Directors' Report and Accounts

For the year ended 31 March 1998

Magnox Electric plc

Magnox Electric plc
Risley
Warrington
Cheshire
WA3 6AS

Company Number 2264251

Directors' report for the year ended 31 March 1998

The directors present their report and Company accounts for the year ended 31 March 1998.

Principal activities

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

Review of the business

The year was dominated by work leading up to the transfer of the Government's shareholding in Magnox Electric plc ("Magnox") to British Nuclear Fuels plc ("BNFL") on 30 January 1998. At this point, Magnox became a wholly owned subsidiary of BNFL and now operates its generation business within BNFL's Magnox Generation Business Group. The key areas of management focus are electricity generation and liabilities management.

Safety

Safety remains the foundation of Magnox's business. We have devoted significant attention to maintaining and improving performance. During the year under report, we had no incidents above level 1 on the internationally agreed scale for rating nuclear events*. There were no deaths or serious disabling industrial injuries to Magnox staff during the year.

However, there was a small rise over last year in lost time industrial accidents leading to one or more days' absence from work among Magnox staff. We are working hard to address this. The rate of lost time industrial accidents among contractors working for the Company reduced. There was also a substantial reduction in radioactive doses to both staff and contractors.

Magnox's Health, Safety & Environment annual report gives details of the Company's health, safety and environmental performance.

* *This scale indicates the severity of nuclear events on a scale of 0 (no safety significance) to 7 (a major accident).*

Electricity generation

During the year, Magnox sold 21TWh (net) of electricity to the grid system (1997:19.1TWh). This 10% increase in output came through fewer unplanned plant shutdowns and improved management of power station overhauls. Higher output from other stations compensated for loss of output from Sizewell A where reactor 2 was out of service throughout the year for boiler repairs. These repairs are progressing well.

Magnox has reassessed individual station accounting lives in the light of current regulatory consents relating to continued operation. Accounting lives now fall within the range of 35 to 39 years.

Liabilities management

We base our financial provisions for discharging our nuclear liabilities on a prudent estimate of the likely costs. This approach reflects the significant uncertainties of these costs. We continue to work vigorously to reduce both the costs and the uncertainties.

Financial review

Operating profit before revision of previous years' nuclear liabilities and before the reduction in the Secretary of State's Undertaking was £29 million (1997: £256 million restated). Operating profit fell because earnings from the nuclear premium ceased on the privatisation of British Energy plc. The effect of this was partly offset by higher turnover from generation and lower operating costs.

The revision of previous years' nuclear liabilities is set out in note 3 to the accounts and amounted to a reduction in profit of £371 million (1997: increase of £770 million). The main reasons for this increase in nuclear liabilities are an allowance for shorter decommissioning timescales and a change in the discount rate from 3% to 2.5%. This was offset by reductions arising from harmonising cost estimates and risks after the transfer of Magnox's shares to BNFL.

At that time, the Secretary of State's Undertaking was reassessed with Government and its advisers in the light of the new circumstances. This resulted in a reduction of £581 million from the amount due under the original Undertaking at 30 January 1998. Note 13 to the accounts shows the terms and conditions of the new Undertaking.

After financing charges and taxation there was a loss for the year of £709 million (1997: profit of £685 million restated). The Company had negative shareholder funds of £1,429 million (1997: £724 million restated).

The directors are unable to recommend payment of a dividend.

Future developments

Magnox will continue to work with its parent company BNFL towards integrating the businesses. As part of this activity, BNFL has applied to the Nuclear Installations Inspectorate for new nuclear site licences and to the Environment Agency and the Scottish Environment Protection Agency for new radioactive discharge authorisations for all Magnox nuclear licensed sites.

Directors will continue to drive towards the objectives that Magnox has set itself. In particular, there will be a strong management focus on improving safety performance, getting the best out of the magnox stations and reducing liabilities.

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 Company 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. 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 1997/98 appears below:

Executive directors

Mr D Joynson	
Dr C Smitton	
Mr M Morant	(appointed 30.1.98)
Mr M A W Baker CBE	(retired 30.1.98)
Mr R W Hall CBE	(retired 30.9.97)
Mr S R Ogle OBE	(retired 30.1.98)

Non executive directors

Mr J J Taylor	(appointed 30.1.98)
Mr N N Broadhurst	(retired 30.1.98)
Mr J D Rimington CB	(retired 30.1.98)
Mr M H Spence CBE	(retired 30.1.98)
Ms S E Stoessl	(retired 30.1.98)

Corporate governance

Internal financial control

As directors we are responsible for ensuring that Magnox has the system of internal financial control it needs to give us reasonable assurance:

- that the financial information that Magnox uses within the business is reliable; and
- that Magnox safeguards its assets.

