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# United Kingdom Atomic Energy Authority Accounts 2005-2006

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## Management commentary

These accounts comply with the provisions of Section 4(3) of the Atomic Energy Authority Act 1954 and Directions issued by HM Treasury. The Act requires the Comptroller and Auditor General (C&AG) to examine and certify the accounts and lay copies, together with his report, before each House of Parliament. A copy of the C&AG's certificate and report can be found on pages 26 to 27.

### Background

The Group comprises the United Kingdom Atomic Energy Authority (UKAEA) and its subsidiary undertakings AEA Insurance Ltd and UKAEA Ltd. UKAEA is a Non-Departmental Public Body sponsored by the Department of Trade and Industry (DTI) and was originally established as a public corporation by the Atomic Energy Authority Act 1954 to pioneer the development of nuclear energy in the UK.

Our primary task today is managing the decommissioning of nuclear reactors and other radioactive facilities used for the civil nuclear research and development programmes in a safe and environmentally responsible manner and restoring nuclear sites for conventional use. We also manage the UK contribution to fusion research within the European and world programme.

We have five operational sites in the UK: Culham, Dounreay, Harwell, Windscale and Winfrith. With the exception of Culham, all are licensed under the Nuclear Installations Act 1965.

**Culham**, Oxfordshire, is the centre for the UK fusion programme. It was established in 1960 and occupies approximately 180 acres. In recent years the site has expanded and diversified and is the host to the Joint European Torus (JET), currently the principal project in the European fusion programme. The site also includes UKAEA fusion research facilities.

**Dounreay**, Caithness, pioneered the development of fast reactor technology in the UK. The site was opened in 1955 and three reactors were built over the next 20 years – the Dounreay Fast Reactor, Prototype Fast Reactor and the Dounreay Materials Test Reactor. All are now closed and significant progress is being made to decommission the reactors and ancillary nuclear facilities and to restore the environment.

**Harwell**, Oxfordshire, is the headquarters of UKAEA and was formerly RAF Harwell. Following the closure of Harwell's three research reactors (GLEEP, DIDO and PLUTO) in 1990, significant progress has been made in removing the site's nuclear facilities. Environmental restoration work continues and applications are being prepared to delicense restored former nuclear areas so they can be released for unrestricted use.

**Windscale**, Cumbria, is situated on the British Nuclear Fuels plc Sellafield site and has its own site licence. The site includes Windscale Piles I and II, and the Windscale Advanced Gas-Cooled Reactor (WAGR). The Windscale Piles were shut down in 1957 following the Windscale fire and Pile I is now being decommissioned. WAGR was shut down in 1981 and is now the UK's demonstration project for complete decommissioning of a power-generating advanced gas-cooled reactor.

**Winfrith**, Dorset, was chosen for development in the mid 1950s when it had become necessary to assess the wide variety of different reactor types being developed in the UK. Significant progress has been made in decommissioning the site to continue the development of a thriving science and technology park. The main facility at Winfrith was the Steam Generating Heavy Water Reactor which was closed in 1990 and is now being decommissioned. Decommissioning is being accelerated and the eastern end of the site has been sold to English Partnerships.

Until 31 March 2005, the decommissioning programme at our sites was funded by DTI in the form of grant-in-aid. From 1 April 2005 financial responsibility for the decommissioning of the UK's civil nuclear sites passed to the Nuclear Decommissioning Authority (NDA) under the Energy Act 2004. We now operate as a contractor to the NDA for the management of the decommissioning at our sites. DTI no longer provide funding for our decommissioning programme although they continue to fund other areas of our business.



## Nuclear clean-up

UKAEA is a byword for excellence in nuclear clean-up. As one of the world's most experienced decommissioning companies, we draw on a proven track record and a high level of technical expertise to offer our customers a full range of specialist decommissioning, waste management and environmental remediation services.

In 2005-2006 we achieved performance that compares well with the best internationally, in delivering site restoration programmes under contract to the NDA. The year has also seen significant developments as we look to move into new markets and broaden our portfolio of clients. Having bolstered our commercial capabilities, we are now competing strongly and contract wins in a range of service areas indicate that this strategy is bearing fruit.

### Business development

Following Government approval of our business plan in April 2005, we intensified preparations to bid for NDA contracts at UK civil nuclear sites – our core market – and beyond. In support of this, in January 2006 we formed an alliance with AMEC plc and CH2M HILL to compete in this market.

UKAEA is also targeting low risk opportunities outside the NDA market, including other nuclear-orientated organisations within the UK and programmes in European Union accession states and the Former Soviet Union. Building on our existing reputation, we have already made progress in establishing ourselves in these markets, winning contracts to supply decommissioning, waste management, programme management and assurance services during 2005-2006.

### Delivering NDA contracts

Performance in site clean-up programmes at Dounreay, Harwell, Windscale and Winfrith was strong. We delivered 95.5 per cent of NDA performance-based incentives on or ahead of schedule and completed the year's work at 12 per cent below estimated cost, while maintaining a good safety and environmental record.

Our site restoration plans consolidated the major accelerations and cost reductions we announced in 2004-2005, despite absorbing an extra £290 million share of national waste disposal costs. Further accelerations during 2005-2006 enabled us to complete an additional £24 million (around 10 per cent) of budgeted work compared to the original year's work plan.

Operational highlights included

#### *Decommissioning*

UKAEA completed the decommissioning of the ZEBRA reactor at Winfrith during 2005-2006. The project was safely carried out to time and cost and was a further milestone in the programme to decommission the Winfrith site by 2017, which will make it the UK's first major nuclear site to be fully restored. First phase decommissioning of the site's landmark Steam Generating Heavy Water Reactor also began during 2005-2006. Work progressed well and was 12 weeks ahead of schedule at the year end.

