

MAGNOX ELECTRIC LTD

(formerly Magnox Electric Plc)

Registered No. 2264251

ANNUAL REPORT AND ACCOUNTS

31 March 2005



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Magnox Electric Ltd

DIRECTORS

L J Haynes (Chairman)
M Morant
Dr C Marchese
B T Tenner
T J Joyce
R D Bonser
A R Brandwood

SECRETARY

A J Shuttleworth

AUDITORS

Ernst and Young LLP
100 Barbirolli Square
Manchester
M2 3EY

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 2005.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £259M (2004: loss of £285M).

The Directors are unable to recommend a dividend (2004: £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. From 1st April 2005 those activities will be carried out under contracts with the Nuclear Decommissioning Authority. More information is contained in the Post Balance Sheet Event note to the accounts.

Safety

Overall there continues to be an improving trend in Magnox's health, safety and environmental performance.

The improved ratings achieved at our sites, including a level 10, on the Det Norske Veritas' International Safety Rating System audits provides confidence in our safety systems. We were disappointed in the overall number of Lost Time Accidents, although performance at several of our sites remains world class.

Our environmental performance remains good although, we had an increased number, five, environmental non-compliances. The environmental impact of these non-compliances is negligible as reflected by no prosecutions. The fact that three of the events were associated with discharges from site sewage plants has prompted us to strengthen our compliance arrangements regarding our auxiliary plant systems.

Electricity Generation

During the year Magnox supplied 13.8TWh of electricity to the grid system (2004: 16.4TWh). This reduction in volume, mainly due to outages at Sizewell A and Oldbury, was offset by increases to wholesale electricity prices.

Future Developments

The Energy Act 2004 (the "Act") created the Nuclear Decommissioning Authority (the "NDA") to secure the operation, decommissioning and clean up of designated UK nuclear sites. On 1st April 2005, specific assets and liabilities held by the Company and other BNFL group companies transferred to the NDA under the Act. The Company is now the site licence company for the reactor sites it previously owned. This Company now operates these sites under a site management and operations contract with the NDA as owner.

On 1 April 2005 the Company was re-registered as a private limited company and the ownership of its shares was transferred by way of a transfer scheme under the Act to British Nuclear Group Limited. Further information can be found in notes 25 and 26. British Nuclear Group Limited is a subsidiary of a new ultimate parent company which has taken the name British Nuclear Fuels plc. British Nuclear Fuels plc is 100% owned by the Her Majesty's Government.

DIRECTORS

The Directors who served during the year were as follows:

J F Edwards (Chairman, Resigned 1 April 2005)
L J Haynes (Chairman, Appointed 18 March 2005)
M Morant
Dr C Marchese
T J Joyce (Appointed 27 October 2004)
B T Tenner (Appointed 18 March 2005)
D R Bonser (Appointed 19 November 2004)
A R Brandwood (Appointed 18 March 2005)

Magnox Electric Ltd

DIRECTORS' REPORT (continued)

DIRECTORS continued

Dr S Brosnan (Resigned 18 March 2005)
W Root (Resigned 15 October 2004)
S Dauncey (Resigned 22 September 2004)

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 2,838 (2004: 2,783). At 31st March 2005 the total number of people employed by the company was 2,750 (2004: 2,814). 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 going through significant change during the financial year associated with the formation of the NDA and the restructuring of the BNFL Group, 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.

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 Ltd, 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 8 days purchases (2004: 38 days).

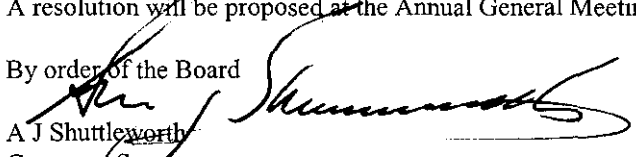
POLITICAL AND CHARITABLE DONATIONS

During the year the Company made donations to charitable organisations totalling £33,500 (2004: £23,000). 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
24 October 2005

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; and
- 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 Ltd

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MAGNOX ELECTRIC LTD

We have audited the Company's accounts for the year ended 31 March 2005 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 27. These financial statements 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 financial statements in accordance with 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 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.

