British Nuclear Group Sellafield Ltd (formerly British Nuclear Fuels Plc)

Directors' report and financial statements

Registered number 1002607

31 March 2006

DIRECTORS

L J Haynes
D J Mason
B Snelson
J M Seddon

SECRETARY

A J Shuttleworth

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2006.

The Energy Act 2004 created the Nuclear Decommissioning Authority ('NDA') to secure the operation, decommissioning and clean-up of designated nuclear sites. On 1 April 2005 specified assets and liabilities of the Company transferred to the NDA by means of transfer schemes under the Energy Act 2004. On 1 December 2004 the European Commission announced its intention to commence a formal State Aid approval process in respect of the creation and funding of the NDA. State Aid clearance has been given and the final stages of the restructure became effective on 31 March 2006.

On 1 April 2005 the Company re-registered as a private limited company and changed its name to British Nuclear Group Sellafield Limited.

The new industry business model has operated since 1 April 2005 and within it the Company does not have major working capital requirements. For the Company the vast majority of expenditure at the UK sites, where it is the management and operations ('M&O') contractor, is funded by the NDA under defined contract terms, and hence the Company has limited working capital needs.

The Company profits were previously susceptible to the rate of inflation because of the gap between returns from the Nuclear Liabilities Investment Portfolio ('NLIP') and the Secretary of State's Undertaking and the required revalorisation of the Nuclear Liabilities provisions (Retail Price Index plus reversal of one year's discounting). Following completion of the cancellation/transfer of these amounts on 31 March 2006, the Company no longer carries material inflation risk.

The Company's policy is to hedge against specific foreign currency transactions, although costs are reimbursed by the NDA.

Results and dividends

Profit before interest and taxation was £183 million (2005: Loss £289 million). In 2006 the Company earned fees totalling £44 million under the M&O contracts with the NDA. This represented 86% of the available fee pool as a result of the Company's performance against the NDA's performance-based indicators (PBI's).

Under the Energy Act 2004 specified assets and liabilities of the Company have been transferred to the NDA and other British Nuclear Fuels plc group companies during the year. These transfers have resulted in an exceptional profit on disposal of £197 million (2005: £nil).

The loss for the year, after taxation, amounted to £129 million (2005: £104 million).

No dividend is proposed (2005: £nil).

Principal activities and review of the business

Prior to 31 March 2005, the principal activity of the Company was to provide nuclear clean-up, decommissioning and environmental services together with nuclear facility management and operations to the government.

From 1 April 2005, the Energy Act 2004 created the Nuclear Decommissioning Authority ('NDA') to secure the operation, decommissioning and clean up of designated nuclear sites. The principal role of the Company is to operate nuclear sites under site licence and operation contracts with the NDA. This includes nuclear facility management and operations, and managing the customer interface between the company and utilities, both in the UK and overseas, that send used fuel to Sellafield for recycling. The company also provides sea transport services, primarily to bring spent fuel to the reprocessing plants and to return mixed oxide fuel ('MOX') fuel to customers.

Directors' report *(continued)*

In October 2006 the Secretary of State for Trade and Industry approved a joint proposal regarding the future strategy for British Nuclear Fuels plc (BNFL) which was presented separately to the BNFL and NDA Boards respectively. Both the BNFL and NDA Boards have agreed that the priority at Sellafield should be to support the creation of a competitive nuclear clean-up market in the UK and in particular to prepare the site for competition as safely and quickly as possible. This will enable the NDA to run a full competition for the Sellafield M&O contract as quickly as reasonably possible. The BNFL Board has also decided that British Nuclear Group Limited will not bid for the new Sellafield contract once it is competed by the NDA. As a result, once the Sellafield contract is competed, the ownership of the Company will be transferred to the successful entity.

All costs incurred by the Company in the performance of the M&O contracts are reimbursed by the NDA, provided that they are not in excess of the Annual Site Funding Limit or otherwise specifically disallowable under the contract. The Company puts in place advance agreements with the NDA to obtain pre-approval of items of expenditure where allowability may be questioned.

Research and development

During the year the Company spent £3 million (2005: £62 million) on research and development. The research and development costs in 2005-06 relate to the Site Licence Company and are directly recoverable from the NDA, as explained in accounting policy note 1i. In 2005 £40 million of research and development expenditure were costs charged against profits and £22 million were costs charged to customers.

Policy and practice on payment of creditors

The Company has continued its commitment to the Prompt Payers Code of Practice drawn up by the Confederation of British Industry (CBI), with rigorous monitoring of payment performance. Copies of the Code are available from CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. Over the year 76% (2005; 81%) of invoices submitted against the standard payment terms of 30 days net monthly were paid on time. The new computer system and associated business processes which were implemented in April 2005 caused administrative problems regarding the payment of invoices in the early part of the year; in the later half of the year the early difficulties encountered were overcome and on average 81% of invoices were being paid on time.

Directors and directors' interests

The directors who held office during the year were as follows:

Mr M D Parker (resigned 31 August 2005)

Mr J F Edwards (resigned 31 August 2005)

Mr D R Bonser (resigned 1 July 2006)

Mr GA Campbell (resigned 31 August 2005)

Mr LJ Haynes (appointed 1 April 2005)

Mr BT Tenner (appointed 1 April 2005, resigned 19 December 2006)

Mr B Snelson (appointed 1 April 2005)

Mr JM Seddon (appointed 1 April 2005)

Mr DJ Mason (appointed 1 April 2005)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Directors' report *(continued)*

Directors' and officers' liability insurance

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

Employees

The Company attaches importance to the involvement of its employees in the Company's development and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of the employees.

Employee involvement in the performance of the Company is encouraged through various bonus and remuneration schemes.

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 an employee becomes disabled, every effort is made to ensure their continued employment.

Political and charitable contributions

The Company made no political contributions during the year (2005: £nil). Donations to UK charities amounted to £2.9million, which includes £2 million (2005: £1.8million) to support West Cumbrian economic regeneration initiatives. The payments have been made under contract from the NDA.

Financial instruments and risks

As discussed in notes 1o and 32, the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. The Company does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the BNFL Board.

Under the new industry model, the Company does not have major working capital requirements because the vast majority of expenditure at the UK sites where the Company is the M&O contractor is funded by the NDA under defined contract terms. The Company's financial performance is driven by the performance against the NDA's performance-based indicators (PBI's), which form the basis of fees earned under the M&O contracts.

As discussed in note 20, in the unlikely event that the NDA was no longer able to provide the funding for the Company to continue its waste management and decommissioning activities in compliance with the site licence conditions, the NDA would be required to purchase the Company for a nominal sum, thus reinforcing the NDA's responsibility for the underlying liabilities.

Disclosure of information to auditors

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

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

Directors' report *(continued)*

Elective resolutions

The Company has elected to dispense with the holding of Annual General Meetings pursuant to Section 366A of the Companies Act 1985.