Good progress was made in reducing major hazards at the Dounreay site. Disposal of coolant from the Prototype Fast Reactor continued, with over 1,100 tonnes of material now safely processed – a world record for liquid metal destruction – and clean-up savings of £1 million made through new thinking on sodium removal. Dounreay Fast Reactor decommissioning moved forward, including dismantling of reactor components, completion of the NaK disposal plant and construction work on a containment building for breeder removal. Considerable progress was made at the Dounreay Material Testing Reactor – notably the demolition of support buildings and removal of equipment from the pond facility. Successful trials were also carried out in preparation for isolating the Dounreay waste shaft from the surrounding environment.

Decommissioning at Harwell progressed well. Two hangars that previously housed experimental facilities were demolished, allowing the clearance of a 15-acre area for new development. We used innovative engineering techniques to take forward the clean-up of the B393.6 remote handling building and made excellent progress in decommissioning the site's Liquid Effluent Treatment Plant.

At Windscale, the year saw the first intrusive survey of the Pile 1 reactor core since it was damaged by fire in 1957. The information gathered will be crucial in designing a safe decommissioning plan. Meanwhile we advanced the site restoration programme with a series of building demolitions in preparation for the final removal of reactor structures.

#### *Waste management*

Recovery and repackaging of historic waste stocks into improved storage conditions at Harwell is ahead of schedule. UKAEA continues to develop the technology to deliver this challenging programme – a key part of the site's restoration plan – by the 2015 target date.

The Dounreay WRACS plant processed its 30,000th waste drum and has produced major reductions in the volume of low level waste stored at the site in its five years of operation.

We have taken forward plans to add to Dounreay's industry-leading waste management facilities. In particular, construction of a new waste handling facility, which will increase the site's capacity for conditioning and storing waste from decommissioning, continued on track for completion in 2007. Preparations for a key plant to immobilise liquid fast reactor waste – the largest single hazard at Dounreay – also advanced, with construction expected to start in 2007.

#### *Land remediation*

Pioneering clean-up technologies are being tested in a key land remediation project at Harwell. Chemical waste landfill at the site's Western Storage Area was excavated last year, and we have begun work on dealing with groundwater pollution in the chalk below the area. The vapour extraction techniques being trialled are a world first and will allow us to accelerate the overall project timescale.

### Fusion research

UKAEA is at the heart of international efforts to fulfil the huge promise of fusion as a carbon-free energy alternative.

Fusion technology will harness the process that powers the sun and stars to produce a reliable and secure source of energy here on earth. Fusion power stations would have many attractive features. Supplies of the required fuels are virtually limitless; there are none of the environmental emissions associated with fossil-fuelled generation and no long-lived radioactive waste; and fusion is an inherently safe system.

The focus of fusion R&D is now shifting from the physics of creating and maintaining a hot gas in which fusion occurs, to integrating this plasma with the technologies needed in a power station and identifying materials that can survive years of operation in a fusion reactor. The next phases are construction of the ITER international tokamak experiment and of the proposed International Fusion Materials Irradiation Facility.

As well as having a contract to operate the world-leading Joint European Torus (JET) facility for experiments by teams of European scientists and undertaking the UK's own contributions to international fusion research, UKAEA has mapped out the steps needed to make commercial fusion power plants a reality. If this fast-track development programme is followed, which would cost the equivalent of a few weeks' spending in the international energy markets, electricity could be generated from fusion in under 30 years.

### Supporting ITER

ITER is the next major international fusion research project and is a key step towards achieving commercial fusion power. The €5 billion project will produce fusion reactions at a scale and in conditions that should demonstrate the technological feasibility of fusion as an energy source.

In June 2005, it was announced that ITER will be built at Cadarache in southern France. The ITER site opened in December 2005 and the first staff have arrived to prepare the way for the facility, which is expected to begin operating in 2016.



As a key player in the international fusion community, UKAEA is taking a leading role in securing benefits from ITER development and construction to the UK. We are discussing with UK Trade & Investment ways in which British industrial involvement in ITER can be maximised. In December 2005, a major workshop on ITER contract opportunities in Barcelona brought together 700 representatives from European industry and fusion research. We joined forces with UK Government and industry in a 75-strong contingent to spell out the message that the UK is ready to help build ITER.

### **UK fusion programme**

The Engineering and Physical Sciences Research Council (EPSRC) provides most of the funding for the UK programme (the remainder is from EURATOM). EPSRC awarded UKAEA a major four-year grant in 2004 and in 2005 announced increased resources for fusion – a further indication of confidence in the progress being made at Culham.

The UK programme's lead facility, the Mega Ampere Spherical Tokamak (MAST), was in operation for much of 2005, during which good progress was made across a range of key research areas. Notable advances were made in the understanding of plasma stability, confinement, heating and exhaust of heat and particles in this novel fusion experiment. Many of these studies were carried out in close collaboration with international partners and UK universities.

We continued to develop and implement new sophisticated measuring instruments to probe the plasma and also made significant improvements to plasma control systems in 2005. Looking forward, there is an on-going programme to develop the plasma heating systems on MAST further and design studies for a proposed major upgrade of MAST are also being carried out.

### **JET**

Over the past two years JET has had a long and complicated shutdown during which major modifications have been made, including installation of many new items of equipment. The unique size and flexibility of the JET device has made these modifications possible, so that a new series of experimental campaigns can be undertaken in direct support of ITER. While the installations went well, there were a number of technical problems in the commissioning and restart phase. Experiments resumed just after Easter 2006.

### **International collaboration**

Following last year's move of the START facility to Italy, UKAEA agreed to give the COMPASS-D device, which operated at Culham until 2001, to the Czech Republic for its own research programme and to help train fusion scientists in European Union accession states. The machine should leave Culham towards the end of 2006.