Fundamental uncertainty in the estimation of nuclear liabilities

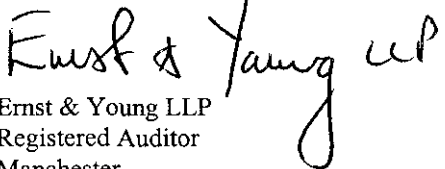
In forming our opinion we have taken note of the fundamental uncertainty inherent in the estimation of nuclear liabilities which is described in note 18. Our opinion is not qualified in this aspect.

Fundamental uncertainty relating to the outcome of the European Commission State Aid review and going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 of the accounts concerning the uncertainty as to the outcome of the European Commission State Aid review and the implications for going concern. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Manchester

24 October 2005

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2005

	<i>Notes</i>	2005 £M	2004 £M
TURNOVER		322	314
Net operating costs and expenses	3	(546)	(617)
OPERATING LOSS		(224)	(303)
Exceptional Items			
Organisational restructuring	4	(32)	-
(Loss) / Profit on disposal of fixed assets	7	(2)	1
		(34)	1
Interest receivable and similar income	8	605	507
Interest payable and similar charges	9	(609)	(527)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(262)	(322)
Tax on loss on ordinary activities	10	3	37
LOSS FOR THE FINANCIAL YEAR	20	(259)	(285)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2005

There were no material gains or losses in 2005 or 2004 other than the loss for the year, and no statement of recognised gains or losses is presented.

Magnox Electric Ltd

BALANCE SHEET

At 31 March 2005

	Notes	2005 £M	2004 £M
FIXED ASSETS			
Tangible assets	11	5	5
Investments	12	2	-
		<u>7</u>	<u>5</u>
CURRENT ASSETS			
Stocks	13	28	22
Debtors			
Amounts falling due within one year	15	893	2910
Amounts falling due after more than one year:			
Other Debtors	15	5	5
Secretary of State's Undertaking	14	5,956	5,525
Cash at bank and in hand		165	167
		<u>7,047</u>	<u>8,629</u>
CREDITORS: amounts falling due within one year	16	<u>(310)</u>	<u>(1,755)</u>
NET CURRENT ASSETS		<u>6,737</u>	<u>6,874</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,744</u>	<u>6,879</u>
CREDITORS: amounts falling due after more than one year	17	<u>(1,910)</u>	<u>(1,863)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(8,888)</u>	<u>(8,811)</u>
NET LIABILITIES		<u>(4,054)</u>	<u>(3,795)</u>
CAPITAL AND RESERVES			
Called up share capital	19	-	-
Profit and loss account	20	(4,054)	(3,795)
SHAREHOLDERS' FUNDS – EQUITY	21	<u>(4,054)</u>	<u>(3,795)</u>

On behalf of the Board of Directors

T Joyce, Director

24 October 2005

NOTES TO THE ACCOUNTS

At 31 March 2005

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 the United Kingdom.

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 2005

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 where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- a) provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposals of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

ACCOUNTING POLICIES (continued)

- b) deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted 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 10).

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

These accounts have been prepared on a going concern basis, having taken account of the Company's cash resources, the Energy Act 2004, and the subsequent creation of the Nuclear Decommissioning Authority (NDA). Consideration has also been given to the European Commission's ongoing State Aid investigation and the transitional arrangements that have been put in place. The impact on the Company of these transitional arrangements is set out in note 25 (post balance sheet events). During the process of restructuring, the Company undertook a full review of its working capital requirements in the transitional period. Arrangements were agreed with the Parent which enable the Company to operate within a reasonable and sufficient working capital allowance with call on the remaining funds (which have been ring-fenced) if additional amounts are required to meet the Company's liabilities. If and when the European Commission's investigation into State Aid is successfully completed, a final transfer of remaining assets and liabilities will be made to the NDA. The directors expect the overall impact of these transactions to address the Company's balance sheet deficit.

Whilst recognising that approval of State Aid is a matter for the European Commission, both the directors and the Secretary of State are confident of a successful outcome of the European Commission's review.

If the outcome of the European State Aid review is unsuccessful, the Company understands that the Secretary of State will have regard to the necessity of avoiding any prejudice to creditors and the long term position of British Nuclear Fuels Plc and subsidiaries.