The Company has elected to dispense with the annual appointment of Auditors pursuant to Section 386 of the Companies Act 1985.

The Company has elected to dispense with the laying of accounts and reports in general meeting pursuant to Section 252 of the Companies Act 1985.

By order of the board

A J Shuttleworth
Secretary 31/1/2007

1100 Daresbury Park
Warrington
WA4 4GB

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH NUCLEAR GROUP SELLAFIELD LIMITED

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP Ernst & Young LLP
Registered auditor
Manchester
Date 30/1/07

Profit and loss account
for the 12 months ending 31 March 2006

	Note	2006 Continuing operations	2006 Discontinued operations	2006 Total	Restated 2005 Continuing operations	Restated 2005 Discontinued operations	Restated 2005 Total
		£M	£M	£M	£M	£M	£M
Gross revenue (2006: including Site Licence Company costs under management)		1,105	-	1,105	-	1,703	1,703
Less: in 2006 Site Licence Company costs under management	2	(1,061)	-	(1,061)	-	-	-
Gross turnover	2	44	-	44	-	1,703	1,703
Operating costs and expenses (excluding exceptional items)	2	(44)	(14)	(58)	-	(2,000)	(2,000)
Operating profit / (loss)		-	(14)	(14)		(297)	(297)
Exceptional items							
Profit on disposal		-	197	197	-	-	-
Profit on sale of fixed assets		-	-	-	-	8	8
Profit / (loss) before investment income, interest and taxation		-	183	183	-	(289)	(289)
Income from group undertakings	7	-	-	-	-	177	177
Investment income and interest receivable	8	-	168	168	-	328	328
Interest payable and similar charges	9	-	(442)	(442)	-	(327)	(327)
Loss on ordinary activities before taxation	2-9	-	(91)	(91)	-	(111)	(111)
Tax on loss on ordinary activities	10	-	(38)	(38)	-	7	7
Loss for the financial year		-	(129)	(129)	-	(104)	(104)
Loss transferred to reserves		-	(129)	(129)	-	(104)	(104)

The operations that transferred as part of the restructuring under the Energy Act 2004 are disclosed as discontinued operations. In 2005, the results of the business operations that transferred included both the commercial operations and the financial impact of the associated provision movements. In 2006 the results only include movements on provisions that remained with the Company during the period of the European Commission's State Aid review.

Continuing operations in 2006 include the fees earned from the NDA on the work undertaken by the Site Licence Company.

Statement of total recognised gains and losses

	2006	Restated 2005
	£M	£M
Loss for the financial year	(129)	(104)
Total gains and losses recognised in the financial year	(129)	(104)
Prior period adjustments (note 2)	(3)	-
Total gains and losses recognised since the last Annual Report and Accounts	(132)	(104)

Balance sheet
At 31 March 2006

	Note	**2006** **£M**	**£M**	2005 £M	£M
Fixed assets					
Tangible assets	*11*	-			8,101
Investments	*12*	-	-		4,859
					12,960
Current assets					
Stocks	*13*	-		61	
Debtors: Amounts falling due within one year	*14*	**239**		3,110	
Debtors: Amounts falling due after more than one year	*14*	-		9,563	
Investments and short term deposits	*15*	-		934	
Cash at bank and in hand		-		9	
		239		13,677	
Creditors: amounts falling due within one year	*16*	**(239)**		(1,865)	
Net current assets			-		11,812
Total assets less current liabilities			-		24,772
Creditors: amounts falling due after more than one year	*17*	-		(6,860)	
Provisions for liabilities	*19*	-		(17,783)	
			-		(24,643)
Net assets			-		*129*
Capital and reserves					
Called up share capital	*23*		**33**		33
Profit and loss account	*24*		**(33)**		96
Shareholders' funds			-		129

These financial statements were approved by the board of directors on 30.1.07 and were signed on its behalf by:

Jon Seddon
Director

31/1/2007

Notes

1 Accounting policies

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

In these financial statements the following new standards have been adopted for the first time:

- FRS 28 'Corresponding amounts' has been implemented during the year. This has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.
- FRS 21 'Events after the balance sheet date' has been implemented during the year. This has had no effect on the Company's financial statements.
- The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted.

a Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of British Nuclear Group Ltd, the Company's voting rights are controlled within the group headed by British Nuclear Fuels plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of British Nuclear Fuels plc, within which this Company is included, can be obtained from the address given in note 31.

b Fixed assets and depreciation

The Company does not own any fixed assets. Under the Energy Act 2004, all assets previously owned by the Company were transferred on 1 April 2005, with the majority being transferred to the NDA. The Company utilises the NDA's assets as provided for within the Management and Operations (M&O) contracts between the NDA and the Company.

In previous years, depreciation was provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Buildings	-	10 to 60 years
Plant and machinery	-	10 to 20 years
Fixtures, fittings, tools and equipment	-	3 to 10 years

No depreciation was provided on freehold land.

Leasehold land was amortised over the period of the lease.

Prior to the transfer of the Sellafield plants and the economic interest in the associated contracts to the NDA, the Company had commercial arrangements in place for Thorp which recovered the capital costs of that plant under reprocessing contracts over a shorter period than the plant's potential economic life. In order to maintain a proper matching for accounting purposes of contract income and related costs, an accrual was made for future depreciation recovered over the contract period, which was to be released over the remaining useful economic life of the plant once the related reprocessing contracts were completed. This is referred to as the 'Depreciation matching accrual' in notes 16 and 17.

Notes *(continued)*

1 Accounting policies

c Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction (or, if hedged forward, at the rate of exchange under the related forward currency contract). Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

d Turnover

Turnover, which is stated net of value added tax, represents the net fees earned on the M&O contracts between the Company and the NDA.

In 2005, and previous years, turnover, which was stated net of value added tax, represented the value of products delivered and services rendered to outside customers. For contracts entered into for the provision of services extending over a period of years (long-term contracts), turnover represented the value of work done in the year including where appropriate estimates of amounts not invoiced.

Substantial payments in advance were held, prior to the transfer to the NDA, as part of the contractual arrangements under which nuclear fuel services were provided to a number of customers. Interest income earned on these contractual advance payments was recognised as part of the turnover on the contracts concerned. As the anticipated financing income on these contractual advance payments formed an integral part of the negotiation of the commercial terms, this presentation more fairly reflected the commercial terms.

e Long term contracts

Obligations under long term contracts were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004, together with any associated contract loss provisions.

In previous years, profits on long term contracts were taken in the year in which the services were provided, in a manner appropriate to the stage of completion of the contracts and the nature of the business concerned. Profits were determined proportionate to the prudently assessed overall forecast profitability of the contracts after allowing for contingencies. Full provision was made for losses on contracts in the year in which they were first identified.

f Government grants

Capital based government grants were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004.