### **Education outreach programme**

UKAEA has launched the next phase of its successful fusion educational outreach programme. The interactive 'SolarSphere' project will tour schools and science fairs to engage students between the ages of 9 and 13 in the science behind fusion. It builds on our well-established fusion roadshow and programme of student visits to Culham.

### **Property regeneration**

UKAEA believes that regeneration is an integral part of the lifecycle for its sites, ensuring that high quality employment opportunities will remain after the current programmes come to an end.

We have created thriving science and technology parks at Harwell and Winfrith on land released through decommissioning, by securing planning consents, developing the infrastructure and attracting new tenants. This work continues at Harwell as we lead exciting plans to create a world class campus for science and innovation.

At Culham Science Centre, there is also a range of mainly high-tech tenants and an Innovation Centre for start-up companies.

### **Harwell Science and Innovation Campus**

Harwell is already one of the largest centres for science and technology in the UK. It is home to 100 organisations and some of the world's most prestigious research facilities and teams. The campus is a natural venue for major science, engineering and technology initiatives and over £500 million is now being invested in new facilities.

Recognising this potential, the UK Government has identified Harwell as a key site in its Science and Innovation Investment Framework 2004-2014: Next Steps document, published in March 2006. It aims to develop the campus as a location for internationally-competitive science projects, a focus for public sector research and private sector investment and for knowledge transfer between academic and commercial interests.

In October 2005, the ambitious proposals for the campus were set out at a conference in London. Leading figures from Government, industry and the research community met to discuss how Harwell will play a vital role in boosting Britain's science and innovation performance.

UKAEA is leading the project with other key occupiers on the campus and will form a joint venture with private sector partners to accelerate the development of the campus and its infrastructure and amenities.

During 2005-2006, we continued to oversee the expansion of the business centre at Harwell. New buildings have taken shape and more tenants have been attracted to the site as an excellent location to grow their businesses. Progress has included

- full occupancy of the first part of the Library office redevelopment and completion of the second phase;
- the start of construction work on a new £4 million headquarters building for educational IT specialists UKERNA;
- the opening of a new 90-place nursery to support employees on the campus.

Construction of the Diamond Light Source, on land leased by UKAEA, is on course and operations will start in early 2007. Diamond – jointly funded by the Council for the Central Laboratory of the Research Councils (CCLRC) and the Wellcome Trust – is the UK's largest new scientific facility for 30 years and will lead to breakthroughs in pharmaceutical research, earth sciences, materials science and medical treatments.

### **Culham Science Centre**

At Culham, the site's Innovation Centre (run by Oxford Innovation) is celebrating five years of supporting technology-based businesses and is poised to expand as it looks to further success in the future. The Innovation Centre is fully occupied and plans are now underway to secure further accommodation. A number of its start-up companies receive assistance from the fusion programme via UKAEA's technical support package, allowing them to benefit from expertise gained in fusion research in their own commercial applications.

### **Corporate social responsibility**

As a nuclear operator, we believe that social and environmental responsibility is particularly important to the way we do business. Responsible working is embedded within our culture – established in our main corporate values and integral to the decision-making process right through the organisation.

In practice, this means

- safeguarding the health and safety of the public, our employees and contractors;
- protecting the environment;
- being open and transparent in our communications with the public;
- consulting and engaging with our stakeholders;
- supporting the prosperity and well-being of communities around our sites; and
- dealing fairly with our contractors and suppliers.



To ensure we are meeting our obligations, we have adopted the well-established 'Winning with Integrity' model for corporate social responsibility (CSR). This is backed up with independent CSR audits to provide a structured approach for judging our progress and identifying areas for improvement.

The benefits of this approach are clear: our operations are carried out with sensitivity for the environment; and the support of local people, planning authorities and regulators enables us to complete our projects smoothly.

### **Safety, health, environment and security**

Our business requires the highest levels of safety, security and environmental protection and anything less is unacceptable. Safe working is, and will remain, our top priority.

We have a safety-focused culture, an integrated approach to security, safety, health and environmental management and an excellent performance record. However, we know we can still do better. We strive towards a goal of no harm to people, property and the environment from our operations and no reduction in security, and we have strong mechanisms to learn and share experience across the company.

### **Safety, health, environment and security record**

Our performance in 2005-2006 was good, with decreases recorded in the number of safety, health and environmental events, reportable injuries, lost time accidents and in the employee radiation dose rate. Our high standards were reflected by the achievement of one of the UK's most coveted safety awards – a Royal Society for the Prevention of Accidents (RoSPA) Gold Medal for best practice in health and safety.

However, we were disappointed by the safety incident that occurred at the Dounreay Cementation Plant in September 2005. The plant is on course to restart in autumn 2006 after the clean-up of a spillage of cement and radioactive liquid inside a sealed mixing cell. Lessons learned from the event gave added focus to a complete overhaul of the site's organisation and safety management that took place during the year.

*Safety, health and environmental events* – The number of events across our sites within the reporting period decreased to the lowest number since the system was introduced around a decade ago. There were 40 events in 2005-2006, compared to 48 in the previous year.

*RIDDOR Reportable Injuries Incidence Rate* – This includes injuries which result in employees being unable to complete their normal work for more than three days, as well as major injuries as defined by the UK Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) Regulations. In 2005-2006 UKAEA recorded a rate of 262, a reduction from 425 the previous year. Although this figure compares favourably with other industries, we are determined to reduce the rate even further.

*Radiation dose* – The total radiation dose to individuals working for UKAEA in the 2005 calendar year remained low. No employee received a dose greater than 3.26mSv, approximately 16 per cent of the allowed annual dose. The average dose received by employees was 0.10mSv, equivalent to 3.7 per cent of the average background radioactive dose received by members of the public.