Magnox has an established system of internal financial control and its key features were listed in detail in our 1996/97 report. This system continued to operate throughout the year under report.

Essential elements in Magnox's system of internal financial control are:

- a clearly defined financial control environment;
- identification and evaluation of business risks and control objectives;
- information systems;
- main control procedures;
- monitoring systems; and
- a programme to ensure Year 2000 compliance. Details of this programme appear below.

Year 2000 compliance

We began our Year 2000 compliance programme in February 1997 with the aim of:

- protecting Magnox's business operations and interests from the impact of the Year 2000 date change; and
- making sure that our systems, infrastructure, equipment and services operate to plan throughout the period and beyond.

Our key priorities are: safety; fulfilling our regulatory duties; running generation plant economically; and safeguarding electricity trading and electricity sales income. We are carrying out all aspects of the programme in a planned, quality-assured and auditable way. The programme has the following major phases:

•	Identifying the scope of the programme	*Completed*
•	Building staff awareness and commitment; developing ways of working.	*Completed*
•	Establishing and assessing a full inventory of issues; setting strategy; identifying resource needs; planning remedial work; refining contract arrangements.	*Completed*
•	Carrying out remedial work; testing systems to prove the effectiveness of remedial work; subsequent proving of (or assessing residual risk to) critical processes; undertaking supply chain assessment and risk mitigation; contingency planning and carrying out any necessary further work.	*All in progress*
•	Completing remedial work on safety-related systems.	*By March 1999*
•	Assessing any outstanding issues and completing the programme.	*post April 2000.*

Directors support a demanding internal timetable for remedial work, most of which should be complete by January 1999. This includes the detailed systems testing and proving which we must do to demonstrate that it is safe to continue to run all Magnox's power stations.

Because the problem is so complex, and may be affected by external influences, the directors cannot guarantee that no Year 2000 problems will remain. However, we believe that the Company will be in a satisfactory state of readiness. We receive regular reports on progress and we will make resources available for any further work which proves necessary and for dealing with any subsequent issues. We will continue to work closely with other companies in the nuclear and related industries.

Programme funding is based on estimates for internal and external costs and is kept under review. We have allowed for costs of £10 million plus a risk margin of 20%. £2.1 million was spent in 1997/98 and £7 million has been allocated for 1998/99. There is an allowance of £1 million for 1999/2000.

Board committees

The year under report falls in two distinct parts: the first ten months of the year, when Magnox operated as an independent company in Government ownership, and the last two months when the Company was a wholly owned subsidiary of BNFL plc.

1 April 1997 - 30 January 1998

During the first ten months of the year, Magnox's four non executive directors played an active role in ensuring high standards of corporate governance through membership of the following committees of the Board:

Audit Committee	*Chairman:*	*Mr N N Broadhurst*
Health, Safety and Environment Review Committee	*Chairman*	*Mr J D Rimington CB*
Nominations Committee	*Chairman:*	*Mr M A W Baker CBE*
Pensions Committee	*Chairman:*	*Mr S R Ogle OBE*
Remuneration Committee	*Chairman:*	*Mr M H Spence CBE*
Communications Review Committee	*Chairman:*	*Ms S E Stoessl*
Schemes Committee	*Chairman:*	*Mr R W Hall CBE (1.4.97-30.9.97)* *Mr D Joynson (1.10.97-30.1.98)*

30 January 1998 - 31 March 1998

Since 30 January 1998, Magnox has been a wholly owned subsidiary of BNFL and the directors have operated within the corporate governance framework of the BNFL Board and its principal committees. The Magnox Board has retained its Pensions Committee (now chaired by Mr M Morant) which takes an overview of Magnox's participation in the Electricity Supply Pension Scheme (ESPS).

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 Group Finance Manager, Magnox Electric plc, Berkeley Centre, Berkeley, Gloucestershire GL13 9PB can give further information. The average age of invoices outstanding at 31 March 1998 was 28 days.

