

SCOTTISH NUCLEAR LIMITED
Registered Number SC 117121

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1996

8



SCOTTISH NUCLEAR LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996

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SCOTTISH NUCLEAR LIMITED

COMPANY INFORMATION

DIRECTORS

Robin Jeffrey (Chairman and Chief Executive)
Neil Stewart (Finance and Commercial Director)
Jim Grant (Technical Director)
Sir Michael Livesay KCB
John S Moreland OBE
Peter D Stevenson

Secretary

Jean MacDonald

Registered Office

3 Redwood Crescent
Peel Park
East Kilbride
GLASGOW G74 5PR

Bankers

Royal Bank of Scotland plc
5-10 Great Tower Street
LONDON EC3P 3HX

Auditors

Price Waterhouse
1 Blythwood Square
GLASGOW G2 4AD

Solicitors

MacRoberts
152 Bath Street
GLASGOW G2 4TB

Membership of the Board Committees is as follows:

Audit committee

Peter D Stevenson (Chairman)
John S Moreland OBE
Sir Michael Livesay KCB

Remuneration Committee

Sir Michael Livesay KCB (Chairman)
John S Moreland OBE
Peter D Stevenson

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1996

The directors present their report and accounts for the year ended 31 March 1996.

Principal activities and review of the business

Scottish Nuclear's principal business is to generate and sell electricity. The Company operates Hunterston B and Torness AGR nuclear power stations. The output from these power stations is sold to Scottish Power and Hydro-Electric in the proportions of 74.9 per cent and 25.1 per cent respectively in accordance with the terms of the Nuclear Energy Agreement between the Company, Scottish Power and Hydro-Electric. During the year, the company continued with the decommissioning of Hunterston A, the Magnox nuclear power station which closed in March 1990. This activity was transferred to Magnox Electric plc on 31 March 1996.

Parent undertaking

On 31 March 1996 the entire issued share capital was acquired by British Energy plc.

Results and dividends

As a result of the acquisition of the Company by British Energy plc, a review of the accounting policies of the Company has been undertaken to ensure that the accounts have been prepared on a basis consistent with accounting policies adopted by British Energy. Where necessary, adjustments have been made to comparative information presented in these accounts for the year ended 31 March 1995; details of the impact of these changes is presented in Note 2 to the accounts.

On 31 March 1996 the Company transferred to Magnox Electric Plc its Magnox assets and liabilities assuming debt of £1,241,000 as consideration. This debt was subsequently assigned to the Company's parent undertaking, British Energy plc. The results of the Company's Magnox activities have been reported as a discontinued activity.

On the same date the Company waived its right under an agreement with the Secretary of State for Scotland to receive grants under Schedule 12 of the Electricity Act 1989 amounting to £716 million. Subsequently, the Company's parent undertaking waived debt due by the Company of £720 million.

The loss for the year after exceptional items was £275 million (1995 profit of £220 million - restated). During the year a dividend of £6 million was paid. No final dividend is recommended and the balance of £281 million has been transferred from reserves.

The profit on ordinary activities from continuing AGR activities before exceptional items has increased to £160 million (1995 - £140 million - restated) despite a real reduction in selling prices.

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

Directors and their interests

The directors who served the Company throughout the year were:-

James Hann CBE (resigned 30 September 1995)

Robin Jeffrey

Richard N Barnes (resigned 30 September 1995)

Sir Michael Livesay KCB

John S Moreland OBE

Peter D Stevenson

Neil Stewart (appointed 24 November 1995)

James Grant (appointed 24 November 1995)

The Secretary of State for Scotland was considered to be a shadow director of the Company in terms of Section 741 of the Companies Act 1985 throughout the year.

None of the other directors had any beneficial interest in the share capital of the Company or any other group undertaking at any time during the year, nor did any director have any material interest in a contract which was significant to the business of the Company.

Fixed assets

Expenditure on tangible fixed assets during the year is summarised in Note 11 and was principally incurred on plant and machinery at Torness and Hunterston B power stations.

To harmonise with its sister station within the British Energy Group the operating life of Torness power station was reduced to 30 years.

As at 31 March 1996 the directors reviewed the estimated economic values attributable to the power stations. As a result of this review a provision for diminution in value of power station assets has been made of £354 million.

Movements in fixed asset investments during the year are set out in Note 12 to the accounts.

Research and development

The Company promotes nuclear research activities directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities. Research and development is carried out in-house and on a collaborative basis with other organisations in the UK nuclear industry.

SCOTTISH NUCLEAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

Policy on payment of creditors

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and abide by the agreed terms.

Charitable donations

During the year donations made by the company for charitable purposes amounted to £82,980 (1994/95 £91,885). No political donations were made.

Employees

The Company is firmly committed to the involvement of employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well-established formal consultation procedures.

The Company's policy is to promote training and career development for all employees and to give full and fair consideration to any suitable person, including disabled persons, for all vacancies and opportunities. The Company operates an equal opportunities policy.