*Lost Time Accident Frequency Rate* – Our Lost Time Accident Frequency Rate during the year dropped to 0.16 per 100,000 hours worked. This is a decrease compared to the previous year's figure of 0.35 per 100,000 hours.

*International Nuclear Event Scale (INES)* – INES is a worldwide system for identifying the seriousness of any incident involving nuclear plant. It is devised by the International Atomic Energy Agency and managed in the UK by the Nuclear Installations Inspectorate. The scale moves from 1 ('anomaly') to 7 ('major accident'). During the year UKAEA recorded two Level 1 INES events.

*International Safety Rating System (ISRS)* – ISRS is an independently audited system used to benchmark safety management at thousands of industrial sites across the world. High ISRS scores were maintained at our sites, with Dounreay at Level 8 out of 10 and all other licensed sites at Level 7.

*Nuclear Material Unaccounted For (MUF)* – The nuclear material unaccounted for figures for 2004-2005 were published by the Department of Trade and Industry in February 2006. The MUF figures for UKAEA gave no cause for concern.

*Emergency arrangements* – At the end of the year all our sites had been assessed by the regulator as having demonstrated adequate emergency arrangements as part of their Level 1 exercises.

*ISO14001 environmental certification* – In 2005-2006 we maintained independently audited ISO14001 certificates for our nuclear licensed sites and for the Culham site. This indicates the effectiveness of our environmental management systems and our commitment to continual improvement. This will be demonstrated again in 2006 as our sites prepare to be re-certified to ISO14001:2004 standard, showing that we can operate within even stricter guidelines.

*Radiological discharges* – We continued to make discharges of very low levels of radioactive substances in liquid and gaseous form in accordance with authorisations given by the Environment Agency and Scottish Environment Protection Agency under the Radioactive Substances Act. The authorisations include limits that are set by the agencies at levels well below those that would cause harm to human health or to the environment. In addition to this, we used Best Practicable Means option studies to further minimise our discharges. Confirmation that our discharges have a negligible impact on the environment surrounding our sites was demonstrated by the results of extensive environmental monitoring programmes throughout 2005-2006. In addition to this, sections of the Dounreay site have operated successfully under a Pollution, Prevention and Control (PPC) Permit for non-ferrous metal processes.

*Dounreay partides* – We sought views from the public about the management of partides in Dounreay's marine environment, as a precursor to consultation on the options in 2006. Seabed surveys were carried out using a robotic underwater monitoring device and monitoring of local beaches continued. Independent assessments carried out for SEPA confirmed the low risk to members of the public who use the beaches. Work also continued to assess alternative technologies for beach monitoring.

*Security* – Upholding high security standards throughout the company was a constant theme during the year. This focus ensured that our sites maintained compliance with the Nuclear Industries Security Regulations 2003 and that there were no security breaches involving nuclear material at sites or in transit. Our site security regimes were periodically inspected and tested by the regulator (the Office for Civil Nuclear Security), providing a high level of assurance that security standards are being fully maintained.

### **Engaging with our stakeholders**

We place great importance on working closely with our stakeholders to ensure that projects are carried out in an acceptable manner. During 2005-2006 we undertook a range of initiatives to strengthen stakeholder relations.

Our public participation programmes, which enable people to give their views on projects that could affect their local environment, are recognised as forming best practice within the UK nuclear industry. We continued to involve the public in deciding options for site clean-up in 2005-2006

- in December 2005, we launched the preliminary phase of a major consultation on options for managing radioactive particles in the marine environment at Dounreay;
- we sought the community's views on siting of a new low-level radioactive waste facility near Dounreay. We identified an alternative location after listening to the views of local residents and this dialogue is ongoing;
- at Harwell, we began consulting local people on the management of high volume/low activity solid waste generated by decommissioning; and
- we also started a stakeholder consultation on the best option for managing waste on the Windscale site.

In April 2005, the NDA established a national network of independently-chaired site stakeholder groups to replace previous local liaison committees. We played a full part in forming reconstituted groups at Dounreay, Harwell, Winfrith and in creating a Windscale committee of the West Cumbria Sites Stakeholder Group. Our staff maintained an open dialogue with these groups throughout the year. As part of the NDA's aim to agree end states for all UK



decommissioning sites, we are facilitating local consultations in partnership with the site stakeholder groups, which will be completed during 2006-2007.

During the NDA's first year of operation, we hosted a series of visits by Board members and senior staff to familiarise them with the site programmes and update them on the progress being achieved on clean-up projects.

### **Supporting local communities**

We are committed to the well-being of the communities in which we operate. We generate economic benefits by maintaining a healthy local supply chain and developing skills and opportunities that can be sustained in the long-term.

At Dounreay, for example, we are playing a key role in the North Highland Initiative, launched in August 2005, through the provision of a project co-ordinator seconded from UKAEA. We are also one of a number of agencies represented on the Caithness Socio-economic Working Group, established in July 2005 and chaired by John Thurso MP.

More evidence can be seen in our continuing commitment to high quality apprenticeship programmes. The long-established Dounreay scheme is set to feature an enhanced programme of traditional craft training with a specialism in decommissioning. This will maintain an emphasis on the engineering skills demanded in today's workplace while providing the practical training to work in the expanding opportunities of decommissioning nuclear facilities like those at Dounreay. We also launched a new apprentice scheme at Culham during 2005, aimed at training a new generation of fusion technicians.

We pride ourselves on strong community links and play an active role in local life by providing support for dozens of events and organisations each year. In addition, we continued our partnership with the British Trust for Conservation Volunteers in 2005-2006. Over the course of the year, our employees brought their skills and enthusiasm to benefit many community environmental projects, from pathlaying by Dounreay volunteers at the Loch of Mey to Windscale staff helping to maintain a nature reserve at Eskdale.