Directors' interests in shares

The Secretary of State for Trade and Industry had, until 30 January 1998, an interest in 50,000 ordinary £1 shares in the Company. Since 30 January 1998, British Nuclear Fuels plc has had 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. More than two thirds of staff are in business units which have gained this status. Other business units 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 £78,000 (1997: £168,000). Magnox made no contributions to political parties.

Auditors

At its 16 April 1998 meeting, the board of directors resolved that Arthur Andersen be appointed to fill the casual vacancy created by Binder Hamlyn's 8 April resignation.

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

The board of directors approved this report on 5 August 1998.

Alvin J Shuttleworth
Company Secretary

Company number 2264251

Statement of directors' responsibilities

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 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 accounts; and
- prepare the accounts 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 accounts 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 accounts on pages 12 to 32 which have been prepared under the historical cost convention modified to include the market value of certain fixed and current asset investments and on the basis of the accounting policies set out on pages 14 to 17.

Respective responsibilities of directors and auditors

As described on page 10 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company as at 31 March 1998 and of the Company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
London

5 August 1998

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1998

	Note	1998 £M	1997 Restated £M
Electricity generation		597	528
Nuclear premium		-	329
Turnover - continuing operations		597	857
Net operating costs and expenses	3	(568)	(601)
Operating profit before revision of previous years' nuclear liabilities and write-down of Secretary of State's Undertaking		29	256
Revision of previous years' nuclear liabilities	3	(371)	770
Write-down of Secretary of State's Undertaking	13	(581)	-
Operating (loss)/profit - continuing operations		(923)	1,026
Income from investments	6	268	217
Other interest receivable and similar income	7	285	273
Interest payable and similar charges	8	(445)	(462)
(Loss)/profit on ordinary activities before taxation		(815)	1,054
Tax on (loss)/profit on ordinary activities	9	106	(369)
(Loss)/profit for the financial year		(709)	685

The arrangement and headings of the profit and loss account have been adapted to conform with those of the new parent company, British Nuclear Fuels plc. All operations of the Company continued throughout both periods and no operations were acquired or discontinued.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 1998

	1998 £M	1997 Restated £M
(Loss)/profit for the financial year	(709)	685
Unrealised gains on investments at market value	4	5
Total recognised (losses)/gains relating to the year	(705)	690

Magnox Electric plc

BALANCE SHEET
at 31 March 1998

	Note	1998 £M	1997 Restated £M
Fixed assets			
Tangible assets	10	**188**	202
Investments	11	**215**	822
		403	1,024
Current assets			
Stocks	12	**64**	66
Secretary of State's Undertaking due after more than one year	13	**3,700**	3,997
Debtors due within one year	14	**178**	294
Investments	15	**2,933**	2,524
Cash at bank and in hand		**-**	1
		6,875	6,882
Creditors:			
Amounts falling due within one year	16	**(729)**	(1,275)
Net current assets		**6,146**	5,607
Total assets less current liabilities		**6,549**	6,631
Represented by:			
Creditors:			
Amounts falling due after more than one year	17	**1,412**	1,298
Provisions for liabilities and charges	18	**6,566**	6,057
Capital and reserves			
Called up share capital	19	**-**	-
Revaluation reserve	20	**13**	9
Profit and loss account	20	**(1,442)**	(733)
Shareholders' funds - equity	21	**(1,429)**	(724)
		6,549	6,631

The accounts on pages 12 to 32 were approved by the board of directors on 5 August 1998 and were signed on its behalf by:

M. Morant, Executive Director, Finance ~~and Commercial~~

NOTES TO THE ACCOUNTS
at 31 March 1998

1. ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention, modified to include the market value of certain fixed and current asset investments, and in accordance with applicable UK reporting and accounting standards, applying the same accounting policies as in the previous year, with the exception of the following changes, both of which have arisen as a result of harmonising accounting policies following integration with British Nuclear Fuels plc:

(a) Station decommissioning provisions
The Company has changed its accounting policy with regard to building up provisions for station decommissioning. In previous years full provision was made at the date of commissioning and an equivalent amount was capitalised. Provisions are now made over the operating lives of the stations, and the costs are no longer capitalised. Prior year figures have been restated accordingly.

(b) Accounting for gilts
Gilts, which were previously stated at cost less any permanent diminution in value, are now stated at market value if they are part of a managed fund, and on the basis of cost adjusted so as to amortise to redemption value over the period to maturity if they are part of an unmanaged fund. Prior year figures have been restated accordingly.

The effect of these accounting policy changes is set out in note 22.