NOTES TO THE ACCOUNTS (continued)
At 31 March 2005

3. NET OPERATING COSTS AND EXPENSES

Net operating costs and expenses include:

	2005 £M	2004 £M
Raw materials and consumables	63	98
Employee costs (see note 5)	158	131
Impairment charge on fixed assets	26	60
Provisions for liabilities and charges	173	219
Research and development expenditure	1	1
Other external and operating charges	182	152
Own work capitalised	(6)	(13)
Other operating income	(51)	(31)
	<u>546</u>	<u>617</u>

Auditors' remuneration was £176,000 (2004: £170,000). Fees paid to the auditors for services other than statutory audit during the year totalled £nil (2004: £nil).

4. ORGANISATIONAL RESTRUCTURING COSTS

The company has initiated organisational restructuring at a number of sites and a voluntary severance programme is underway. These restructuring costs reduced the corporation tax on losses available to be surrendered by £9m (note 10).

	2005 £M	2004 £M
Restructuring costs	<u>32</u>	<u>-</u>

5. EMPLOYEE INFORMATION (including Executive Directors)

Employee costs during the year were as follows:

	2005 £M	2004 £M
Wages and salaries	117	106
Social security costs	11	10
Pension costs	30	11
Other employee costs	-	4
	<u>158</u>	<u>131</u>

The average number of employees during the year was 2,838 (2004: 2,783).

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

6. DIRECTORS' EMOLUMENTS

	2005 £000	2004 £000
Aggregate emoluments	801	712
Retirement benefits are accruing to 6 Directors (2004: 4) under a defined benefit scheme.		
Compensation for loss of office	185	-
Aggregate emoluments for the highest paid Director	173	222
Defined benefit pension scheme for highest paid Director:		
Accrued pension at end of year	35	71

7. DISPOSAL OF FIXED ASSETS

The loss on disposal of fixed assets in 2005 relates to the disposal of the company's investment in United Kingdom Nirex Limited.

The profit on disposal of fixed assets in 2004 relates to the sale of computer equipment, which was carried at a book value of £nil and sold for £1M.

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £M	2004 £M
Interest receivable from Group Undertakings	165	137
Escalation of Secretary of State's Undertaking	431	366
Other	9	4
	605	507

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £M	2004 £M
Adjustments to opening provisions arising from:		
Changes in price levels	346	266
Reversal of one year's discounting	263	260
Other	-	1
	609	527

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

10. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of tax credit in year:

	2005 £M	2004 £M
Corporation tax		
Adjustments in respect of prior years	(3)	(37)
	<u>(3)</u>	<u>(37)</u>

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

The tax assessed on the loss 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:

	2005 £M	2004 £M
Loss on ordinary activities before taxation	(262)	(322)
Tax on loss at 30% (2004: 30%)	(79)	(97)
Effects of:		
Expenses not deductible for corporation tax purposes	2	6
Deferred tax not provided	(13)	55
Losses surrendered as group relief	90	36
Adjustments to tax charge in respect of prior periods	(3)	(37)
Current tax credit for the year	<u>(3)</u>	<u>(37)</u>

The Company has an unrecognised deferred tax asset amounting to £898M (2004: £966M). This comprises fixed asset timing differences of £106M (2004: £167M) and other timing differences of £792M (2004: £799M), and has not been recognised in the accounts on the grounds that it is unlikely the asset will crystallise in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

11. TANGIBLE FIXED ASSETS

	Nuclear power stations £M	Other land and buildings £M	Other plant and equipment £M	Total £M
Cost				
At 1 April 2004	1,140	28	105	1,273
Additions				
Other	23	-	3	26
Disposals				
Capitalised decommissioning costs	(21)	-	-	(21)
At 31 March 2005	1,142	28	108	1,278
Depreciation				
At 1 April 2004	1,135	28	105	1,268
Impairment of assets	23	-	3	26
Disposals				
Capitalised decommissioning costs	(21)	-	-	(21)
At 31 March 2005	1,137	28	108	1,273
Net book value				
At 31 March 2005	5	-	-	5
At 31 March 2004	5	-	-	5

Decommissioning costs included in tangible fixed assets:

	Nuclear Power Stations £M
Cost	347
Depreciation	(347)
Net book value at 31 March 2005	-
At 31 March 2004	-

The net book value of tangible fixed assets includes £2M in respect of freehold buildings (2004: £2M).