In prior years capital based government grants were included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they related.

g Leases

Assets acquired under finance leases were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 together with the obligations under finance leases.

In prior years, assets acquired under finance leases were capitalised and the outstanding future lease obligations were shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease, and are recoverable from the NDA under the terms of the M&O contracts.

Notes *(continued)*

1 Accounting policies

h Post-retirement benefits

The Company participates in a three group wide pension schemes, The Combined Pension Scheme, The BNFL Group Pension Scheme and The Electricity Supply Pension Scheme, which all provide benefits based on final pensionable pay (note 28). For the Combined Pension Scheme contributions are paid to and benefits are paid by Her Majesty's Government via the Consolidated Fund. In respect of the Electricity Supply Pension Scheme and the BNFL Group Pension Scheme, the Company makes contributions to separately administered funds, whose assets are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

i Research and development expenditure

The research and development costs in 2005-06 relate to the Site Licence Company and are directly recoverable from the NDA.

In prior years, research and development expenditure on projects not specifically recoverable directly from customers was charged to the profit and loss account in the year in which it was incurred. Expenditure on products for which firm orders had been received were held as part of the value of stocks and work in progress for recovery against the sales value of the initial orders.

j Stocks

Stock and work in progress were transferred to the NDA and other BNFL group companies with effect from 1 April 2005 under the Energy Act 2004. Raw material and consumables costs in 2005-06 relate to the Site Licence Company and are directly recoverable from the NDA under the terms of the M&O contracts for the various sites operated by the Company.

In previous years, stocks and work in progress were valued at cost or net realisable value whichever was the lower, and in the case of work in progress after deduction of progress payments. Cost where appropriate included a proportion of all production overhead expenses.

k Nuclear liabilities

The Company's accounts have historically included provisions for the Company's obligations in respect of nuclear liabilities, being liabilities in respect of the costs associated with nuclear decommissioning, waste management, and reprocessing of fuel from reactors. Following the restructuring under the Energy Act 2004, the nuclear assets on the Site Licence Companies sites have transferred to the NDA which now has full financial responsibility for discharging the nuclear liabilities on these sites. The provisions transferred to the NDA were based on the latest technical assessments of the processes and methods likely to be used and represented best estimates. They were derived from a combination of the latest technical knowledge available, the existing regulatory regime, commercial agreements and using statistical modelling techniques to evaluate the impact of a range of possible alternative outcomes. Where some or all of the expenditure required to settle a provision was expected to be recovered from another party, in accordance with FRS 12, the recoverable amount was treated as an asset. In respect of waste management or reprocessing the recoverable amounts were included in debtors (note 14), whereas amounts which related to decommissioning were included as residual values of fixed assets (note 11). The charges in the profit and loss account for provisions were net of recoveries from customers.

Nuclear provisions were stated in the balance sheet at current price levels, discounted at an appropriate real rate of return to take account of the timing of payments. Each year the financing charges in the profit and loss account include a revalorisation charge which reflects the need to remove one year's discount from provisions made in prior years and the restatement of these provisions to current price levels.

Notes *(continued)*

1 Accounting policies

In respect of the Historic Waste Management Strategy, the accounting treatment varied from the normal Company procedures. Despite the extensive work undertaken, the nature of wastes, the length of time for which they had been stored and the age of the storage facilities meant that much further work would have been required over a number of years to confirm and further refine the strategy. The Board recorded its best estimate of the related liabilities based on available knowledge, including a normal level of cost contingency. This estimate would normally be required to include risk, which means the financial implications of a range of possible alternative outcomes associated with the treatment of these wastes. In this case however, the level of uncertainty associated with these alternatives was such that the Board was unable to quantify the financial impact of a range of alternative risks and therefore outcomes with reasonable certainty.

The Company's obligations for nuclear liabilities fell into the following categories:

- ***Decommissioning***

Provisions were made for the costs (discounted) of decommissioning the Company's radioactive facilities and thereby reducing the radiological hazard. These decommissioning activities addressed the demolition of facilities and the management of the associated waste. The extent of decommissioning during the coming decades will be defined by considering both the requirements to reduce radioactive discharges and to protect the workforce by restricting dose uptake. From a safety or environmental viewpoint complete removal of all facilities on all sites may not be justified. The provisions took account of such issues and considered both facilities which are already operating and those which are expected to be commissioned as part of fulfilling the Company's waste management obligations.

For facilities that have been commissioned, provisions were recognised in full and the discounted costs were capitalised as part of the costs of the asset and depreciated accordingly (note 11). To the extent that costs were recoverable from third parties, they were treated as residual values of the assets concerned and depreciation was adjusted accordingly. Changes in estimates were treated as adjustments to the assets concerned.

Radioactive waste materials arising as a result of the Company's operations gave rise to liabilities reflecting the cost of treating and disposing of them. In some instances the provisions so created covered the cost of constructing and decommissioning of plants to manage those wastes. As a result, long before these waste management plants were built and commissioned, the costs of doing so had been provided in accordance with the waste management accounting policy below. Once built, the waste management plants were treated as fixed assets, the costs of which were capitalised and depreciated over the life of the plant. This depreciation charge utilised the provisions already established. On commissioning, the decommissioning costs were capitalised and depreciated accordingly.

- ***Waste management***

The costs associated with waste products, for which an authorised disposal route was already in use, principally low-level waste, were written off in the year in which they occurred. Provisions were made for the treatment, handling and disposal of the Company's remaining waste products. The provisions were based on discounted forecast cash flows, which included both capital and operating expenditure, and were recognised as waste management obligations arose.

- ***Reprocessing of fuel***

The Company held provisions for the defueling, reprocessing and waste management of the spent nuclear fuel from reactors. These provisions were made in proportion to the amount of fuel burnt. Due to the nature of the nuclear fuel process there is some unburnt fuel in the reactors at station closure. The provisions relating to this fuel were charged to the profit and loss account over the estimated useful life of each reactor on a straight-line basis.

Notes *(continued)*

1 Accounting policies

l Fixed asset investments

Fixed assets investments comprise investments in and loans to subsidiaries, associated undertakings and joint ventures.

The carrying values of investments are reviewed for impairment if events or changes in circumstance indicate that a provision for impairment is required.

The Nuclear Liabilities Investment Portfolio was maintained as a long-term fund which was earmarked to meet long-term nuclear liabilities as they fell due. Given the nature and purpose of this fund, it was classified in fixed asset investments. The fund comprised a portfolio of Government gilt-edged securities (gilts) and other investments and a managed portfolio of gilts and other investments. Following the European Commission's approval of State Aid the Company administers the Nuclear Liabilities Investment Portfolio funds on behalf of Her Majesty's Government whilst the final logistics of the transfers to them are agreed.