Group accounts
The Company is a wholly owned subsidiary of a parent company incorporated in the European Community and as such is exempt from preparing group accounts in accordance with section 228 of the Companies Act 1985. Accordingly the accounts present information about the Company as an individual undertaking and not about its group. The interests of the Company in subsidiary and associated undertakings are shown in the balance sheet at cost less any provision for permanent impairment.

Cash flow statement
Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that consolidated financial accounts in which the Company is included are publicly available.

Turnover
Turnover represents amounts receivable for sales of electricity including fees under contracts for differences and nuclear premium income. The Directors consider there to be one class of business and one geographical market, that of England and Wales.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets
Fixed assets comprise assets acquired or constructed by the Company 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 are 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 are subject to regular review and are currently:

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

Investments
Fixed asset investments comprise investments in and loans to subsidiary and associated undertakings and are stated at cost less any provision for permanent impairment.

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

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

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

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

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 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.

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
Provision for decommissioning the nuclear power stations is made over their useful lives. 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 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

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

In the 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 1998

3. 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 Company, including revision of previous years' nuclear liabilities, over the main cost categories.

		1998		1997 Restated	
	Note	**£M**	**£M**	£M	£M
Raw materials and consumables			**127**		122
Employee costs	4		**146**		154
Depreciation			**27**		40
Provisions for liabilities and charges:					
Current year	18	**135**		164	
Revision of previous years' nuclear liabilities (a)	18	**371**		(770)	
			506		(606)
Exceptional items written off current assets:					
Write down of Secretary of State's Undertaking	13		**581**		-
Research and development expenditure			**9**		32
Other external and operating charges (b)			**156**		123
Own work capitalised			**(3)**		(5)
Own work charged against provisions			**(6)**		(4)
Other operating income			**(23)**		(25)
Total operating costs and expenses			**1,520**		(169)

On the profit and loss account on page 12 the operating costs and expenses are presented as follows:

	1998	1997 Restated
	£M	£M
Net operating costs and expenses	568	601
Revision of previous years' nuclear liabilities	371	(770)
Write down of Secretary of State's Undertaking	581	-
	1,520	(169)

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

3. ANALYSIS OF OPERATING COSTS (continued)

(a) The effect of revisions to previous years' nuclear liabilities on cumulative fuel costs and decommissioning costs, arising from the reassessment of cost estimates, is an increase in nuclear liabilities of £371M, the main components of which are as follows: -

(i) the recognition of a shorter station decommissioning timescale (£211M increase).
(ii) the change in discount rate, following integration with BNFL, from 3 per cent to 2.5 per cent (£612M increase)
(iii) certain other harmonisation adjustments as a result of the integration with BNFL (£452M decrease).

(b) Auditors' remuneration was £185,000 (1997 £180,000). Fees paid to the auditors for services other than statutory audit during the year totalled £27,000 (1997 £79,000).

4. EMPLOYEE INFORMATION (including Executive Directors)

Employee costs during the year were as follows:

	1998	1997
	£M	£M
Salaries	**113**	120
Social security costs	**10**	10
Pension costs	**11**	11
Other employee costs	**12**	13
	146	154

The average monthly number of employees during the year was 3,732 (1997 3,861).

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

5. DIRECTORS' EMOLUMENTS

	1998 £000	1997 £000
Aggregate emoluments	**663**	707
Compensation for loss of office	**311**	-

Retirement benefits are accruing to 3 Directors (1997 5) under a defined benefit scheme.

Aggregate emoluments and benefits under long-term incentive schemes for the highest paid Director	**147**	160
Defined benefit pension scheme for the highest paid Director:		
Accrued pension on retirement	**59**	56
Accrued lump sum on retirement	**178**	168

6. INCOME FROM INVESTMENTS

	1998 £M	1997 Restated £M
Dividends from Group Undertakings	**44**	42
Income from current asset investments	**224**	175
	268	217

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £M	1997 £M
Escalation of Secretary of State's Undertaking (note 13)	**284**	273
Other	**1**	-
	285	273

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

8. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £M	1997 Restated £M
Adjustment to opening provisions:		
a) changes in price levels	**246**	225
b) notional interest	**199**	234
Other	**-**	3
	445	462

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

	1998 £M	1997 £M
Corporation tax at 31% (1997: 33%)	**98**	369
Adjustments in respect of previous years	**(204)**	-
	(106)	369