### **Freedom of Information**

UKAEA supports the principles of the Freedom of Information (FOI) Act and makes every effort to comply with its requirements. In 2005-2006, we received 331 FOI requests. We responded to 98 per cent of these within the 20-day limit set by the Act. In six cases, the period had to be extended to receive clearance from third parties. Details of UKAEA documents released under the FOI Act can be found at [www.ukaea.org.uk](http://www.ukaea.org.uk).

### **Our employees**

*Equal opportunity* – Our policy is that all employees and eligible job applicants should enjoy equal opportunity for employment and advancement on the basis of their ability, qualifications, experience and suitability for the work. We will not discriminate on the grounds of sex, race, ethnic origin, religion, religious belief or similar philosophical belief, sexual orientation, trade union membership or disability. Full details of the policy statements describing the equal opportunity framework are available for guidance to managers and employees. Monitoring of ethnicity, disability and gender is carried out in support of our equal opportunity policy.

*Employee communications* – Employee communications are provided via the UKAEA Intranet, which is updated daily, and the UKAEA Today newspaper, which is published ten times per year. Matters of local and corporate interest are addressed in monthly team briefings. Various other matters are addressed during regular consultation and discussion with local and central employee representatives. With the introduction of the NDA it is a time of significant change for UKAEA. We have ensured that staff have been kept fully informed of our forward strategy, and what it means for them. The Trade Unions have been consulted throughout our business transformation programme, and we have continued to discuss other matters of importance to staff with employee representatives.

*Organisational development and training* – We recognise that the full potential of our employees will only be realised by continually investing in their training and development. The UKAEA Training and Development Plan is directly linked to the achievement of corporate objectives. Special emphasis is given to project management, safety training, team development and people management. Where appropriate, training and development is linked to nationally recognised qualifications or the standards set by professional bodies. UKAEA is an accredited Investor in People and was successfully re-assessed against the standard in November 2004.

*Improving health* – We attach great importance to the health of our staff and provide access to occupational health and welfare services at each site. Stress management, smoking, alcohol and drug misuse policies are implemented to safeguard the health, safety and welfare of its employees.

*Employee numbers* – The average number of full-time equivalent employees during the year was 2,289.

### **Contractors**

UKAEA has led the development of a competitive decommissioning sector in Britain, encouraging the market to inject innovation and provide best value for the UK taxpayer. During 2005-2006, we have continued to nourish a healthy supply chain by competing contracts wherever possible.

## **Financial review**

### **Transfers of function**

The following transfers of assets and liabilities to other organisations within the UK public sector have been accounted for as transfers of function in accordance with the Government Financial Reporting Manual

- a On 1 April 2005, responsibility for the UKAEA Constabulary was transferred from UKAEA to a new independent policy authority, the Civil Nuclear Police Authority (CNPA), established by the Energy Act 2004. Certain assets and liabilities and all employees of the UKAEA Constabulary were transferred to the CNPA on that date.
- b From 1 April 2005, financial responsibility for the decommissioning of designated nuclear sites passed to the NDA under the Energy Act 2004. UKAEA's sites at Dounreay, Harwell, Windscale and Winfrith have been designated to the NDA and UKAEA does not have financial responsibility for nuclear liabilities on these sites or on non-UKAEA sites from that date. Nuclear liabilities amounting to £4.28bn have been derecognised from UKAEA's accounts and the majority have been transferred to the NDA who will make provision for the liabilities going forward.
- c The designation of some UKAEA sites to the NDA has resulted in the risks and benefits associated with certain fixed assets on these sites being transferred to the NDA although legal title to the assets still remains with UKAEA. In accordance with FRS 5 'Reporting the Substance of Transactions', these assets have been derecognised from UKAEA's accounts and instead will be included in the accounts of NDA.

These transfers have been accounted for using merger accounting as defined in FRS 6 'Acquisitions and Mergers' and comparative figures in these accounts have been restated as if the transfer had taken place in the both the current and preceding accounting periods. Further details of these transfers of function are included in Note 2 to the accounts.

### **NDA contract**

The new contractual arrangements with the NDA came into force from 1 April 2005. The initial contract is for a period of three years and provides for the funding of decommissioning work at UKAEA sites that have been designated to the NDA under the Energy Act 2004. Under the terms of the contract, our expenditure is reimbursed at cost. In addition, we are entitled to receive a fee based on the achievement of performance based incentives (PBI) agreed in advance with the NDA. Both the reimbursement of cost and fee earned are included in turnover in these accounts.



NDA intend to compete the management and operation of all sites that have been designated to them and have recently announced their competition schedule. This schedule shows that our current sites will not be competed until after the current contract is due to expire and it is expected that the initial contract will be extended up to the date of competition.

Post competition, the NDA will place contracts with 'site licence companies' which will be separate legal entities formed to be responsible for the site(s) to which they relate. We are currently in the process of creating site licence companies for our designated sites and a transfer scheme will be used to transfer assets, liabilities and employees to the new companies in advance of competition. The transfer scheme will also legally transfer to the NDA certain fixed assets on the designated sites.

### Operating performance

Turnover amounted to £361.4 million (2004-2005 - £353.0 million) with funding received from the NDA replacing grant-in-aid funding previously received from the DTI. The fee potentially receivable for the achievement of performance based incentives under the NDA contract was £12.1 million (2004-2005 - nil). The NDA fee has been used to fund our ongoing restructuring as we change to become a more commercially orientated organisation, both in terms of the future competition of NDA sites and winning new business in other markets, and to fund certain costs not recoverable from NDA under the terms of the contract.

The NDA also set a target of delivering 7 per cent more value than in the original 2005-2006 Near Term Work Plan. Preliminary NDA-audited results indicate that we overall achieved 7.4 per cent savings against the total Annual Site Funding Limit. Savings were actually higher than this but only savings which indicated pro-active management and innovation were counted in the audit and any savings considered a windfall were discounted. Since year end, NDA have confirmed that the seven per cent target was achieved and all staff involved in the NDA programme will be entitled to an additional bonus. An estimate of the value of the bonus is included in these accounts.