Insurance

The company maintains Directors' and Officers' Liability Insurance cover for members of the board and Senior Officers.

Auditors

Price Waterhouse have expressed their willingness to continue as auditors of the Company. A resolution for their appointment will be proposed at the Annual General Meeting.

By Order of the Board



Jean MacDonald
Company Secretary
6 June 1996

SCOTTISH NUCLEAR LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996

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 the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:-

- select suitable accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- confirm that 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 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 for taking reasonable steps to prevent and detect fraud and other irregularities.

Price Waterhouse



SCOTTISH NUCLEAR LIMITED

**REPORT OF THE AUDITORS TO THE MEMBERS
FOR THE YEAR ENDED 31 MARCH 1996**

We have audited the accounts on pages 8 to 35 which have been prepared on the basis of the accounting policies set out on pages 14 to 17.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 6 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 at 31 March 1996 and of the loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Chartered Accountants and
Registered Auditors

6 June 1996

SCOTTISH NUCLEAR LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1996

		Year ended 31 March 1996				Year ended 31 March 1995			
		Continuing				Continuing			
		AGR	Exceptional	Discontinued		AGR	Exceptional	Discontinued	
Notes		activities	items	activities	Total	activities	items	activities	Total*
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Turnover excluding nuclear premium	4	476	-	-	476	474	-	-	474
Nuclear premium	5	<u>109</u>	<u>-</u>	<u>-</u>	<u>109</u>	<u>106</u>	<u>-</u>	<u>-</u>	<u>106</u>
Total turnover		585	-	-	585	580	-	-	580
Operating costs	6	<u>(393)</u>	<u>(439)</u>	<u>-</u>	<u>(832)</u>	<u>(381)</u>	<u>80</u>	<u>-</u>	<u>(301)</u>
Operating (loss)/profit		192	(439)	-	(247)	199	80	-	279
Financing charges	9	<u>(32)</u>	<u>-</u>	<u>4</u>	<u>(28)</u>	<u>(59)</u>	<u>-</u>	<u>-</u>	<u>(59)</u>
(Loss)/profit on ordinary activities before taxation		<u>160</u>	<u>(439)</u>	<u>4</u>	<u>(275)</u>	<u>140</u>	<u>80</u>	<u>-</u>	<u>220</u>
Taxation	10				<u>-</u>				<u>-</u>
(Loss)/profit for the financial year					(275)				220
Dividends					<u>(6)</u>				<u>-</u>
					(281)				220
Retained profit brought forward					<u>312</u>				<u>92</u>
Retained profit carried forward					31				312

* As restated see note 2

The Company had no recognised gains or losses other than the (loss)/profit for the financial periods.

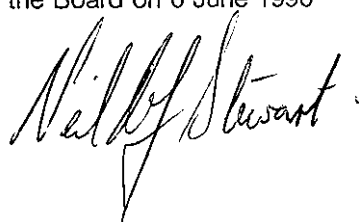
SCOTTISH NUCLEAR LIMITED

BALANCE SHEET AS AT 31 MARCH 1996

	Notes	1996 £'m	1995 £'m (As restated see Note 2)
Fixed assets			
Tangible assets	11	1,409	1,884
Investments	12	<u>-</u>	<u>9</u>
		<u>1,409</u>	<u>1,893</u>
Current assets			
Stock	13	255	315
Debtors	14	83	84
Cash at bank and in hand	21	<u>8</u>	<u>64</u>
		346	463
Creditors: amounts falling due within one year	15	<u>(804)</u>	<u>(290)</u>
Net current (liabilities)/assets		<u>(458)</u>	<u>173</u>
Total assets less current liabilities		951	2,066
Creditors: amounts falling due after more than one year	15	(530)	(760)
Provisions for liabilities and charges			
Nuclear provisions - AGR	16	(387)	(364)
- Magnox	17	-	(626)
Other provisions	18	<u>(3)</u>	<u>(4)</u>
Net assets		<u>31</u>	<u>312</u>
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account		<u>31</u>	<u>312</u>
Equity shareholders' funds	20	<u>31</u>	<u>312</u>