The Company has an unrecognised deferred tax asset amounting to £524M (1997 £532M), calculated at the corporation tax rate of 30% (1997: 31%). This comprises fixed asset timing differences of £19M (1997 £29M) and other timing differences of £505M (1997 £503M). Deferred tax is not provided on earnings retained by overseas subsidiaries.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

10. TANGIBLE FIXED ASSETS

	Nuclear power stations £M	Other land and buildings £M	Other plant and equipment £M	Total £M
Cost				
At 1 April 1997	926	70	121	1,117
Change in accounting policy (note 22)	(47)	-	-	(47)
At 1 April 1997 (restated)	879	70	121	1,070
Additions	15	1	3	19
Disposals	(26)	-	(86)	(112)
At 31 March 1998	**868**	**71**	**38**	**977**
Depreciation				
At 1 April 1997	799	27	84	910
Change in accounting policy (note 22)	(42)	-	-	(42)
At 1 April 1997 (restated)	757	27	84	868
Charge for year	18	2	7	27
Disposals	(26)	-	(80)	(106)
At 31 March 1998	**749**	**29**	**11**	**789**
Net book value				
At 31 March 1998	**119**	**42**	**27**	**188**
At 31 March 1997 (restated)	122	43	37	202

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

	1998 £M	1997 £M
Freehold	**55**	57

The cost of freehold land included in the above is £5M (1997 £5M).

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

11. INVESTMENTS

	Subsidiary undertakings		Loans to associated undertakings	Gilts	Total
	Shares	Loans			
	£M	£M	£M	£M	£M
Cost					
At 1 April 1997	241	17	152	511	921
Change in accounting policy (note 22)	-	-	-	53	53
At 1 April 1997 (restated)	241	17	152	564	974
Additions	-	-	12	209	221
Disposals	(26)	(17)	-	(193)	(236)
Revaluations	-	-	-	31	31
Reclassified to current assets	-	-	-	(611)	(611)
At 31 March 1998	**215**	-	**164**	-	**379**
Provisions					
At 1 April 1997	-	-	152	-	152
New provisions	-	-	12	-	12
At 31 March 1998	-	-	**164**	-	**164**
Net book value					
At 31 March 1998	**215**	-	-	-	**215**
At 31 March 1997 (restated)	241	17	-	564	822

The Company's gilts portfolios have been reclassified as current asset investments as the intention is to transfer these portfolios to British Nuclear Fuels plc so that the nuclear liabilities investment portfolio can be managed on a Group basis.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

11. INVESTMENTS (continued)

Details of the principal investments in which the Company holds more than a 10% participating interest are as follows:

Name	*Country of incorporation*	*Class of share*	*Proportion held*	*Nature of business*
Subsidiary undertakings				
Nuclear Insurance Limited	Isle of Man	Ordinary	100%	Insurance
		Preference	100%	
Electricity Producers Insurance Company Limited	Isle of Man	Ordinary	100%	Insurance
Associated undertakings				
United Kingdom Nirex Limited	Great Britain	Ordinary	35%	Disposal of radioactive waste

12. STOCKS

	1998	1997
	£M	£M
Nuclear fuel	**52**	56
Other raw materials and consumables	**12**	10
	64	66

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

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

	£M
At 1 April 1997	3,997
Escalation to 30 January 1998	284
Exceptional write down on exchange of existing Undertaking for new Undertaking	(581)
At 31 March 1998	**3,700**

Until 30 January 1998 there was an agreement between Her Majesty's Secretary of State for Trade and Industry and the Company under which the Secretary of State undertook to make payment of such part of a sum of £3.7 billion compounded from 1 April 1996 at a rate of 4.5% above inflation as was needed to enable the Company to meet its financial obligations as they fall due. On 30 January 1998, as part of the integration of the Company with British Nuclear Fuels plc, the existing Undertaking was terminated and replaced by a new Undertaking.

Under the new Undertaking the Secretary of State will pay Magnox Electric plc £3.7 billion together with interest at a rate of 4.5% above inflation on the outstanding amount. Payments will commence in the year ending 31 March 2008 and cease in the year ending 31 March 2116.

The terms of the Undertaking provide for potential adjustments to the outstanding amount in two circumstances:
(a) where actions taken by persons or bodies external to the Company cause a reassessment of the nuclear related liabilities of the BNFL Group attributable to the Magnox fuel cycle (Magnox Liabilities)
(b) where there is an adjustment to provisions as a result of downward revisions in the estimate of the cost of Magnox Liabilities for reasons other than those covered by (a) above.