The operating profit for the year was £0.4 million (2004-2005 - loss of £1.8 million) and represents the balance of fee not used to meet restructuring costs and disallowable costs. After adding the profit on disposal of an off-site property and financing income, the net profit for the year was £3.1m (2004-2005 - £0.6 million).

### Fixed assets

Details of the movement on fixed assets are set out in Notes 11, 12, and 13 to the accounts. As stated previously, certain fixed assets on the NDA-designated sites have been derecognised from UKAEA's accounts.

Tangible fixed assets increased by £26.6 million, due mainly to a revaluation surplus of £32.5 million, offset by depreciation and impairment charges and disposals. The revaluation surplus mainly related to the Harwell site

- Part of the site has been designated for housing development in the local council plan and the land has now been valued on this basis. This resulted in a substantial increase in value from its previous valuation which was based on agricultural land values; and
- The development of Harwell as a science and innovation campus has increased the development potential for the site and land values have been revalued accordingly.

All purchases of fixed assets were financed in full by income received. This income is deferred and released to the profit and loss account over the useful economic life of the assets.

A new subsidiary company, UKAEA Limited, was set up during the year as part of the restructuring of UKAEA. It is intended that our future decommissioning business will be conducted through this company and it is proposed that some staff will transfer from UKAEA to UKAEA Ltd during 2006-2007.

### **Treasury**

Bank and cash balances increased by £15.3 million compared to the previous year. This was offset by a decrease in investments held by AEA Insurance Limited with fund managers which are now being held as bank deposits. The balance at year end is higher than our average cash balance as it includes large receipts received just before year end which had matching payments after year end.

We continued to use forward foreign exchange contracts to mitigate the risk of losses on foreign exchange. During the year, forward contracts to sell euros with a value of €60.5 million were placed on a competitive basis.

### **Nuclear liabilities estimate**

Following the derecognition of nuclear liabilities on sites designated to the NDA, only liabilities relating to the decommissioning of UKAEA's site at Culham are included in these accounts. The estimated cost of decommissioning and environmentally restoring this site is £160 million, in 2005-2006 money values and discounted at 2.2 per cent to the balance sheet date. The 2004-2005 estimate, restated on the same terms, was £163.9 million. It is expected that the Culham site will be designated to the NDA after the current fusion research programme on the site has ended and the liabilities would then be derecognised from UKAEA's accounts at that time.

In accordance with guidance from HM Treasury, the rate used to discount the nuclear liabilities was reduced from 3.5 per cent to 2.2 per cent. This resulted in an increase of £16.9 million in the discounted nuclear liabilities. As these liabilities have a matching debtor, there was no impact on the profit for the year.

### **Taxation**

The basis on which we are subject to tax from 2000-2001 to 2005-2006 has been agreed with HM Revenue & Customs and is unlikely to result in any tax liabilities being incurred for the years up to the balance sheet date. With effect from 1 April 2005, certain statutory exemptions available to UKAEA were removed and this, along with the changes in the nuclear industry, will require our tax position to be re-addressed with HM Revenue & Customs. Further details of our tax position are set out in Note 9 to the accounts.

### **Pensions**

Details of our pension arrangements are set out in Note 7 to the accounts.

### **Borrowing**

The Atomic Energy Authority Act 1986 permits UKAEA to borrow from the National Loans Fund and elsewhere if the Secretary of State for Trade and Industry, with HM Treasury approval, consents. Borrowing is subject to an overall limit that stood at £200 million throughout the year. There were no borrowings during the current or previous year.

### **Charitable and political contributions**

During the year we made charitable contributions of £271,216 (2004-2005 – £96,175) to local charities in line with our policy of supporting local stakeholders. No political contributions were made in the current or previous year.

### **Research and development**

We carry out a wide range of research and development activities across all our programmes. The associated costs are charged to the profit and loss account as incurred.

**External audit**

The Accounting Officer and Directors confirm that

- there is no relevant audit information of which the auditors are unaware;
- all relevant steps have been taken to ensure that they are aware of relevant audit information; and
- all steps have been taken to establish that the auditors are aware of the information.

The cost of the statutory audit undertaken by the Comptroller and Auditor General was £0.1 million (2004-2005: £0.1 million). There were no non-audit services.

**Statement of payment policy and practice**

UKAEA follows the CBI Prompt Payment Code. Our policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are aware of the terms of payment and to abide by the terms of payment.

At 31 March 2006 trade creditors were equivalent to 14 days (2005 – 18 days) purchases during the year.

**Going concern**

The Directors believe that the contractual arrangements with the NDA for the funding of UKAEA's decommissioning programme, the continuing commitment of both UK and Europe to fusion research, and the DTI's acceptance of responsibility for costs associated with specified UKAEA liabilities are sufficient to support continuing operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the accounts.

**Key performance measures**

UKAEA is committed to being best in class and to achieve this we must achieve excellent results in delivering our work plans and maintain or improve performance against the key enabling measures included in the corporate and site plans.

Details of the performance measures and the outturns for the year are set out below.

**Delivery measure**

This measure shows performance against Performance Based Incentives (PBIs) for the NDA related programme (80 per cent) and the delivery of Fusion key milestones (20 per cent). Under contract with the NDA, we have agreed a number of PBIs that will measure performance in delivering the site programmes. The potential fee that we can earn from the NDA contract depends on the performance against these PBIs. The Fusion key milestones define the successful delivery of the 2005-2006 programme.