Approved by the Board on 6 June 1996

N Stewart
Director



SCOTTISH NUCLEAR LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 1996

	<u>Notes</u>	<u>Year ended 31 March 1996</u>			<u>Year ended 31 March 1995</u>		
		<u>Continuing</u>	<u>Magnox</u>	<u>Total</u>	<u>Continuing</u>	<u>Magnox</u>	<u>Total*</u>
		<u>AGR activities</u>	<u>activities</u>		<u>AGR activities</u>	<u>activities</u>	
		£'m	£'m	£'m	£'m	£'m	£'m
Net cash inflow from operating activities (including nuclear premium)	21	159	-	159	125	-	125
Returns on investments and servicing of finance							
Interest received		12	-	12	16	-	16
Interest paid		<u>-</u>	<u>(20)</u>	<u>(20)</u>	<u>-</u>	<u>(23)</u>	<u>(23)</u>
Net cash outflow from returns on investments and servicing of finance		<u>12</u>	<u>(20)</u>	<u>(8)</u>	<u>16</u>	<u>(23)</u>	<u>(7)</u>
Investing activities							
Payments to acquire tangible fixed assets		<u>(41)</u>	<u>-</u>	<u>(41)</u>	<u>(33)</u>	<u>-</u>	<u>(33)</u>
Net cash outflow from investment activities		<u>(41)</u>	<u>-</u>	<u>(41)</u>	<u>(33)</u>	<u>-</u>	<u>(33)</u>
Net cash inflow before financing		130	(20)	110	108	(23)	85
Financing							
Repayment of unsecured loans		(98)	-	(98)	(3)	-	(3)
Reduction of loan from parent undertaking		<u>(9)</u>	<u>-</u>	<u>(9)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash outflow from financing		<u>107</u>	<u>-</u>	<u>107</u>	<u>(3)</u>	<u>-</u>	<u>(3)</u>
Discharge of Magnox liabilities		-	(59)	(59)	-	(39)	(39)
(Decrease)/increase in cash and cash equivalents	21	23	(79)	(56)	105	(62)	43
		<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>

* As restated

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996

1 BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting and reporting standards. Where changes in accounting policies or presentation are made, comparative figures are adjusted accordingly.

These financial statements have been prepared on the going concern basis as the parent undertaking has indicated its intention to continue to financially support the company for the foreseeable future.

The Company has taken advantage of the exemption allowing it not to prepare group accounts as it is a wholly owned subsidiary.

2 CHANGES TO ACCOUNTING POLICIES

On 31 March 1996, the Company became a wholly owned subsidiary of British Energy plc. As a result, a review of the accounting policies of the Company has been undertaken to ensure that the accounts have been prepared on a basis consistent with the accounting policies adopted by British Energy. The accounts for the year ended 31 March 1996 have been prepared on the basis of the accounting policies adopted by the British Energy Group and where necessary, adjustments have been made to the financial information previously published. In addition, changes have been made to the disclosure of certain items.

The accounting policies of the British Energy Group are set out in Note 3, and details of changes to previously reported information are detailed below.

In summary the principal changes to the accounting policies previously adopted by the Company are as follows:

- fuel costs, both front and back end, are charged on a fuel burnt basis rather than by unit of output
- depreciation charged on a straight line basis rather than by unit of output
- recording the discounted costs of decommissioning each power station when the plant is commissioned, with an appropriate increase in the carrying value of the respective asset as required by Financial Reporting Standard No 5
- discounting of liabilities at a rate of 3% rather than 2%.
- reclassification of contracted liabilities from provisions to creditors.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

2 CHANGES TO ACCOUNTING POLICIES (CONTINUED)

The effect of the revised policies on the profit and loss account as reported for the year ended 31 March 1995 is as follows:

	31 March 1995		
	<u>As reported</u>	<u>Adjustments</u>	<u>Restated</u>
	£ million	£ million	£ million
Turnover	580	-	580
Operating costs	(398)	97	(301)
Operating profit	<u>182</u>	<u>97</u>	<u>279</u>
Net interest and financing charges	<u>(32)</u>	<u>(27)</u>	<u>(59)</u>
Profit for the financial year	<u>150</u>	<u>70</u>	<u>220</u>

The impact of the revised accounting policies for the year ended 31 March 1996 is as follows:

	<u>As reported</u>	Previously applied <u>policies</u>
	£ million	£ million
Profit on ordinary activities before taxation and exceptional items	<u>160</u>	<u>151</u>
Loss for the financial year	<u>(275)</u>	<u>(199)</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

2 CHANGES TO ACCOUNTING POLICIES (CONTINUED)

The effect of the revised policies and disclosure of balances on the balance sheet as reported for the prior year is as follows:

	31 March 1995		
	<u>As reported</u>	<u>Adjustments</u>	<u>Restated</u>
	£ million	£ million	£ million
Fixed assets			
Tangible assets	1,956	(72)	1,884
Investments	<u>9</u>	<u>-</u>	<u>9</u>
	1,965	(72)	1,893
	<u> </u>	<u> </u>	<u> </u>
Current assets			
Stocks	500	(185)	315
Debtors	84	-	84
Cash	<u>64</u>	<u>-</u>	<u>64</u>
	648	(185)	463
Creditors: amounts due within one year	<u>(365)</u>	<u>75</u>	<u>(290)</u>
Net current assets	283	(110)	173
	<u> </u>	<u> </u>	<u> </u>
Total assets less current liabilities	2,248	(182)	2,066
Creditors:			
Amounts due after one year	(96)	(664)	(760)
Provisions			
- AGR	(1,008)	644	(364)
- Magnox	(706)	80	(626)
- Other	<u>(12)</u>	<u>8</u>	<u>(4)</u>
	426	(114)	312
	<u> </u>	<u> </u>	<u> </u>
Capital and reserves			
Share capital	-	-	-
Profit and loss account	<u>426</u>	<u>(114)</u>	<u>312</u>
	426	(114)	312
	<u> </u>	<u> </u>	<u> </u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

3 ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are as follows:

(1) Turnover

The Company's primary business is the generation of electricity by nuclear power. Turnover represents amounts receivable for sales of electricity in Scotland from AGR power generation invoiced to customers net of value added tax.

