 2001, a deferral of this review has been agreed.

Reductions in provisions falling within b) above are to be shared between the Group and the Secretary of State (via adjustment of the outstanding amount of the undertaking) on a sliding scale with the maximum reduction in the undertaking being £800 million escalated by 2.5% above inflation from 1 April 1998. The Directors have not yet felt it appropriate to assume any revisions to the undertaking.

14. DEBTORS

	2003 £M	2002 £M
Trade debtors	**40**	52
Amounts owed by parent undertaking	**2,768**	2,372
Prepayments and accrued income	**6**	2
Other debtors	**9**	15
	2,823	2,441

Amounts falling due after more than one year included in the above are £5M (2002: £5M).

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

15. CREDITORS: amounts falling due within one year

	2003 £M	2002 £M
Trade creditors	**13**	15
Amounts owed to parent undertaking	**813**	185
Amounts owed to other group undertakings	**5**	5
Corporation tax	**37**	85
Other taxes and social security costs	**3**	5
Accruals and deferred income	**59**	61
Fuel reprocessing and waste management creditors (note 17)	**195**	221
Other creditors	**5**	6
	1,130	583

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

	2003 £M	2002 £M
Fuel reprocessing and waste management creditors (note 17)	**1,822**	1,754
Other creditors	**30**	22
	1,852	1,776

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

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

17. PROVISIONS AND NUCLEAR LIABILITIES

	Provisions				Creditors	
	Fuel reprocessing & waste management £M	**Decomm-issioning £M**	**Other (note b) £M**	**Total £M**	**Fuel reprocessing & waste management £M**	**Total £M**
At 1 April 2002	3,604	4,408	50	8,062	1,975	10,037
Adjustment arising from changes in price levels and removal of one year's discounting	208	255	1	464	114	578
Charge/(release) in the year						
Fixed Assets	-	55	-	55	-	55
Profit and loss	262	60	12	334	147	481
Expenditure in the year	(149)	(107)	(11)	(267)	(219)	(486)
At 31 March 2003	**3,925**	**4,671**	**52**	**8,648**	**2,017**	**10,665**

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

The Company has estimated the cost of meeting its obligations to decommission nuclear reactors and has provided for these ar for its share of the costs of decommissioning BNFL's sites and facilities. These provisions cover complete demolition togethe with disposal of associated waste. In addition provisions have been made for fuel reprocessing and related waste management and disposal. For safety reasons associated with the rapid reduction in exposure risks that results from allowing the natural reduction in radioactivity that occurs with the passage of time, much of the dismantling and demolition work will not occur foi considerable time. In the same way, the costs of constructing long term storage for waste will not be incurred for a long time, and the accounting provisions for such costs must necessarily be based on estimates. In all cases the provisions are based on detailed technical assessments of the processes and methods likely to be used to discharge the obligations and the best estimat are derived from a combination of an assessment of the timescale for the work carried out, the latest technical knowledge available, the existing regulatory regime and commercial arrangements. The amount and timing of each obligation is therefor sensitive to each of these four factors although by the nature of the obligations involved, fundamental uncertainty remains regarding the measurement of the liabilities and the timing of the cash flows.

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

17. PROVISIONS AND NUCLEAR LIABILITIES (continued)

(b) Other provisions can be analysed as follows:

	Restructuring	Insurance	Contract loss provision	Total
	£M	£M	£M	£M
Balance at 1 April 2002	3	16	31	50
Change in year	-	-	12	12
Adjustment arising from changes in price and removal of one year's discounting	-	-	1	1
Expenditure in the year	-	-	(11)	(11)
Balance at 31 March 2003	**3**	**16**	**33**	**52**

18. SHARE CAPITAL

	2003	2002
	£	£
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

19. MOVEMENTS IN RESERVES AND SHAREHOLDERS' FUNDS

	2003	2002
	£M	£M
At 1 April 2002	**(3,152)**	(2,079)
Loss transferred to reserves	**(358)**	(1,073)
At 31 March 2003	**(3,510)**	(3,152)

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

20. CAPITAL EXPENDITURE AUTHORISED

	2003 £M	2002 £M
Contracted for but not provided for	3	16

21. PENSIONS

The Electricity Supply Pension Scheme is a funded scheme. Magnox Electric plc employees are covered by the Magnox Electric Group of the scheme. The most recent triennial actuarial valuation of the scheme took place at 31 March 2001. *The projected unit method was used and the main long term assumptions made were as follows:*

Investment return	6.3% per annum pre-retirement
	5.3% per annum post-retirement
Salary increase	3.3% per annum
Pension increase	2.5% per annum
Inflation adjustment	2.3% per annum

The results of the valuation were as follows:

Market value of scheme assets	£1,305M
Level of funding	113.7%

The surplus was to be used:

- To improve members' benefits with effect from 1 April 2002.
- To reduce company contributions to 0% between 1 April 2002 and 31 March 2003, followed by a different reduction from 1 April 2003 yet to be determined.
- To meet the costs of any additional years of service for members of the scheme up to an agreed level.
- Deficiency costs for early pension payments for redundancies paid up to an agreed level.
- Employees and members reserves to be carried forward for potential use after 31 March 2003.
- A general reserve to be carried forward as a contingency.