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

Reductions in provisions falling within (b) above are to be shared between the Company and the Secretary of State (via adjustment of the outstanding amount of the Undertaking) on a sliding scale with the maximum reduction in the Undertaking being £800M escalated by 2.5% above inflation from 1 April 1998.

14. DEBTORS DUE WITHIN ONE YEAR

	1998 £M	1997 £M
Trade debtors	**57**	54
Nuclear premium	**-**	139
Prepayments and accrued income	**3**	12
Other debtors	**118**	89
	178	294

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

15. INVESTMENTS

	1998 £M	1997 £M
Fixed and call deposits	**2,322**	2,524
Gilts investments reclassified from fixed assets	**440**	-
Managed gilts investments reclassified from fixed assets	**171**	-
	2,933	2,524

16. CREDITORS: amounts falling due within one year

	Note	1998 £M	1997 £M
Bank loans and overdraft		**6**	18
Trade creditors		**17**	14
Amounts owed to Group companies		**84**	-
Corporation tax		**38**	367
Other taxes and social security costs		**4**	5
Accruals and deferred income		**82**	143
Fuel reprocessing and waste management creditors	18	**176**	241
Current portion of provisions	18	**319**	485
Other creditors		**3**	2
		729	1,275

The current portion of provisions has been reclassified as creditors: amounts falling due within one year in order to conform with the presentation in BNFL's accounts. Comparatives have been restated accordingly.

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

	Note	1998 £M	1997 £M
Fuel reprocessing and waste management creditors	18	**1,409**	1,283
Other creditors		**3**	15
		1,412	1,298

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

18. PROVISIONS AND NUCLEAR LIABILITIES

	Creditors		Provisions		
	Fuel reprocessing & waste management £M	Fuel reprocessing & waste management £M	Decom-missioning £M	Other (note a) £M	Total £M
At 1 April 1997	1,524	4,586	1,778	243	8,131
Change in accounting policy (note 22)	-	-	(65)	-	(65)
At 1 April 1997 restated	1,524	4,586	1,713	243	8,066
Reclassification (see below)	-	(876)	876	-	-
Charged/(credited) to profit and loss account					
- financing charges	89	203	146	7	445
- operating costs	139	1	23	(28)	135
- revisions (note 3)	121	(815)	1,065	-	371
Utilised in the year	(288)	(190)	(25)	(44)	(547)
At 31 March 1998	**1,585**	**2,909**	**3,798**	**178**	**8,470**
Analysed as follows:					
Due within one year	176	198	38	83	495
Due after one year	1,409	2,711	3,760	95	7,975
	1,585	2,909	3,798	178	8,470

Nuclear liabilities based on contracted fixed price arrangements have been classified as creditors. Other nuclear liabilities due within one year have been classified as creditors: amounts falling due within one year, and those due after one year have been classified as provisions for liabilities and charges.

The Company's share of the costs of decommissioning BNFL's sites and facilities have been transferred from fuel reprocessing and waste management liabilities to decommissioning liabilities in order to conform with the presentation in BNFL's accounts.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

18. PROVISIONS AND NUCLEAR LIABILITIES (continued)

(a) Other provisions can be analysed as follows:

	Restructuring	Insurance	Future losses on inherited contract	Total
	£M	£M	£M	£M
At 1 April 1997	91	25	127	243
Released in year	-	(3)	(18)	(21)
Utilised in year	(16)	-	(28)	(44)
At 31 March 1998	**75**	**22**	**81**	**178**
Analysed as follows:				
Amounts due within one year	57	-	26	83
Amounts due after one year	18	22	55	95
	75	22	81	178

19. SHARE CAPITAL

	1998	1997
	£	£
Authorised:		
50,000 ordinary shares of £1 each	**50,000**	50,000
Allotted and called up:		
2 ordinary shares of £1 each fully paid	**2**	2
49,998 ordinary shares of £1 each 25p paid	**12,500**	12,500
	12,502	12,502

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

20. RESERVES

	Revaluation reserve £M	Profit and loss account £M	Total £M
At 1 April 1997	-	(837)	(837)
Changes in accounting policies (note 22)	9	104	113
At 1 April 1997 (restated)	9	(733)	(724)
Loss for the year	-	(709)	(709)
Surplus on revaluation	4	-	4
At 31 March 1998	**13**	**(1,442)**	**(1,429)**