(2) Fuel costs

Front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. The fixed element is charged to the profit and loss account as incurred and the variable element is charged to the profit and loss account in proportion to the amount of fuel burnt.

Unburnt fuel at shutdown provision

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 life of each station on a straight line basis.

Back end

Spent fuel extracted from the reactors is sent for reprocessing and/or, long term storage and eventual disposal of resulting waste products. Back end fuel costs comprise the estimated cost of this process at prices discounted back to current value in respect of both 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.

(3) Tangible fixed assets and depreciation, including decommissioning costs

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.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

3 ACCOUNTING POLICIES (CONTINUED)

(3) Tangible fixed assets and depreciation, including decommissioning costs (Continued)

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

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

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

AGR power stations	- 30 years
Other buildings	- 40 years

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

(4) Fixed asset investments

Fixed asset investments are stated at cost less provisions for diminution in value.

(5) Stocks of nuclear fuel, stores and spares

Stocks of nuclear fuel, stores and spares are valued at the lower cost and net realisable value.

(6) Deferred taxation

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

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

3 ACCOUNTING POLICIES (CONTINUED)

(7) Nuclear liabilities

In matching the costs of generating electricity against the income from sales, accruals are made in respect of the following:

a fuel costs - back end

The treatment of back-end fuel costs in the profit and loss account has been dealt with in (2) above. These accruals cover reprocessing and storage of nuclear fuel and the 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. Where accruals are based on contractual arrangements they are stated in the balance sheet at current price levels and included within creditors. Other accruals are based on long term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

b decommissioning of nuclear power station

The accounts include provision for the full cost of decommissioning the Company's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The technical assessments are reviewed regularly and the estimates of decommissioning costs are updated accordingly.

The provision established at the commencement of a power station's operating life is capitalised as part of cost of the station. Any subsequent variations in the provision resulting from changes in the estimate of decommissioning costs (other than inflation) are also taken to fixed assets and are depreciated over the remaining life of the station.

Liabilities and provisions for back end fuel costs and decommissioning are stated in the balance sheet at current price levels, discounted at a long-term real rate of interest of 3 per cent per annum 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 release one year's discount from provisions made in prior years and restate these provisions to current price levels.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

3 ACCOUNTING POLICIES (CONTINUED)

(8) Pensions

Contributions to the Company's scheme, including the capital cost of ex-gratia and supplementary pensions, are assessed by a qualified actuary and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The difference between the amounts funded and the amounts charged to the profit and loss account is included in the balance sheet.

(9) Foreign currencies

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

(10) Research and development

Expenditure on tangible fixed assets used for research and development is written off over the estimated useful economic operational life of the relevant asset. All research and development expenditure is charged to the profit and loss account as incurred.

4 TURNOVER EXCLUDING NUCLEAR PREMIUM

	<u>1996</u>	<u>1995</u>
	£ million	£ million
Electricity generation	460	456
Transmission income	16	15
Miscellaneous income	<u>-</u>	<u>3</u>
	476	474
	<u>==</u>	<u>==</u>

Electricity generation represents the sale of electricity to Scottish Power plc and Scottish Hydro Electric plc.

Transmission income is the recovery of the transmission charges made to the Company by Scottish Power plc.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

5 NUCLEAR PREMIUM

The nuclear premium has been derived from the terms of its contract with its two customers, Scottish Power plc and Scottish Hydro-Electric plc. This premium will cease on or around the privatisation of British Energy plc.

6 OPERATING COSTS - CONTINUING AGR ACTIVITIES

	<u>1996</u> £ million	<u>1995</u> £ million (As restated)
Operating costs before exceptional items		
Fuel - front end	99	77
- back end	30	71
Materials and services	117	108
Staff costs	57	52
Depreciation	<u>90</u>	<u>73</u>
	393	381
	—	—
Exceptional items		
Staff costs (see note 7)	1	4
Fuel - back end		
- favourable adjustments to price estimates in respect of revised contracts for fuel services	-	(84)
Depreciation		
- provision for diminution in value	354	-
- backlog depreciation due to change in basis and reassessment of asset lives	75	-
Materials and services		
- costs of privatisation and related restructuring	<u>9</u>	<u>-</u>
	439	(80)
	<u>—</u>	<u>—</u>
Operating costs after exceptional items		
Fuel - front end	99	77
- back end	30	(13)
Materials and services	126	108
Staff costs	58	56
Depreciation and asset write down	<u>519</u>	<u>73</u>
	832	301
	<u>—</u>	<u>—</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