The outcome for 2005-2006 is yet to be confirmed, but is expected to be in the range 3.27 per cent to 4.52 per cent (2004-2005: 4.34 per cent), against a target range of 0 per cent to 5 per cent.

**Safety performance index**

This index promotes a positive safety culture and aims to reduce deviations from good safety practice. It includes the following elements: the number of health, safety and environmental events recorded in the Unusual Occurrence Record system; the aggregate score for the licensed sites under the International Safety Rating System; the percentage completion of safety maintenance plans; and the percentage of health, safety and environment investigations closed out and audit programmes undertaken.

The outcome for 2005-2006 was 56.8 (2004-2005: 43.9) against a target range of 0 to 60.



### **Environmental performance measure**

This measure promotes continuous improvements in environmental performance. The measure comprises of an environmental performance improvement plan with specific targets and milestones including those appropriate to the implementation of the Nuclear Sector Plan.

The outcome for 2005-2006 was the achievement of 100 per cent (2004-2005: 98.8 per cent) of the milestones against a target range of 92 per cent to 97 per cent.

### **Media performance measure**

The purpose of this measure is to improve UKAEA's public image and its impact on the public acceptability of UKAEA's work programmes. The measure assesses the balance between good and bad media coverage. The assessment is carried out by an external media tracking company, with trained analysts assessing the favourability of press and broadcast articles relating to UKAEA on a percentage scale of 0 to 100 per cent. A broadly balanced article receives a favourability rating of 50 per cent, with higher scores being more favourable and lower scores less. The scores are weighted according to the circulation or audience numbers for the newspaper or broadcast programme concerned, thereby reflecting the impact on public awareness.

The outcome for 2005-2006 was 50.7 per cent (2004-2005: 51.5 per cent) against a target range of 48 per cent to 50 per cent.



## Board of Directors

**Barbara Thomas Judge** (59), *Chairman* – appointed to the Board on 1 September 2002 and appointed Chairman on 1 May 2004. She is Chairman of the School of Oriental and African Studies, Deputy Chairman of the Financial Reporting Council and Friends Provident plc and a Non-Executive Director of several other public and private companies. She has had a successful career in international banking and financial regulation during which she held several senior positions that included Director at News International, Board Director at Samuel Montagu & Co and US Securities Exchange Commissioner.

**Dipesh Shah** (53), *Chief Executive and Accounting Officer* – appointed Chief Executive Officer and Accounting Officer on 15 November 2003. He is Non-Executive Chairman of Viridian Group PLC, a Non-Executive Director of Babcock International Group plc and a Non-Executive Director of the Oxfordshire Economic Partnership. He was previously at BP plc, latterly as Vice President and General Manager, Acquisitions and Divestments and formerly as Chief Executive of several businesses within BP plc. He is also a past member of DTI's Renewable Energy Advisory Committee and a past Chairman of the European Photovoltaic Industry Association.

**Colin Bayliss** (56), *Director, Major Projects and Engineering Division* – joined UKAEA in August 1997 and was appointed to the Board on 1 February 2002. He is a Non-Executive Director on the Cogent Sector Skills Council. He has worked on major projects for a number of engineering consultancies and contractors and was Engineering Director for the Channel Tunnel main contractor, Transmanche Link, during the last two years of its construction. Most recently, he was Technical and Engineering Director for UK Nirex Ltd.

**Norman Harrison** (54), *Director, Dounreay Division* – joined UKAEA and appointed to the Board on 1 November 2003. He previously worked for British Energy plc as Sizewell B Station Director. He has worked in the power industry for 28 years, initially working at conventional power stations, before moving into nuclear plant in 1980.

**Andrew Jackson** (55), *Chief Financial Officer* – joined UKAEA and was appointed to the Board on 1 September 2005. He has held a number of senior positions in the construction industry, most recently as Finance Director of the Utility Services Division at Alfred McAlpine where he also held several senior finance executive positions as the group expanded beyond its traditional construction markets. Previously he was Chief Financial Officer and Director at Bovis International and Finance Director at Norwest Holst Construction Ltd.

**John Kennedy** (56), *Non-Executive Director* – appointed to the Board on 1 June 2005. He is Chairman of two leading businesses, Vetco International and Wellstream International, which provide high quality engineering products for oil and gas production. Previously he held several senior positions at the Halliburton Company, his last role being Executive Vice President.

**Mark Slaughter** (51), *Non-Executive Director* – Appointed to the UKAEA Board on 5 April 2005. He is Managing Director/Chief Operating Officer – Investment Banking at Citigroup. A qualified nuclear physicist, Mr Slaughter started his career at Westinghouse (Bettis Atomic Power Laboratory) in 1979 before becoming a lawyer with major New York law firm Cravath, Swain and Moore in 1984. He joined Goldman Sachs International in 1986 and became the company's Chief Operating Officer in 2000. He held this position until he joined Citigroup in 2005.

**Ken Vowles** OBE (63), *Non-Executive Director* – appointed to the UKAEA Board on 1 May 2002. He serves as an advisor to the Performance and Innovation Unit (PIU) on renewable energy to the DTI's Energy Advisory Panel and is a member of the Advisory Committee on Business and the Environment. He is a Non-Executive Director of Cegelec and a Professor at Herriot-Watt University, Edinburgh. He was formerly Executive Director International at Scottish Power plc and played a significant role in the development of the company in helping change it from a public utility to a successful multi-national.

**Arnold Wagner** OBE (56), *Non-Executive Director* – appointed to the Board on 1 May 2006. He is Director, Human Resources at Smiths Group plc. He was formerly Director of Group Personnel at the support services group, Bunzl plc, and prior to that Director of Personnel and Administration for the Scientific Equipment Division of Fisons plc. He is a former Chair of Governors at JFS School and led the largest single school PFI project in the UK.