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 **£M**	1997 Restated £M
(Loss)/profit for the financial year	**(709)**	685
Other recognised gains	**4**	5
Net (reduction)/addition to shareholders' funds	**(705)**	690
Opening shareholders' funds	**(724)**	(1,414)
Closing shareholders' funds	**(1,429)**	(724)

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

22. CHANGES IN ACCOUNTING POLICIES

(a) Station decommissioning
The Company has changed its accounting policy on station decommissioning in order to harmonise policies with the new Parent Undertaking, British Nuclear Fuels plc. Provisions are now made over the operating lives of the stations and the costs are no longer capitalised. The effect of this change is as follows:

	1998 £M	1997 £M
Profit and loss account		
Increase in operating profit	**51**	20
Increase in profit on ordinary activities before taxation	**55**	22
Balance sheet		
Tangible fixed assets - cost	(57)	(47)
- depreciation	48	42
Decrease in net book value	**(9)**	(5)
Decrease in nuclear liabilities	**124**	65
Increase in reserves	**115**	60

(b) Accounting for gilts
The Company has changed its accounting policy on the gilts and managed investment portfolios to harmonise accounting policies with the new parent company, British Nuclear Fuels plc. The gilts portfolio is stated in the balance sheet on the basis of cost adjusted so as to amortise to redemption value over the period of maturity. If sold before redemption, the difference between proceeds and the amortised value is taken to the profit and loss account in the year of realisation. The managed portfolio is stated in the balance sheet at market value at the balance sheet date. Any unrealised gains or losses arising from changes in market value together with related taxation are taken to revaluation reserve. Realised gains and losses are taken to the profit and loss account. The effect of this change is as follows:

	1998 £M	1997 £M
Profit and loss account		
Increase in profit on ordinary activities before taxation	**21**	15
Balance sheet		
Fixed asset investments	-	53
Current asset investments	**85**	-
Increase in reserves	**85**	53

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

22. CHANGES IN ACCOUNTING POLICIES (continued)

(c) Total

	1998 £M	1997 £M
Profit and loss account		
Increase in operating profit	**51**	20
Increase in profit on ordinary activities before taxation	**76**	37
Balance sheet		
Tangible fixed assets - cost	**(57)**	(47)
- depreciation	**48**	42
Decrease in net book value	**(9)**	(5)
Fixed asset investments	**-**	53
Current asset investments	**85**	-
Decrease in nuclear liabilities	**124**	65
Increase in reserves	**200**	113
Increase in profit and loss account reserve	**187**	104
Increase in gilts revaluation reserve	**13**	9
	200	113

23. FINANCIAL COMMITMENTS

(a) Capital expenditure
Capital expenditure in respect of which the Company has entered into commitments amounted to approximately £2M at 31 March 1998 (1997 £6M).

(b) Operating leases
At 31 March 1998 and 31 March 1997 the Company had no material commitments under non-cancellable operating leases.

NOTES TO THE ACCOUNTS (continued)
at 31 March 1998

24. PENSIONS

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

25. CONTINGENT LIABILITIES

During 1997, the Pensions Ombudsman ruled against The National Grid Company plc in relation to its use of surplus arising from the 1992 actuarial valuation of the Electricity Supply Pension Scheme (ESPS). National Grid appealed this ruling to the High Court. National Power PLC also sought a declaration from the High Court that its use of the 1992 and 1995 valuation surpluses was lawful. In both cases,the High Court held that the use of surplus was lawful. Both cases 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 £35M plus accrued interest.

26. RELATED PARTY TRANSACTIONS

The Company, being a wholly owned subsidiary of British Nuclear Fuels plc has taken advantage of the exemption from the disclosure requirements as permitted by Financial Reporting Standard 8.

Transactions/balances involving other related parties are listed below:

	United Kingdom Nirex Limited £M	United Kingdom Atomic Energy Authority £M
Purchases of services	12	5
Debtors/(creditors)	-	-
Loans	164	-
Provisions against loans	(164)	-

27. ULTIMATE HOLDING COMPANY

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

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

28. REGULATORY ACCOUNTS

In addition to the report and accounts, a separate set of regulatory accounts of the generation business will be available from 30 September 1998 free of charge, on request to the Company Secretary at the Registered Office: Magnox Electric plc, Risley, Warrington, Cheshire, WA3 6AS.