6 OPERATING COSTS - CONTINUING ACTIVITIES (CONTINUED)

Operating costs are stated after charging:

	<u>1996</u> £million	<u>1995</u> £ million
Research and development	<u>13</u>	<u>11</u>
	£'000	£'000
Auditors' remuneration		
- statutory audit	50	46
- other services	<u>1,250</u>	<u>237</u>

7 STAFF COSTS

	<u>1996</u> £ million	<u>1995</u> £ million
Salaries	48	44
Social security costs	4	2
Pension costs		
- continuing	8	8
Redundancy and severance costs		
- exceptional charge in respect of future restructuring costs	1	4
Amounts capitalised	<u>(3)</u>	<u>(2)</u>
	58	56
	=====	=====
	Number	Number

Average number of employees during the year have been allocated as follows:

- AGR continuing activities	1,609	1,655
- Magnox discontinued activities	<u>95</u>	<u>205</u>
	1,704	1,860
	=====	=====

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

8

DIRECTORS

	Year ended 31 March 1996					1995	1996	1995
	Total					Total		
	Compensation for loss of office					emoluments excluding pension	emoluments excluding pension	Pension
<u>Directors</u>	<u>Salary</u>	<u>Fees</u>	<u>Benefit</u>	<u>Bonus</u>	<u>for loss of office</u>	<u>emoluments excluding pension</u>	<u>emoluments excluding pension</u>	<u>Pension</u>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<u>Executive directors</u>								
James Hann - Chairman (resigned 30 September 1995)	24	-	6	10	145	185	73	3
Robin Jeffrey - Chairman and Chief Executive	111	-	5	44	-	160	143	19
Richard Barnes - Finance Director (resigned 30 September 1995)	39	-	4	16	65	124	114	7
Neil Stewart - Finance and Commercial Director (appointed 24 November 1995)	26	-	3	10	-	39	-	4
Jim Grant - Technical Director (appointed 24 November 1995)	26	-	3	10	-	39	-	4
<u>Non-executive directors</u>								
Peter Stevenson	-	11	-	-	-	11	11	-
John Moreland	-	11	-	-	-	11	11	-
Sir Michael Livesay	-	11	-	-	-	11	11	-
	226	33	21	90	210	580	363	37

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

9 FINANCING CHARGES

	1996			1995		
	Discontinued			Discontinued		
	AGR	activity	Total	AGR	activity	Total*
	£'m	£'m	£'m	£'m	£'m	£m
Interest on loans payable within 5 years	(19)	-	(19)	(21)	-	(21)
Interest on loans repayable by instalments	(1)	-	(1)	(2)	-	(2)
Interest on Magnox expenditure	42	(42)	-	33	(33)	-
Interest receivable	<u>12</u>	<u>-</u>	<u>12</u>	<u>16</u>	<u>-</u>	<u>16</u>
Net interest	34	(42)	(8)	26	(33)	(7)
Financing costs resulting from revalorisation of nuclear liabilities						
- changes in price levels	(31)	-	(31)	(53)	-	(53)
- release of one year's discount	(35)	-	(35)	(32)	-	(32)
Movement in schedule 12 grant	-	42	42	-	33	33
Cancellation of Schedule 12 grant receivable	-	(716)	(716)	-	-	-
Cancellation of debts owed to parent undertaking	<u>-</u>	<u>720</u>	<u>720</u>	<u>-</u>	<u>-</u>	<u>-</u>
	(32)	4	(28)	(59)	-	(59)
	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>

* As restated

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

10 TAXATION

No liability to mainstream corporation tax arises during the year due to the availability of losses brought forward from earlier periods.

The Secretary of State is intending to cancel £1.368 billion of the taxation losses brought forward from earlier periods. The remaining losses, subject to the satisfaction of certain statutory provisions, are available for carry forward against future trading profits of the company.

The full potential deferred tax liability calculated at the Corporate Tax rate of 33% arising from timing differences comprises:

	As at 31 March	
	1996	1995
	£ million	£ million
Accelerated capital allowances	(344)	(492)
Short-term timing differences	6	11
Long-term timing differences	-	93
Corporation tax losses	198	652
Advance corporation tax	<u>1</u>	<u>-</u>
Potential deferred tax (liability)/asset	(139)	264
	<u>==</u>	<u>==</u>

The directors are of the opinion that no deferred tax liability will crystallise in the foreseeable future due to the planned level of capital expenditure in the future.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