The gilts intended to be held to redemption were stated in the balance sheet on the basis of cost adjusted for the amortisation of any premium or discount arising at purchase. The premium or discount was amortised over the life of the gilts as a constant percentage of the carrying value in order to bring the gilts to face value by the redemption date. If sold before redemption the difference between proceeds and the amortised value was taken to the profit and loss account in the year of realisation. The managed portfolio was stated in the balance sheet at cost.

m Current asset investments and short-term deposits

Current asset investments and short-term deposits comprised short and medium-term gilt investments intended to be held to redemption, short and medium-term managed investments and other short-term investments (note 15). Current asset investments were stated at the lower of cost and estimated net realisable value.

n Taxation

The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

- Deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing difference can be deducted.
- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose the replacement assets
- Provision is made for the taxation that would arise on remittance of the retained earning of overseas subsidiaries only to the extent that at the balance sheet date, dividends have been accrued as receivable.

o Derivatives and commodity contracts

The Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. These are accounted for as hedges, with gains and losses being recognised when the hedged transaction takes place.

Notes *(continued)*

2 Net operating costs and expenses

During the year to 31 March 2006 the Company managed sites funded by the NDA as a Site Licence Company. During the previous year this expenditure was funded by the Company.

Net operating costs and expenses not funded by the NDA	**2006**	2005
	£M	£M
Management fees paid to the Parent Company	**44**	-

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting)	**2006**	2005
	£M	£M
Depreciation and other amounts written off tangible fixed assets:		
Capitalised decommissioning costs	-	29
Other depreciation	-	359
Nuclear provisions charge	**14**	68
Other provisions charge	-	152
Raw materials and consumables	-	165
Research and development charges not directly recoverable from customers	-	62

Auditors' remuneration

	2006	2005
	£000	£000
Audit	**261**	672
Other services - fees receivable by the auditors and their associates	**20**	170

Under the M&O contracts, the above audit fees have been reimbursed by the NDA.

Geographic segment analysis

	UK	**Europe EU excluding UK**	**Other**	**Japan & Far East**	**North & South America**	**Total**
	£M	**£M**	**£M**	**£M**	**£M**	**£M**
2006						
Gross revenue (including Site Licence Company costs under management)	1,105	-	-	-	-	1,105
Gross turnover	44	-	-	-	-	44
2005						
Gross revenue	1,247	274	22	156	4	1,703
Gross turnover	1,247	274	22	156	4	1,703

Prior year adjustment

As explained in note 1h, the Company has implemented FRS17 in these financial statements. The effect of the change in accounting policy, which is shown as a prior year adjustment, has been to reverse pension prepayments of £3 million as at 31 March 2005. The impact has been to reduce the profit before tax for the year ended 31 March 2005 by £3 million, with a corresponding reduction in net assets at that date.

Notes *(continued)*

3 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	**407**	1,390
Amounts receivable under annual bonuses	**215**	251
Pension contributions	**15**	77
	637	1,718

In 2006, under the M&O contracts the above directors' costs are reimbursed by the NDA, and are not included within Operating costs and expenses in note 2. The remuneration of LJ Haynes and BT Tenner is met by the parent company, British Nuclear Group Limited, and disclosed in the financial statements of that company. The remuneration of DR Bonser is met by BNFL plc, and disclosed in the financial statements of that company. The above details include no remuneration in respect of Messrs Haynes, Tenner and Bonser respectively.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £303,000 (2005: £635,751) and the Company made pension contributions of £nil (2005: £47,000) to be used at the directors' discretion to fund personal pension contributions. Following the changes to the Directors during the year, the highest paid director in 2006 is a different individual to 2005.

	Number of directors	
	2006	2005
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**3**	1

Pensions

In 2006 the highest paid director is an active member of the Combined Pension Scheme of the UKAEA which pays an annual pension of one-eightieth plus three-eightieths lump sum of final pensionable pay for each year of service. No employer contributions have been made to this scheme during the year. Details of the pension benefits for the highest paid director are as follows:

	2006 £	2005 £
Accrued pension benefits	**57,544**	-
Accumulated lump sum	**172,633**	-
Transfer value	**1,006,545**	-

1. The transfer value represents a potential liability of the pension scheme and is not a sum paid or payable to the highest paid director.

Following the changes to the Directors during the year, the highest paid director in 2006 is a different individual to 2005. In 2005, the highest paid director received a monthly allowance of 10% through his salary and made his own pension arrangements. In 2005, the highest paid director received £47,000 to be used at his discretion to fund personal pension contributions.

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	Number of employees	
	2006	2005
Average number of employees	**8,584**	9,764

The aggregate payroll costs of these persons were as follows:

	2006	2005
	£M	£M
Wages and salaries	**328**	454
Social security costs	**26**	39
Other pension costs	**11**	18
	365	511

The above employee costs include Directors' costs (see note 3). Under the M&O contracts, in 2006 the above employee costs are reimbursed by the NDA, and are not included within the Operating costs and expenses within note 2.

5 Profit on disposal

	2006	2005
	£M	£M
Restructuring under the Energy Act 2004 and related transactions	**3,312**	-
Internal loans written off	**831**	
De-recognition of Nuclear Liabilities Investment Portfolio (note 12d)	**(3,946)**	-
Total exceptional items	**197**	-

Restructuring under the Energy Act 2004

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

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

The European Commission has now approved the establishment of the NDA. On 31 March 2006 the agreement, under section 21(9) of the Energy Act 2004, limiting the NDA's financial responsibilities for funding the Site Licence Companies was cancelled and the Secretary of State's undertaking was terminated. BNFL continues to administer Nuclear Liabilities Investment Portfolio funds on behalf of Her Majesty's Government whilst the final logistics for the transfers are agreed (note 12d). The nuclear provisions for which the NDA now has full financial responsibility are reflected in the accounts of the NDA and are no longer recognised by the Company.

Notes *(continued)*

Assets transferred under the Energy Act 2004 include tangible fixed assets (note 11), the Nuclear Liabilities Investment Portfolio (note 12d), customer recoverables relating to nuclear liabilities (note 14), cash and current asset investments. Liabilities for which the NDA now takes responsibility include payments in advance (note 18), nuclear provisions (note 20), and other provisions (note 22). Internal loan waivers totalling £831 million (note 17) were also made as a result of the BNFL Group reorganisation.