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

12. INVESTMENTS

	Shares in Subsidiary undertakings	Loans to joint venture	Total
	£M	£M	£M
Cost			
At 1 April 2004	-	188	188
Additions	2	-	2
Disposals	-	(188)	(188)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	2	-	2
	<hr/>	<hr/>	<hr/>
Provisions			
At 1 April 2004	-	188	188
Disposals	-	(188)	(188)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	-	-	-
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2005	2	-	2
	<hr/>	<hr/>	<hr/>
At 31 March 2004	-	-	-
	<hr/>	<hr/>	<hr/>

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%	Did not trade during the year
Joint Venture				
United Kingdom Nirex Limited	England and Wales	Ordinary shares	35%	Disposal of low and intermediate level waste

On 10th March 2005 Magnox Electric Limited acquired 100% of the share capital of Electricity Sales and Trading Limited, no goodwill arose on the acquisition. The company disposed of its interest in United Kingdom Nirex Ltd during the year.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

13. STOCKS

	2005 £M	2004 £M
Nuclear fuel	24	19
Raw materials and consumables	4	3
	<hr/>	<hr/>
	28	22
	<hr/>	<hr/>

14. SECRETARY OF STATE'S UNDERTAKING

	£M
At 1 April 2004	5,525
Interest accrued during the year	431
	<hr/>
At 31 March 2005	5,956
	<hr/>

The Secretary of State's undertaking is an agreement between Her Majesty's Secretary of State for Trade and Industry and Magnox Electric Ltd. This balance is restated each year for current market values by applying an increase 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:

- 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).
- 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 ultimate need for any further reviews in relation to (a) above, is linked to the ultimate restructuring of the BNFL Group as disclosed in note 25.

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.

NOTES TO THE ACCOUNTS (continued)
At 31 March 2005

15. DEBTORS

	2005	2004
	£M	£M
Amounts falling due in less than one year:		
Trade debtors	31	29
Amounts owed by Parent Undertaking	854	2,875
Prepayments and accrued income	1	2
Other debtors	7	4
	<hr/>	<hr/>
	893	2,910
Amounts falling due in more than one year:		
Collateral provided to facilitate electricity trading	5	5
	<hr/>	<hr/>

16. CREDITORS: amounts falling due within one year

	2005	2004
	£M	£M
Trade creditors	10	21
Amounts owed to parent undertaking	-	1,432
Amounts owed to other group undertakings	-	1
Corporation tax	-	3
Other taxes and social security costs	5	4
Accruals and deferred income	57	54
Fuel reprocessing and waste management creditors (note 18)	225	235
Other creditors	13	5
	<hr/>	<hr/>
	310	1,755
	<hr/>	<hr/>

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

	2005	2004
	£M	£M
Fuel reprocessing and waste management creditors (note 18)	1,901	1,840
Other creditors	9	23
	<hr/>	<hr/>
	1,910	1,863
	<hr/>	<hr/>

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

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

18. 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 2004	4,021	4,746	44	8,811	2,075	10,886
Adjustment arising from changes in price levels and removal of one year's discounting	227	267	1	495	114	609
Charge/(release) in the year						
Profit and loss	3	(27)	41	17	156	173
Expenditure in the year	(221)	(203)	(11)	(435)	(219)	(654)
At 31 March 2005	4,030	4,783	75	8,888	2,126	11,014

(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 and for its share of the costs of decommissioning BNFL's sites and facilities. These provisions cover complete demolition together with disposal of associated waste. In addition provisions have been made for fuel reprocessing and related waste management 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 for a 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 estimates 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 therefore 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 2005

18. PROVISIONS AND NUCLEAR LIABILITIES (continued)

(b) Other provisions can be analysed as follows:

	Restructuring	Insurance	Contract loss provision	Total
	£M	£M	£M	£M
At 1 April 2004	2	16	26	44
Charge in year	34	-	7	41
Adjustment arising from changes in price and removal of one year's discounting	-	-	1	1
Expenditure in the year	(2)	-	(9)	(11)
At 31 March 2005	34	16	25	75

19. SHARE CAPITAL

	2005 £	2004 £
Authorised: 50,000 ordinary shares of £1 each	50,000	50,000
Allotted and called up and fully paid: 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

20. RESERVES

	2005 £M
At 1 April 2004	(3,795)
Loss for the year	(259)
At 31 March 2005	(4,054)

NOTES TO THE ACCOUNTS (continued) **At 31 March 2005**

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	2005 £M	2004 £M
Loss for the financial year	(259)	(285)
Opening Shareholders' funds	(3,795)	(3,510)
Closing Shareholders' funds	<u>(4,054)</u>	<u>(3,795)</u>

22. CAPITAL EXPENDITURE AUTHORISED

	2005 £M	2004 £M
Contracted for but not provided for	1	3

23. PENSIONS

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:

Investment return	6.7% per annum pre-retirement 5.0% per annum post-retirement
Salary increase	3.9% per annum
Pension increase	3.0% per annum
Inflation assumption	2.9% 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.