11 TANGIBLE FIXED ASSETS

	<u>Power stations</u> £ million	<u>Other land and buildings</u> £ million	<u>Other plant and equipment</u> £ million	<u>Total</u> £ million
Cost				
At 1 April 1995				
As reported	2,447	16	36	2,499
Reclassifications	(123)	-	(23)	(146)
Decommissioning costs	<u>62</u>	<u>-</u>	<u>-</u>	<u>62</u>
As restated	2,386	16	13	2,415
Additions	38	-	3	41
Reclassifications	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
At 31 March 1996	<u>2,424</u>	<u>19</u>	<u>16</u>	<u>2,459</u>
Depreciation				
At 1 April 1995				
As reported	529	2	12	543
Reclassifications	(30)	-	(2)	(32)
Decommissioning costs	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
As restated	519	2	10	531
Charge for year	85	1	4	90
Backlog	75	-	-	75
Provision for diminution in value	<u>354</u>	<u>-</u>	<u>-</u>	<u>354</u>
At 31 March 1996	<u>1,033</u>	<u>3</u>	<u>14</u>	<u>1,050</u>
Net book value				
At 31 March 1996	<u>1,391</u>	<u>16</u>	<u>2</u>	<u>1,409</u>
At 31 March 1995 - restated	<u>1,867</u>	<u>14</u>	<u>3</u>	<u>1,884</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

11 TANGIBLE FIXED ASSETS (CONTINUED)

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

	<u>1996</u> £ million	<u>1995</u> £ million
Cost	<u>552</u>	<u>548</u>
Net book value	<u>333</u>	<u>450</u>

In adopting the accounting policies of British Energy plc the following adjustments have been made:

- reclassification of the initial fuel loaded during the commissioning of the power stations, and certain strategic spares, as stock;
- a charge for backlog depreciation due to a change in the basis of providing depreciation and the reassessment of asset life for Torness power station.

As at 31 March 1996 the directors reviewed the estimated economic values attributable to the power stations. The economic values were revised to take account of changes in expected cash flows, particularly the early elimination of the premium charged to its customers and the directors' expectation of lower selling prices. As a result of this review the book value of Torness power station was written down by £354 million to reflect the directors' assessment of the permanent diminution in its value.

The economic values attributable to the power stations have been calculated on the basis of future selling prices at the upper end of the range the directors consider likely. Future selling prices are a key assumption and a permanent deterioration may require a further write down in the future.

The cost of power stations at 31 March 1996 includes £62 million (1995: £62 million) in respect of capitalised costs of decommissioning discounted to date of commissioning.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

12 INVESTMENTS

	Shares in subsidiary undertakings £ million	Other investments £ million	Other loans £ million	Total £ million
Cost				
At 1 April 1995	3	10	23	36
Additions	-	-	2	2
Disposals/reclassifications	(3)	(10)	(15)	(28)
At 31 March 1996	-	-	10	10
Provision for diminution in value				
At 1 April 1995	-	4	23	27
Provided in the year	-	-	2	2
Released on disposal	-	(4)	(15)	(19)
At 31 March 1996	-	-	10	10
Net book value				
At 31 March 1996	-	-	-	-
At 31 March 1995	3	6	-	9

Subsidiary undertakings

The Company owns the entire share capital of the following companies.

	<u>Activity</u>	<u>Country of Registration</u>
Huntor Limited	Land Holdings	Scotland
Scottish Nuclear International Ltd	Consultancy Services	Scotland
Clyde Power Limited	Dormant	Scotland
UK Nuclear Limited	Dormant	Scotland
Northern Power Limited	Dormant	Scotland

The land and property held by Huntor Limited at 31 March 1995 was transferred to the company during the year and accordingly is disclosed within other land and buildings in tangible fixed assets.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

12 INVESTMENTS (CONTINUED)

Other investments

The company held a 20 per cent holding during the year in Electricity Producers Insurance Co Ltd (EPIC), a company incorporated in the Isle of Man. On 31 March 1996 the Company declared a dividend of £6 million which was satisfied by the transfer of its shareholding in EPIC.

The Company also held a beneficial interest in 20 per cent of the shares of Power Resources Incorporated (PRI), a company incorporated in the USA. The Company had provided fully against the carrying value of this investment. On 31 March 1996 this investment was sold to Magnox Electric plc for its original cost.

Loans have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided against in the Company's accounts. On the disposal of the Magnox activities to Magnox Electric plc the Company assigned the rights to 60% of these loans.

13 STOCKS

	<u>1996</u> £ million	<u>1995</u> £ million (As restated)
Nuclear fuel - unburnt fuel in the reactors	94	110
- other	124	166
Stores	<u>37</u>	<u>39</u>
	255	315
	<u> </u>	<u> </u>

14 DEBTORS

	<u>1996</u> £ million	<u>1995</u> £ million
Trade Debtors - nuclear premium	13	9
- other trade debtors	54	58
Other debtors	4	1
Prepayments	<u>12</u>	<u>16</u>
	83	84
	<u> </u>	<u> </u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