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

6 Profit on sale of fixed assets

	2006 £M	2005 £M
Realised gains on Nuclear Liabilities Investment Portfolio	-	8
	-	8

7 Income from group undertaking

	2006 £M	2005 £M
Loss on disposal of investments	-	(2)
Income from subsidiary companies	-	172
Income from joint ventures	-	7
	-	177

8 Other interest receivable and similar income

	2006 £M	2005 £M
Nuclear Liabilities Investment Portfolio		
Amortisation of premium/discount	**(3)**	(32)
Indexation of gilts	**37**	47
Investment income	**130**	182
Income from current asset investments	-	20
Income from group borrowing	-	108
Total investment income	**164**	325
Indexation of gilts	**4**	2
Exchange gains	-	7
Finance income from long term contract payments reclassified to turnover	-	(6)
	168	328

Notes *(continued)*

9 Interest payable and similar charges

	2006 £M	2005 £M
Revalorisation on nuclear provisions	**436**	122
Revalorisation on other provisions	**6**	19
Interest on internal loans	**-**	168
Bank charges	**-**	18
	442	327

10 Taxation

Analysis of charge in period

	2006 £M	**£M**	2005 £M	£M
UK corporation tax				
Current tax on income for the period	**38**		-	
Tax on exceptional items	**-**		-	
Adjustments in respect of prior periods	**-**		(7)	
Total current tax		**38**		(7)
Deferred tax (see note 21)				
Origination/reversal of timing differences	**-**		-	
Adjustment in respect of previous years	**-**		-	
Total deferred tax		**-**		-
Tax on loss on ordinary activities		**38**		(7)

Factors affecting the tax charge for the current period

The current tax charge for the period is £65 million greater *(2005: £26 million)* than the standard rate of corporation tax in the UK (30 %, *2005: 30 %*). The differences are explained below.

	2006 £M	2005 £M
Current tax reconciliation		
Loss on ordinary activities before tax	**(91)**	(111)
Current tax at 30 % *(2005: 30 %)*	**(27)**	(33)
Effects of:		
Items not chargeable/(deductible) for taxation purposes	**65**	2
Group relief not paid for	**-**	(79)
Adjustments to tax charge in respect of previous periods	**-**	(7)
Deferred tax asset movement not provided for	**-**	110
Total current tax charge (see above)	**38**	(7)

Notes *(continued)*

There is no corporation taxation effect arising from the profit on the fundamental re-organisation under the Energy Act 2004.

11 Tangible fixed assets

	Freehold land and buildings £M	Capitalised decommissioning costs £M	Plant and equipment £M	Fixtures, fittings, tools and equipment £M	Assets in course of construction £M	Total £M
Cost						
At beginning of year	3,421	4,595	4,078	119	1,401	13,614
Movement as a result of the Energy Act 2004	(3,421)	(4,595)	(4,078)	(119)	(1,401)	(13,614)
At end of year	-	-	-	-	-	-
Depreciation						
At beginning of year	1,874	654	2,843	106	36	5,513
Movement as a result of the Energy Act 2004	(1,874)	(654)	(2,843)	(106)	(36)	(5,513)
At end of year	-	-	-	-	-	--
Net book value						
At 31 March 2006	-	-	-	-	-	-
At 31 March 2005	1,547	3,941	1,235	13	1,365	8,101

Freehold land amounting to £nil (2005: £5 million) has not been depreciated.

12 Fixed asset investments

	2006 £M	2005 £M
Subsidiary undertakings (note 12a)	-	1,083
Joint ventures (note 12b)	-	1
Trade investments (note 12c)	-	2
Nuclear Liabilities Investment Portfolio (note 12d)	-	3,773
	-	4,859

Notes *(continued)*

a) Subsidiary undertakings

	Shares	Loans	Total cost	Amount provided	Total
	£M	£M	£M	£M	£M
At beginning of year	1,057	42	1,099	(16)	1,083
Movement as a result of the Energy Act 2004	(952)	(42)	(994)	(89)	(1,083)
At end of year	105	-	105	(105)	-

From 1 April 2005 the Company no longer receives the economic benefit or associated risk from the investments in subsidiary undertakings. Consequently, the investments have been 100% impaired as any returns and proceeds from disposing of the investments will be remitted to the NDA. This charge is a direct result of the Energy Act 2004 and therefore the associated credit is included within the business disposal exceptional item (see note 5).

On 1 October 2006 the Company sold 49% of the shares of International Nuclear Services Limited ('INS Limited') (formerly International Nuclear Fuels Limited) to the NDA for £1, giving rise to a profit on disposal of £1. INS Limited holds the shareholdings listed below in Pacific Nuclear Transport Limited and Seabird KK.

The companies in which the Company's shareholding at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
International Nuclear Services Limited (formerly International Nuclear Fuels Limited)	UK	Intermediary company	Ordinary, 100%
Pacific Nuclear Transport Limited *	UK	*Transportation*	*Ordinary, 62.5%*
Seabird KK*	Japan	Non-trading	Ordinary, 62.5%
BNFL SA	France	Administration	Ordinary, 100%
BNFL Japan KK	Japan	Administration	Ordinary, 100%
Fellside Heat and Power Limited	UK	Non-trading	Ordinary, 100%

* Held indirectly through subsidiary

Joint Ventures

Acta GmbH ^	Germany	Administration	Ordinary, 50%

^ Sold during the financial year

b) Joint Ventures

	Shares	Loans and advances	Total
	£M	£M	£M
Cost			
At beginning of year	-	1	1
Movement as a result of the Energy Act 2004	-	(1)	(1)
At end of year	-	-	-

Notes *(continued)*

c) Trade investments

	Cost	*Amounts provided*	*Total*
	£M	£M	£M
Cost			
At beginning of year	10	8	2
Movement as a result of the Energy Act 2004	(10)	(8)	(2)
At end of year	-	-	-

d) Nuclear Liabilities Investment Portfolio

The Nuclear Liabilities Investment Portfolio (NLIP) represented funds earmarked for the costs associated with the discharge of nuclear liabilities. Following termination of the agreement under Section 21(9) of the Energy Act 2004 which limited the NDA's financial responsibilities for funding the Site Licence Companies, with effect from 31 March 2006, BNFL now administers NLIP funds on behalf of Her Majesty's Government whilst the final logistics for the transfers are agreed. The Company, therefore no longer recognises these investments on its balance sheet.

	Total
	£M
Cost	
At beginning of year	3,773
Indexation of gilts	37
Investment income	139
Amortisation of premium	(3)
Movement as a result of the Energy Act 2004	(3,946)
At end of year	-

The NLIP contained listed and unlisted investments as follows:

	2006 Market Value	**2006 Book Value**	2005 Market Value	2005 Book Value
	£M	£M	£M	£M
Cost				
Listed investments	-	-	3,896	3,679
Unlisted investments	-	-	94	94
At end of year	-	-	3,990	3,773

13 Stock

	2006	2005
	£M	£M
Raw materials and consumables	-	42
Work in progress	-	14
Finished goods and goods for resale	-	5
	-	61

Notes *(continued)*

14 Debtors

Amounts falling due in less than one year:	**2006**	2005
	£M	£M
Site Licence Company's working capital recoverable from the NDA	**237**	-
Trade debtors	-	71
Amounts owed by group companies	-	1,858
Other debtors	**2**	8
Prepayments and accrued income	-	421
VAT	-	13
Customer recoverable relating to nuclear liabilities	-	739
	239	3,110

Amounts falling due in more than one year:	**2006**	2005
	£M	£M
Customer recoverable relating to nuclear liabilities	-	9,563
	-	9,563

a) Customer recoverable relating to nuclear liabilities

	Decommissioning fixed assets	**Decommissioning debtor**	**Waste management debtor**	**Reprocessing debtor**	**Total debtors**	**Total recoverable**
	£M	£M	£M	£M	£M	£M
Balance at 31 March 2005	3,861	182	9,154	966	10,302	14,163
Balance at 31 March 2006	-	-	-	-	-	-

Prior to the restructuring under the Energy Act 2004, the Company had commercial agreements in place under which some or all of the expenditure required to settle nuclear liabilities was recovered from third parties.