Magnox Electric's pension costs for the year to 31 March 2005 were £30M (2004: £11M), at which date there was an amount of £1M included in debtors (2004: £18M included in creditors).

The latest actuarial valuation has also been updated by a qualified independent actuary to 31 March 2005 on a basis consistent with FRS17.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

23. PENSIONS (continued)

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

	2005	2004	2003
Discount rate	5.4%	5.5%	5.4%
Rate of increase in salaries	3.9%	3.9%	3.6%
Rate of increase in pensions	3.0%	3.0%	2.7%
Inflation assumption	2.9%	2.9%	2.6%

Under FRS17 the fair value of the assets and liabilities of the Magnox Electric Group of the Electricity Supply Pension Scheme is detailed below. Information provided for Government bonds in 2003/04 includes Corporate bonds.

	Expected Return 2005/06	Fair Value 2005 £M	Expected Return 2004/05	Fair Value 2004 £M	Expected Return 2003/04	Fair Value 2003 £M
Equity	7.7%	886	7.7%	822	7.6%	660
Government bonds	4.7%	209	4.7%	196	4.8%	242
Corporate bonds	5.2%	84	5.2%	72		
Property	6.7%	104	6.7%	96	6.6%	91
Other (including cash)	4.8%	74	4.3%	21	3.8%	5
Total fair value of assets		1,357		1,207		998
Present value of scheme liabilities		(1,470)		(1,338)		(1250)
Deficit in the scheme		(113)		(131)		(252)
Net pension liability		(113)		(131)		(252)

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

	2005 £M	2004 £M
Net liabilities excluding pension liability	(4,058)	(3,777)
Pension liability	(113)	(131)
Net liabilities	(4,171)	(3,908)
Profit and loss reserve excluding pension liability	(4,058)	(3,777)
Pension liability	(113)	(131)
Profit and loss reserve	(4,171)	(3,908)

NOTES TO THE ACCOUNTS (continued)
At 31 March 2005

23. PENSIONS (continued)

Analysis of the movement in scheme (deficit) during the year:

	2005	2004
	£M	£M
Deficit at beginning of the year (excluding deferred tax liability)	(131)	(252)
Current service cost	(21)	(17)
Contributions paid	83	20
Past service costs	(33)	(7)
Other finance income	10	-
Actuarial (loss)/gain	(21)	125
	<hr/>	<hr/>
At 31 March 2005	(113)	(131)
	<hr/>	<hr/>

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

	2005	2004
	£M	£M
Current service cost	21	17
Past service cost	33	7
	<hr/>	<hr/>
Total operating charge	54	24
	<hr/>	<hr/>

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

	2005	2004
	£M	£M
Expected return on pension scheme assets	83	67
Interest on pension scheme liabilities	(73)	(67)
	<hr/>	<hr/>
Net return	10	-
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (continued)
At 31 March 2005

23. PENSIONS (continued)

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

	2005	2004
	£M	£M
Actual return less expected return on scheme assets	44	174
Experience loss on scheme liabilities	(27)	(8)
Changes in assumption underlying the value of the liabilities	(38)	(41)
	<hr/>	<hr/>
Actuarial (loss)/gain recognised in STRGL	(21)	125
	<hr/>	<hr/>

History of experience in gains and losses:

	2005	2004	2003
	£M	£M	£M
Actual return less expected return on scheme assets	44	174	(307)
Percentage of scheme assets at end of year	3.2%	14.4%	(30.8)%
Experience gains and losses on scheme liabilities	(27)	(8)	47
Percentage of scheme liabilities at end of year	(1.8)%	(0.5)%	3.8%
Total amount recognised in statement of total recognized gains and losses	(21)	125	(332)
Percentage of scheme liabilities at end of year	(1.4)%	9.4%	(26.6)%

24. CONTINGENT LIABILITIES

At 31 March 2005, 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.