15 CREDITORS

	<u>1996</u> £ million	<u>1995</u> £ million (As restated)
Amounts falling due within one year:		
Nuclear liabilities (see Note 16)	121	114
Other creditors		
- Trade creditors	8	4
- Retentions	1	1
- Unsecured loans	88	98
- Other creditors including taxation and social security	9	9
- Accruals	65	64
Amounts owing to parent undertaking (see Note 21)	<u>512</u>	<u>-</u>
	804	290
	<u>==</u>	<u>==</u>
The loan from the parent undertaking is unsecured, bears no interest and is repayable on demand.		
Amounts falling due after more than one year		
Nuclear liabilities	<u>522</u>	<u>664</u>
Unsecured loans from the Secretary of State for Scotland		
- repayable within five years other than by instalments		
11½% 1995/96	-	95
11¼ 1996/97	85	85
- repayable by instalments		
11½% 1990/91 - 1998/99	11	14
Less amounts due within one year	<u>(88)</u>	<u>(98)</u>
	<u>8</u>	<u>96</u>
	530	760
	<u>==</u>	<u>==</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

16 NUCLEAR LIABILITIES - AGR

	Back end fuel costs contracted £ million	Back end fuel costs uncontracted £ million	Decommissioning £ million	Total £ million
At 1 April 1995 - as restated (see below)	778	175	189	1,142
Charged to profit and loss account				
- operating costs	9	34	-	43
- financing charges	45	10	11	66
Utilisation in year	(189)	(32)	-	(221)
Balance at 31 March 1996	643	187	200	1,030
	==	==	==	==

Adjustments as at 1 April 1995 due to accounting policy changes resulted in the increase in decommissioning provisions by £13 million and a reduction in back end fuel provisions of £5 million.

The uncontracted back end fuel provisions comprise mainly provision for long term storage and disposal of waste.

The year end balances are included in the balance sheet as follows:

	1996 £ million	1995 £ million (As restated)
Creditors due within one year	121	114
Creditors due after more than one year	522	664
Provisions for liabilities and charges	<u>387</u>	<u>364</u>
	1,030	1,142
	==	==

Fuel cycle

Accruals for AGR fuel services are based on the terms with BNFL, most of which include fixed prices subject to indexation for inflation. Provisions for services relating to the disposal of radioactive waste are based on the latest cost estimates derived from the latest technical assessments.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

16 NUCLEAR LIABILITIES - AGR (CONTINUED)

Decommissioning

The costs of decommissioning the power stations have been estimated on the basis of technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The estimates are designed to reflect the costs of making the sites of the power stations available for alternative use in accordance with the Company's decommissioning strategy.

Projected payment details

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

	Back end fuel costs <u>contracted</u> £'bn	Back end fuel costs <u>uncontracted</u> £'bn	<u>Decommissioning</u> £'bn	<u>1996</u> £'bn	<u>1995</u> £'bn
Undiscounted	<u>1.613</u>	<u>1.339</u>	<u>1.159</u>	<u>4.111</u>	<u>4.055</u>
Discounted	<u>1.107</u>	<u>0.375</u>	<u>0.200</u>	<u>1.682</u>	<u>1.735</u>
Provided to date	<u>0.643</u>	<u>0.187</u>	<u>0.200</u>	<u>1.030</u>	<u>1.142</u>

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

Under the terms of the contracts with BNFL referred to above and the projected pattern of payments for decommissioning and other liabilities, taking account of the segregated fund for decommissioning arrangements described in note 22, the undiscounted payments in current prices are expected to become payable as follows:

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

16 NUCLEAR LIABILITIES - AGR (CONTINUED)

	At 31 March 1996			
	<u>Fuel cycle contracted</u>	<u>Fuel cycle uncontracted</u>	<u>Decommissioning</u>	<u>Total</u>
	£ million	£ million	£ million	£ million
Within one year	119	2	75	196
2 - 5 years	456	13	16	485
6 - 10 years	374	17	19	410
11 - 25	380	198	109	687
26 - 50 years	108	187	-	295
51 years and over	<u>176</u>	<u>922</u>	<u>-</u>	<u>1,098</u>
	1,613	1,339	219	3,171
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

The amounts expected to become payable between two and five years, referred to above, are as follows:

	£ million	£ million	£ million	£ million
1 April 1997 to 31 March 1998	116	3	4	123
1 April 1998 to 31 March 1999	116	3	4	123
1 April 1999 to 31 March 2000	112	3	4	119
1 April 2000 to 31 March 2001	<u>112</u>	<u>4</u>	<u>4</u>	<u>120</u>
	456	13	16	485
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

17 NUCLEAR PROVISIONS - MAGNOX

	<u>1996</u> £ million
As at 1 April 1995	
As reported	772
Adjustments due to accounting policy changes	<u>(146)</u>
	626
As restated	
HM Government grant movement	(42)
Utilisation in year	(59)
Cancellation of HM Government grant receivable	716
Transfer to Magnox Electric	<u>(1,241)</u>
	-
	<u>=====</u>

Following the transfer of the Magnox nuclear liabilities to Magnox Electric, the grant previously available to Scottish Nuclear, in accordance with Schedule 12 of the Electricity Act 1989, which has been netted off against the Magnox nuclear liabilities, was cancelled.