As stated in note 20, following the implementation of the transfer schemes under the Energy Act 2004 and subsequent State Aid approval by the European Commission, the provisions previously recognised in respect of decommissioning, waste management and reprocessing are now a matter for the NDA as is the related customer recoverable.

The debtors balance at 31 March 2005 was recoverable as follows:

	2006	2005
	£M	£M
Amounts falling due within one year	-	739
Amounts falling due after more than one year	-	9,563
	-	10,302

Notes *(continued)*

15 Current asset investments and short term deposits

	2006 £M	2005 £M
Gilt investments – medium term maturity	-	109
Short term deposits	-	825
	-	934

Gilt investments

In 2005 the company had £109 million in index linked gilts, which were intended to be held until redemption. These funds were earmarked to cover decommissioning costs. These were subsequently transferred out of the Company as part of the Energy Act 2004.

Short term deposits

These consisted of bank deposits and other fixed and call deposits, supported by a level of funds invested in certificates of deposits and a money fund to cover unforeseen requirements. Liquidity was managed by preparing short and medium-term cash flow forecasts against which the maturity of bank deposits was timed.

Current asset investments and short term deposits included listed and unlisted investments as follows:

	2006 Market value £M	**2006 Book value £M**	2005 Market value £M	2005 Book value £M
Listed investment Carried at cost	-	-	137	109
Total listed investments	-	-	137	109
Unlisted investments	-	-	825	825
	-	-	962	934

16 Creditors: amounts falling due within one year

	2006 £M	2005 £M
Bank loans and overdrafts	-	169
Payments received on account (note 18)	-	950
Trade creditors	**34**	72
VAT	**35**	38
Other taxes and social security	**11**	10
Accruals and deferred income	**130**	273
Other creditors	**3**	3
Owed to Group undertakings	**26**	350
	239	1,865

In the previous year, prior to the restructuring under the Energy Act 2004, accruals and deferred income included £64 million relating to the depreciation matching accrual (note 1b), and £6 million relating to capital grants (note 1f).

Notes *(continued)*

17 Creditors: amounts falling due after more than one year

	2006 **£M**	2005 £M
Payments received on account (note 18)	-	5,515
Accruals and deferred income	-	514
Owed to Group undertakings	-	831
	-	6,860

In the previous year, prior to the restructuring under the Energy Act 2004, accruals and deferred income included £507 million relating to the depreciation matching accrual (note 1b), and £6 million relating to capital grants (note 1f).

18 Payments received on account

On 1 April 2005 specified assets and liabilities of the Company, including payments received on account, transferred to the NDA and other BNFL group companies by means of transfer schemes under the Energy Act 2004.

Payments received on account were received from customers for the provision of services under long term contracts. These were released to the profit and loss account and hence turnover recognised as the services were provided. The expected profile for release of payments received on account as at 31 March 2005 was as follows:

	2006 **£M**	2005 £M
In one year or less	-	950
In more than one year but not more than two years	-	1,025
In more than two years but not more than five years	-	2,922
In more than five years	-	1,568
	-	6,465

19 Provisions for liabilities and charges

	2006 **£M**	2005 £M
Nuclear provisions (note 20)	-	16,603
Other provisions (note 22)	-	1,180
	-	17,783

Notes *(continued)*

20 Nuclear provisions

	Decommissioning	Waste management	Reprocessing	Total
	£M	£M	£M	£M
Balance at 1 April 2005	5,292	10,211	1,100	16,603
Revalorisation	209	364	47	620
Increase in the year	-	14	-	14
Discharge of liabilities	(65)	(577)	(134)	(776)
Movement as a result of the Energy Act 2004	(5,436)	(10,012)	(1,013)	(16,461)
Balance at 31 March 2006	-	-	-	-

Until the implementation of transfer schemes under the Energy Act 2004 as at 31 March 2006, the Company continued to estimate the financial cost of meeting its obligations to decommission radioactive facilities and to provide for them. These obligations address the demolition of plants together with the disposal of associated waste. Provisions were also made for the treatment, handling and disposal of waste products arising from operations. For safety reasons, much of the dismantling and demolition work will not occur for a considerable time. Following the restructuring under the Energy Act 2004, the Company's liabilities are now the responsibility of the NDA.

During the State Aid review period, the NDA's financial responsibilities for nuclear liabilities was limited by agreement under Section 21 (9) of the Energy Act 2004. The NDA has funded the nuclear liabilities discharged in the year (£776 million) albeit from funds arising from the 1 April 2005 transfers.

The Company has borne the element of revalorisation of those nuclear liabilities which were subject to the European Commission's State Aid review (note 9: £436 million).

As described in note 1k, following the implementation of transfer schemes under the Energy Act 2004, as at 31 March 2006 the accounts no longer include the provisions previously recognised in respect of decommissioning, waste management and reprocessing liabilities at the Company's former nuclear licensed sites. Along with the transfer of ownership of these sites to the NDA, financial responsibility for these liabilities also passed in accordance with the Act and confirmation has been received by the Directors that the related provisions are to be reflected in the accounts of the NDA.

The Company acts as a contractor operating the respective sites on behalf of the NDA and, in accordance with legal requirements, are the licensed operators of these sites. The site licence conditions impose legal obligations on the Company including those relating to the management of waste management and decommissioning activity. The Directors have reviewed the requirements of accounting standards regarding the recognition of provisions for liabilities. In doing so they have taken account of leading Counsel's opinions regarding these obligations alongside the provisions of the Energy Act regarding financial responsibility for the liabilities, the NDA's confirmation that it will recognise provision for the liabilities and a public statement from the Health & Safety Executive regarding the underlying intentions of the site licence conditions in the context of the formation of the NDA.

The Directors have satisfied themselves that it is no longer appropriate for the Company to continue to reflect the nuclear liabilities in these accounts. In the unlikely event that the NDA was no longer able to meet its statutory responsibility to provide the funding for the Site Licence Companies to continue their waste management and decommissioning activities in compliance with the site licence conditions, then the NDA would be required to purchase the companies for a nominal sum, thus reinforcing its responsibility for the underlying liabilities.