25. POST BALANCE SHEET EVENTS

The NDA was established under the Energy Act 2004 ("Energy Act") to secure the operation, decommissioning and clean-up of designated nuclear sites and relevant installations on those nuclear sites. 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. 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 site management and operations contracts with the NDA.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

25. POST BALANCE SHEET EVENTS (Continued)

The intention is that the NDA will take full financial responsibility for the decommissioning and clean-up of the designated nuclear sites and relevant installations transferred. However on 1 December 2004, the European Commission announced that they had instigated a formal State Aid investigation ("investigation") in respect of the creation and funding of the NDA. Transitional arrangements have therefore been put in place until this investigation has been completed. These arrangements ensure no new resources are made available to the NDA and no advantage is conferred to the Company during the transitional period. They achieve this by, among other things, capping the NDA's financial responsibility in respect of economic liabilities and commercial costs relating to the nuclear sites formerly owned by the Company to the value of the net assets transferred out of the Company and the net income the NDA receives from them. If, and when, the European Commission's investigation reaches a satisfactory conclusion, further transfers out of the Company will take place and the limits on the NDA's financial responsibility will be terminated. The details are discussed later in this note.

Effect of transitional arrangements on the balance sheet

The transfer of assets and liabilities out of the Company, especially given the transitional arrangements, are unique transactions. Consideration has been given to the respective responsibilities of Magnox Electric, British Nuclear Group Sellafield Limited and the NDA, in order to determine which categories of assets and liabilities should continue to be recognised within the Company's accounts.

In some areas the impact of transfers to the NDA and/or between BNFL Group companies are still being evaluated. The directors' current estimates of transfers to the NDA and/or between BNFL Group companies, which are therefore subject to change, are noted below and are valued in line with BNFL accounting policies. BNFL's policies are based on the BNFL Group being a commercial operation. The NDA, as a Non Departmental Public Body with specific statutory decommissioning responsibilities, may deem alternative accounting policies to be more appropriate.

- Transfer of tangible fixed assets £5M;
- Transfer of stock £28M;
- Transfer of trade debtors £31M;
- Transfer of other debtors £866M;
- Transfer of other creditors £86M;
- Transfer of commercial provisions £18M;

None of the transfers of assets and liabilities via the transfer schemes give rise to taxation liabilities. The deferred taxation relating to capital allowances and other timing differences was eliminated on 1 April 2005 with the transfer of the related trade and assets to the NDA and the losses were extinguished under the transfer scheme.

Effects of the transitional arrangements on the Profit and Loss account

The risks and rewards from the Company's historic contracts on the UK nuclear sites have transferred to the NDA (subject to the transitional arrangements noted above). From the 1 April 2005, the Company will manage the sites under contracts with the NDA and earn performance based fees from those contracts. As noted above, the Company will continue to record the nuclear provisions. Movements on nuclear provisions (e.g. revalorisation and increases) will continue to be reported in the company's profit and loss account during the transitional period.

NOTES TO THE ACCOUNTS (continued)

At 31 March 2005

25. POST BALANCE SHEET EVENTS (Continued)

Expected final position if State Aid Approval is received

If and when the European Commission's investigation reaches a satisfactory conclusion, further transfer schemes under the Energy Act will be made. The Secretary of State's Undertaking will be extinguished. In addition, the mechanism whereby the NDA's financial responsibility in respect of the nuclear sites and relevant installations formerly owned by the Company is limited will terminate. The Company envisages that there would be no net effect of nuclear liabilities on its balance sheet at that time. It is expected that the overall impact of these transactions will address the balance sheet deficit.

26. ULTIMATE PARENT UNDERTAKING

As at 31 March 2005, the ultimate parent company continued to be British Nuclear Fuels plc (company registration no. 1002607) which is incorporated in England. 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.

On 1 April 2005, as a consequence of the Energy Act 2004, a new ultimate parent company was established, British Nuclear Fuels plc (Company No. 5027024) and on the same date the ultimate parent company in place as at the 31 March 2005 was re-registered a private company and renamed British Nuclear Group Sellafield Limited .

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

27. RELATED PARTY TRANSACTIONS

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