18 OTHER PROVISIONS

	<u>Restructuring</u> £ million	<u>Insurance</u> £ million	<u>Total</u> £ million
Balance at 1 April 1995	4	-	4
Charged to profit and loss account	1	1	2
Utilisation in year	<u>(3)</u>	<u>-</u>	<u>(3)</u>
Balance at 31 March 1996	2	1	3
	<u>=====</u>	<u>=====</u>	<u>=====</u>

19 CALLED UP SHARE CAPITAL

	<u>1995 and 1996</u> Number	£
Ordinary shares of £1 each, authorised, allotted and fully paid	<u>100</u>	<u>100</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

20 RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u> £ million	<u>1995</u> £ million (As restated)
(Loss)/profit for the financial year	(275)	220
Dividend	<u>(6)</u>	<u>-</u>
Net (reduction)/addition	(281)	220
Opening shareholders' funds	<u>312</u>	<u>92</u>
Closing shareholders' funds	31	312
	<u>=====</u>	<u>=====</u>

21 NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of operating profit to net cash flow from operating activities

	<u>1996</u> £ million	<u>1995</u> £ million (As restated)
Operating profit/(loss) before nuclear premium	(356)	173
Nuclear premium	<u>109</u>	<u>106</u>
Operating profit/(loss)	(247)	279
Depreciation charges and asset writedown	519	73
Nuclear liabilities charged to operating costs	43	(16)
Nuclear liabilities discharged	(221)	(249)
Other provisions charged to operating costs	2	4
Other provisions discharged	(3)	(7)
Decrease in stocks	60	31
(Increase)/decrease in nuclear premium debtor	(4)	3
Decrease/(increase) in other debtors	5	(5)
Increase in creditors	<u>5</u>	<u>12</u>
Net cash inflow from operating activities	159	125
	<u>=====</u>	<u>=====</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

21 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Analysis of major non-cash transactions

£ million

Cancellation of grant receivable	(716)
Cancellation of debtors owed to parent undertaking	<u>720</u>
	4
	<u>==</u>

Analysis of changes in cash and cash equivalents during the year

£ million

Balance at 1 April 1995	64
Net cash outflow for year	<u>(56)</u>
Balance at 31 March 1996	8
	<u>==</u>

Analysis of changes in financing during the year

	Parent undertaking loan £ million	Unsecured loans £ million	Total £ million
Loans at 31 March 1995	-	194	194
Granted in year - non cash	521	-	521
Discharged	<u>(9)</u>	<u>(98)</u>	<u>(107)</u>
Loans at 31 March 1996	512	96	608
	<u>==</u>	<u>==</u>	<u>==</u>

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

22 FINANCIAL COMMITMENTS

	<u>1996</u> £ million	<u>1995</u> £ million
Capital expenditure authorised but not contracted for	30	41
Capital expenditure contracted for but not provided	<u>10</u>	<u>7</u>
	40	48
	<u> </u>	<u> </u>

In addition there are commitments for front end fuel purchases totalling £460 million over the next ten years.

At 31 March 1996 the Company had no material commitments under non-cancellable operating leases.

Segregated fund

A segregated fund has been formed to meet certain decommissioning liabilities. The agreement provides for the Company to make an initial endowment of cash to the fund of £71 million upon privatisation with quarterly contributions to be made over the operational life of the stations. The contributions will initially be approximately £4 million per annum.

23 PENSIONS OBLIGATIONS

The Company established the Scottish Nuclear Pension Scheme with effect from 1 April 1993. The scheme is a funded arrangement which provides defined benefits based on final pensionable salary. The assets of the Scheme are held separately from those of the Company in an independently administered fund.

The initial actuarial funding valuation report of the Scheme was prepared by an independent actuary using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the investment rate of return would be 9% p.a., the rate of salary increase would be 7% p.a., and the rate of pension increase would be 5% p.a. The valuation, which made no allowance for the tax credit reduction arising from the March 1993 budget, was based on the December 1991 membership data used for the valuation of the Scottish Power Pension Scheme in which the company was a participating employer until April 1993. The first triennial valuation of the scheme at 31 March 1996 is currently being undertaken.

The actuary has certified, using the assumptions above, that the assets of the Scheme existing at 1 April 1993, including the bulk transfer of £163 million from the Scottish Power Pension Scheme on 1 April 1993, fully covered its liabilities at that date.

SCOTTISH NUCLEAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996 (CONTINUED)

23 PENSION OBLIGATIONS (CONTINUED)

The pension cost for the year ended 31 March 1996, determined using the projected unit method was £9 million including the costs of provision of early retirement of certain employees. The Company's contributions to the Scheme during the year ended 31 March 1996 amounted to £12 million and at 31 March 1996 a prepayment of £12 million existed.

24 PARENT UNDERTAKING

The results for Scottish Nuclear have been consolidated in the accounts of its parent undertaking, British Energy Plc, copies of these accounts can be obtained from 10 Lochside Place, Edinburgh, EH12 9DF.