Notes *(continued)*

21 Deferred tax

	2006 **£M**	2005 £M
Authorised		
Capital allowances in advance of depreciation	-	305
Other timing differences	-	(305)
	-	-

At 31 March 2005, the Company had an unrecognised deferred tax asset amounting to £343 million in respect of tax losses. All of the Company's brought forward tax losses were extinguished on 1 April 2005 as a result of the operation of Section 44 of the Energy Act 2004.

22 Other provisions

	Other contract provisions £M	**Restructuring and pension provisions** £M	**Other provisions** £M	**Total** £M
Balance at 1 April 2005	*459*	*248*	*473*	*1,180*
Revalorisation	-	6	-	6
Discharge of liabilities	-	(15)	-	(15)
Movement as a result of the Energy Act 2004	(459)	(239)	(473)	(1,171)
Balance at 31 March 2006	-	-	-	-

The main elements of restructuring costs are severance obligations. The amounts provided are based on best estimates of the severance cost of Site Licence Company employees who have left or who will leave under severance terms.

The above Other Provisions have been transferred to the NDA and other BNFL group companies by means of transfer schemes under the Energy Act 2004.

23 Called up share capital

	2006 **£M**	2005 £M
Authorised		
43,000,000 Ordinary shares of £1 each	**43**	43
	43	43
Allotted, called up and fully paid		
32,668,244 Ordinary shares of £1 each	**33**	33
	33	33

Notes *(continued)*

24 Reserves

	Profit and loss account £M
At beginning of year	99
Prior year adjustment (note 2)	(3)
Balance at 31 March 2005 (restated)	96
Loss for the year	(129)
At end of year	**(33)**

25 Reconciliation of movements in shareholders' funds

	2006 £M	2005 £M
Loss for the financial year	**(129)**	(104)
Retained loss	**(129)**	(104)
Net reduction in shareholders' funds	**(129)**	(104)
Opening shareholders' funds	**132**	233
Prior year adjustment (note 2)	**(3)**	-
Closing shareholders' funds	-	129

26 Contingent liabilities

At 31 March 2006, the Company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the Directors, no material losses are expected to arise. Any liabilities that did arise on such guarantees would be recovered from the NDA under the M&O contracts.

Bank pooling guarantees, totalling £10 million, are in place in respect of the Company and certain other UK companies within the BNFL plc group.

27 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	***2006* £M**	*2005* £M
Contracted	-	208

Notes *(continued)*

(b) Annual commitments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2006	2005	**2006**	2005
	£M	£M	**£M**	£M
Operating leases which expire:				
Within one year	-	2	-	-
In the second to fifth years inclusive	-	-	1	1
After five years	5	1	-	-
	5	3	1	1

Operating lease rentals in the year were as follows:

	2006	2005
	£M	£M
Operating lease rentals		
Plant & machinery	-	-
Other	4	4

Under the M&O contracts, in 2006 operating lease rentals are reimbursed by the NDA.

28 Pension schemes

The Company is a member of three larger group wide pension schemes, The Combined Pension Scheme, The BNFL Group Pension Scheme and The Electricity Supply Pension Scheme, all providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for as if they were defined contribution schemes.

The total pension costs for the period were £11,528,000, split as £11,447,000 to The BNFL Group Pension Scheme, £81,000 to The Electricity Supply Pension Scheme and £nil to The Combined Pension Scheme. Unpaid contributions amounting to £438,000 at 31 March 2006 (2005: £nil) were held within creditors.

The Combined Pension Scheme

The FRS 17 valuation at 31 March 2006 indicates the Combined Pension Scheme had a surplus of £426 million (2005: £449 million). The scheme valuation is based entirely on a theoretical calculation as there is no actual fund. The surplus is therefore notional and it is not recognized in the Group accounts of the parent company British Nuclear Fuels plc. Detailed FRS 17 disclosures in relation to the group pension scheme are included in the British Nuclear Fuels plc statutory accounts for the year ended 31 March 2006.

The employer contribution rate was zero in the year to 31 March 2006 and will be 15% from 1 April 2006.

The BNFL Group Pension Scheme

The FRS 17 valuation at 31 March 2006 indicates the BNFL Group Pension Scheme had a deficit of £71 million (2005: £71 million). Detailed FRS 17 disclosures in relation to the group pension scheme are included in the British Nuclear Fuels plc statutory accounts for the year ended 31 March 2006.

From 1 July 2005, the employer contribution rates changed. Previously the rate was 14.5%. The new rates range from 14.0% to 14.9%. In addition annual contributions of £6.4 million are being made by the Company over seven years with effect from March 2005 to repair the deficit.

Notes *(continued)*

The Electricity Supply Pension Scheme

The FRS 17 valuation at 31 March 2006 indicates the Electricity Supply Pension Scheme had a surplus of £9 million (2005: deficit of £114 million). Detailed FRS 17 disclosures in relation to the group pension scheme are included in the British Nuclear Fuels plc statutory accounts for the year ended 31 March 2006

29 Post balance sheet events

In October 2006 the Secretary of State for Trade and Industry approved a joint proposal regarding the future strategy for British Nuclear Fuels plc (BNFL) which was presented separately to the BNFL and NDA Boards respectively. Both the BNFL and NDA Boards have agreed that the priority at Sellafield should be to support the creation of a competitive nuclear clean-up market in the UK and in particular to prepare the site for competition as safely and quickly as possible. This will enable the NDA to run a full competition for the Sellafield M&O contract as quickly as reasonably possible. The BNFL Board has also decided that British Nuclear Group Limited will not bid for the new Sellafield contract once it is competed by the NDA. As a result, once the Sellafield contract is competed, the ownership of the Company will be transferred to the successful entity.

On 1 October 2006 the Company sold 49% of the shares of International Nuclear Services Limited (formerly International Nuclear Fuels Limited) to the NDA for £1.

In February 2007, it is proposed that the trade and working capital relating to the Low Level Waste Repository will be transferred to a new company. This is in preparation for the forthcoming competition process for the M&O contract in respect of the Low Level Waste Repository.

30 Related party disclosures

As the company is a wholly owned subsidiary of British Nuclear Fuels plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of British Nuclear Fuels plc, within which this company is included, can be obtained from the address given in note 31.

During the year the Company earned fees of £44 million on M&O contracts with the NDA, which is under common control of the Government (see note 31). During the year the Company incurred costs of £1,061 million under M&O contracts with the NDA, and these Site Licence Company costs were reimbursed by the NDA under the terms of M&O contracts between the Company and the NDA. At 31 March 2006 the Company had debtors of £237 million with the NDA in respect of fees and working capital recoverable under the M&O contracts.

Exceptional items of £197 million (see note 5) arose as a result of certain assets and liabilities of the Company being transferred to the NDA and the Secretary of State for Trade and Industry, and other BNFL group companies by means of transfer schemes under the Energy Act 2004.