In light of the fall in value of assets held by the scheme since the last valuation the Company and the trustees have reviewed, and will continue to review on an on-going basis, the application of any remaining surplus. The Company has decided to reinstate full contributions from 1 April 2003.

Magnox Electric's pension costs for the year to 31 March 2003 were £10M (2002: £8M), at which date there was an amount of £18M *(2002: £8M)* included in creditors arising from the application of the surplus identified at the last pension valuation.

The latest actuarial valuation has also been updated by a qualified independent actuary to 31 March 2003 on a basis consistent with FRS17.

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

21. PENSIONS (continued)

The major financial assumptions used for the FRS17 actuarial assessment at 31 March 2003 are:

	2003	2002
Discount rate	**5.4%**	6.0%
Rate of increase in salaries	**3.6%**	3.8%
Rate of increase in pensions	**2.7%**	2.9%
Inflation assumption	**2.6%**	2.8%

Under FRS17 the fair value of the assets and liabilities of the Magnox Electric Group of the Electricity Supply Pension Scheme at 31 March 2003 are:

	Expected Return 2003/04	**Fair Value 2003 £M**	Expected Rate 2002/03	Fair Value 2002 £M
Equity	**7.6%**	**660**	7.7%	860
Bonds	**4.8%**	**242**	5.7%	295
Property	**6.6%**	**91**	6.2%	94
Other (including cash)	**3.8%**	**5**	3.7%	16
Total fair value of assets		**998**		1,265
Present value of scheme liabilities		**(1,250)**		(1,180)
(Deficit)/surplus in the scheme		**(252)**		85
Related deferred taxation		**-**		(25)
Net pension (liability)/surplus		**(252)**		60

If the above amounts had been recognised in the financial statements, the Company's net liabilities and reserves at 31 March 2003 would have been impacted as follows:

	2003 £M	2002 £M
Net liabilities excluding pension (liability)/asset	**(3,492)**	(3,144)
Pension (liability)/asset	**(252)**	60
Net liabilities	**(3,744)**	(3,084)
Profit and loss reserve excluding pension (liability)/asset	**(3,492)**	(3,144)
Pension (liability)/asset	**(252)**	60
Profit and loss reserve	**(3,744)**	(3,084)

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

21. PENSIONS (continued)

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

	2003 £M
Surplus at 1 April 2002 (excluding deferred tax liability)	85
Current service cost	(16)
Contributions paid	2
Past service costs	(9)
Other finance income	18
Actuarial losses	(332)
Deficit at 31 March 2003	(252)

Analysis of the amount that would have been charged to operating loss

	2003 £M
Current service cost	16
Past service cost	9
Total operating charge	25

Analysis of the amount that would have been credited to other finance income

	2003 £M
Expected return on pension scheme assets	88
Interest on pension scheme liabilities	(70)
Net return	18

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

21. PENSIONS (continued)

Analysis of the amount that would have been recognised in the Statement of Total Recognised Gains and Losses

	2003 £M
Actual return less expected return on scheme assets	(307)
Experience gain on scheme liabilities	47
Changes in assumption underlying the value of the liabilities	(72)
Actuarial loss recognised in STRGL	(332)

History of experience in gains and losses

	2003 £M
Actual return less expected return on scheme assets	(307)
Percentage of scheme assets at end of year	(30.8)%
Experience gains and losses on scheme liabilities	47
Percentage of scheme liabilities at end of year	3.8%
Total amount recognised in statement of total recognised gains and losses	(332)
Percentage of scheme liabilities at end of year	(26.6)%

22. CONTINGENT LIABILITIES

At 31 March 2003, the company had contingent liabilities incurred in the ordinary course of business arising out of bank pooling arrangements with the parent company in respect of which, in the opinion of the directors, no material losses are expected to arise.

23. RELATED PARTY TRANSACTIONS

The ultimate holding company is British Nuclear Fuels plc, which is incorporated in Great Britain. Copies of the Group accounts of British Nuclear Fuels plc may be obtained from its registered office at 1100 Daresbury Park, Daresbury, Warrington, WA4 4GB. The Company is not included in any other Group accounts.

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

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

The following are also considered to be related parties:

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

   The Ministry of Defence
   The United Kingdom Atomic Energy Authority

(ii) Associated undertakings/Joint ventures. The principal joint venture undertaking is listed in Note 11.

Magnox Electric plc

NOTES TO THE ACCOUNTS (continued)
at 31 March 2003

23. RELATED PARTY TRANSACTIONS (continued)

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

	Turnover	Purchases	Amounts due to/from Related Parties	Loan balances outstanding	Provisions against loan balances
	£M	£M	£M	£M	£M
2002/2003					
Associated undertakings/ Joint ventures	**-**	**4**	**-**	**188**	**(188)**
2001/2002					
Associated undertakings/ Joint ventures	1	6	-	188	(188)