31 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of British Nuclear Group Limited, a company registered and incorporated in England and Wales. The ultimate parent undertaking is British Nuclear Fuels plc. The consolidated financial statements of British Nuclear Fuels plc are available to the public and may be obtained from 1100 Daresbury Park, Daresbury, Warrington, WA4 4GB.

The ultimate controlling party of the Company is considered by the Directors to be Her Majesty's Government. Undertakings under common control of the Government are the NDA, the Ministry of Defence, and the UKAEA.

32 Derivatives and other financial instruments

As explained in note 1o, the Company uses derivatives and other financial instruments in managing the risk associated with its business. The Company does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board. The following numerical analysis gives an indication of the significance of these instruments to the Company.

Notes *(continued)*

a Fair value of derivatives and other financial instruments

Set out below is a comparison of the book values and fair values of the Company's derivatives and other financial instruments (excluding short-term debtors and creditors). Fair values have been based on published market prices (for listed instruments) or estimates made from discounted cash flow analysis (for unlisted instruments). At 31 March 2005, the fair value of the net financial assets and derivatives was £254 million in excess of book value. Certain other assets and liabilities held by the Company have not been assigned a fair value as the instruments are not readily traded or because their book value approximates to their fair value.

		Book values		**Fair values**
	2006	2005	**2006**	2005
	£M	£M	**£M**	£M
Financial assets				
Nuclear Liabilities Investment Portfolio (note 12d)	-	3,773	-	3,990
Gilt investments (note 15)	-	109	-	137
Short term deposits (note 15)	-	825	-	825
Trade investments (note 12c)	-	2	-	2
Cash	-	9	-	9
	-	4,718	-	4,963
Financial liabilities				
Overdraft (note 16)	-	(169)	-	(169)
	-	(169)	-	(169)
Derivatives				
Foreign currency options	-	7	-	7
Foreign exchange forward contracts	-	-	-	9
	-	7	-	16
Net financial assets and derivatives	-	4,556	-	4,810

		Net unrecognised gains/(losses)
	2006	2005
	£M	£M
Foreign currency hedge instruments:		
Foreign currency options	-	-
Foreign exchange forward contracts	-	9
	-	9

Notes *(continued)*

b i Currency exposure

Set out below is an analysis of the Company's exposure to financial instruments denominated in currencies other than the operational currency of the individual business units. These currency exposures are disclosed after taking into account derivatives and other financial instruments entered into to manage the Company's exchange rate positions.

Functional currency of operation	Net foreign currency monetary assets		
	US Dollar £M	**Euro £M**	**Total £M**
Sterling	-	-	-
At 31 March 2006	-	-	-
Sterling	138	-	138
At 31 March 2005	138	-	138

ii Hedges

Board policy is that all significant foreign exchange transactions expected to crystallise are hedged. This is done by forward contracts, currency options, or where appropriate, by matching receipts and payments in the same currency.

The difference between the fair value of derivatives and the book values of derivatives is derived as follows:

	Gains £M	**Losses £M**	**2006 Net total £M**	Gains £M	Losses £M	2005 Net total £M
Unrecognised gains/(losses) at 1 April	22	(13)	9	16	(12)	4
(Gains)/losses arising in previous years recognised in current year	(22)	13	(9)	(7)	9	2
(Gains)/losses arising in previous year not recognised in current year	-	-	-	9	(3)	6
(Gains)/losses arising in current period not recognised in current year	-	-	-	13	(10)	3
Unrecognised gains/(losses) on hedges as at 31 March	-	-	-	22	(13)	9

Unrecognised gains and losses as at 31 March 2006 are expected to be recognised as follows:

Notes *(continued)*

		2006		2005	
		Gains	**Losses**	Gains	Losses
		£M	**£M**	£M	£M
Within one year	- Foreign exchange currency options	-	-	-	-
	- Foreign exchange forward contracts	-	-	7	(8)
After one year	- Foreign exchange currency options	-	-	-	-
	- Foreign exchange forward contracts	-	-	15	(5)
		-	-	22	(13)

c *Interest rate risk*

The tables below summarise the interest rate profile of the Company's financial instruments (excluding short-term debtors and creditors) after taking into account the effect of currency derivatives used to manage the risk associated with these instruments. Financial assets and liabilities are as analysed in note 32a.

i Financial assets

	Floating rate	**Fixed rate**	**Non bearing interest**	**Total**	**Fixed rate instruments Weighted average interest rate**	**Fixed rate instruments Weighted average period to maturity**
	£M	**£M**	**£M**	**£M**	**%**	**Years**
Sterling	-	-	-	-	-	-
US Dollar	-	-	-	-	-	-
Euro	-	-	-	-	-	-
Total financial assets at 31 March 2006	-	-	-	-	-	-
Sterling	3,208	1,448	42	4,698	5.3	1.5
US Dollar	38	-	-	38	-	-
Euro	-	-	-		-	-
Total financial assets at 31 March 2005	3,246	1,448	42	4,736	5.3	1.5

Notes *(continued)*

Financial assets bearing no interest can be analysed as follows:

	2006 £M	2005 £M
Funds within Nuclear Liabilities Investment Portfolio	-	22
Debtors falling due after more than one year	-	18
Trade investments	-	2
	-	42

The debtors falling due after more than one year had a weighted average period to maturity in 2005 of 5.35 years.

ii Financial liabilities

	Floating rate	Fixed rate	Non bearing interest	Total	Fixed rate instruments: Weighted average interest rate	Fixed rate instruments: Weighted average period to maturity
	£M	£M	£M	£M	%	Years
Total financial liabilities at 31 March 2006: Sterling	-	-	-	-	-	-
Total financial liabilities at 31 March 2005: Sterling	169	-	-	169	-	-

Floating rate assets and liabilities, which include bank loans and deposits, borrowings and index-linked bonds, have interest rates which vary in accordance with market rates over periods ranging from three days to a year. Coupons on the index-linked gilts are reset every six months in line with inflation.

d British Energy contracts

Prior to the transfer of the Company's economic benefit in the Site Licence Companies' contracts to the NDA, the Company had contracts with British Energy for the supply and reprocessing of nuclear fuel that included elements that were dependant on the market price of electricity. These elements of the contract were effectively financial derivatives. Under the fuel supply contract, the income the Company received was reduced for drops in the market price of electricity below £19.1\Mwh with a floor at £15.9\Mwh. The Company's maximum annual exposure under this arrangement was £16 million. At the previous year end, based on forecasts of electricity prices, the estimated fair value of the derivative was £nil. Under the fuel reprocessing contract the Company received additional monies if the market price of electricity exceeded £16.9\Mwh, up to a ceiling of £22\Mwh. Alternatively income was reduced if the market price of electricity dropped below £16.9\Mwh with a floor at £15.7\Mwh. The Company's maximum annual exposure under this arrangement was £22 million. At 31 March 2005, based on forecasts of electricity prices, the estimated fair value of the derivative was £690 million.