## Statement of Directors' and Accounting Officer's responsibilities

Section 4(3) of the Atomic Energy Authority Act 1954 and Directions issued by HM Treasury require the Directors, acting as the UKAEA Board, to prepare accounts for each financial year in the form and on the basis determined by HM Treasury. The accounts must show a true and fair view of the state of affairs of UKAEA and the Group as at the end of the financial year and of the Group profit or loss for that period.

In preparing the accounts, the Directors and Accounting Officer are required to

- observe all relevant accounting and disclosure requirements as set out in the Accounts Direction issued by HM Treasury; and, within that, select suitable accounting policies and apply them on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that UKAEA will continue in operation.

The Directors are also responsible for safeguarding the assets of UKAEA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Executive is the Accounting Officer for UKAEA. His responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records are set out in a letter of appointment from the DTI Permanent Secretary and the accompanying Accounting Officer Memorandum.

## Corporate governance

UKAEA has a policy of seeking to comply with established best practice in the field of corporate governance, insofar as it applies to UKAEA, and has adopted core values and standards which set out the behaviours expected of staff in their dealings with stakeholders, customers, colleagues and suppliers.

### The Board

UKAEA is controlled through its Board of Directors who are appointed by the Department of Trade and Industry (DTI). The Board's main role is to establish UKAEA's vision, mission and values, set strategy and structure, and exercise accountability to UKAEA's stakeholders. The Directors who served throughout the year unless otherwise stated are set out below.

#### Chairman

Barbara Thomas Judge

#### Executive Directors

Dipesh Shah, Chief Executive

Colin Bayliss

Norman Harrison

Andrew Jackson (appointed to the Board on 1 September 2005)

Paul White (retired on 29 June 2005)

#### Non-Executive Directors

Rosemary Day (retired from the Board on 31 March 2006)

John Kennedy (appointed to the Board on 1 June 2005)

John Macpherson (retired from the Board on 31 October 2005)

Mark Slaughter (appointed to the Board on 5 April 2005)

Ken Vowles

Alan Young (retired from the Board on 31 March 2006)

Arnold Wagner (appointed to the Board on 1 May 2006)

Biographical details of the Directors are included on page 18. The responsibilities of the Directors are included on page 19.

The Board, which meets at least eight times a year, has a schedule of matters reserved for its approval. This includes: establishing the overall strategic direction of UKAEA within the policy and resources framework agreed with the responsible Government Minister; reviewing UKAEA's corporate objectives and goals; approving the annual accounts, budget and corporate plan; ensuring that high standards of corporate governance are observed at all times; and reviewing the safety, environmental and security performance of UKAEA.

The Board delegates responsibility for day-to-day and business management control to the Chief Executive, who is assisted by the Executive Directors and other key senior managers, comprising the Executive Committee. The Executive Committee meets every two weeks. Specific responsibilities delegated to the Executive Committee include: development of UKAEA performance measures; implementation of the strategies and policies as determined by the Board; monitoring of the operating and financial results against plans and budgets; and developing and implementing risk management systems.



## The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Barbara Thomas Judge, and the Chief Executive, Dipesh Shah, is clearly defined and has been approved by the Board.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman's objectives are set out in a letter from the DTI Shareholder Executive. The Chairman has no involvement in the day to day business of UKAEA.

The Chief Executive has direct charge of UKAEA on a day to day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive is also the UKAEA Accounting Officer and is responsible to Parliament through the Committee of Public Accounts for the stewardship of resources. His responsibilities are set out in a letter from the DTI Permanent Secretary and the accompanying Accounting Officer Memorandum. The Accounting Officer has a personal responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all available resources. He is also responsible for taking formal action if the UKAEA Board is contemplating a course that would infringe these requirements.

## Directors and Directors' independence

The Board currently comprises the Chairman, four Executive Directors and four independent Non-Executive Directors. The Non-Executive Directors constructively challenge and help develop proposals on strategy, and bring strong, independent judgment, knowledge and experience to the Board's deliberations. The independent Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

The Board considers all its Non-Executive Directors to be independent in character and judgement. No Non-Executive Director

- has been an employee of the UKAEA within the last five years;
- has, or has had within the last three years, a material business relationship with the Group;
- receives remuneration other than a Director's fee;
- has close family ties with any of the UKAEA's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies; or
- has served on the board for more than nine years.

## Board Committees

The number of full Board meetings and committee meetings attended by each Director during the year was as follows

	Board	Remuneration Committee	Audit Committee
Barbara Thomas Judge	8 (8)	4 (5)	0
Dipesh Shah	8 (8)	0	0
Colin Bayliss	8 (8)	0	0
Norman Harrison	8 (8)	0	0
Andrew Jackson	6 (6)	0	0
Paul White	2 (2)	0	0
Rosemary Day	8 (8)	5 (5)	3 (3)
John Kennedy	5 (7)	3 (4)	2 (3)
John Macpherson	4 (4)	4 (4)	1 (1)
Mark Slaughter	6 (7)	3 (4)	3 (3)
Ken Vowles	7 (8)	4 (5)	1 (3)
Alan Young	7 (8)	5 (5)	2 (3)
Arnold Wagner	0	0	0

Figure in brackets indicate maximum number of meetings in the period in which the individual was a Board member.

### Remuneration Committee

During the year the Remuneration Committee comprised Barbara Thomas Judge, Rosemary Day, John Kennedy, John Macpherson, Mark Slaughter, Ken Vowles and Alan Young. Arnold Wagner joined the Committee after the year end and replaced Rosemary Day as Chairman of the Committee. All members of the Committee were independent Non-Executive Directors. The Remuneration Committee met five times during the year. When necessary, non-committee members were invited to attend.

The Committee's principal responsibility is to make recommendations to the DTI on the level of Directors' remuneration. In addition the Committee regularly reviews the UKAEA's remuneration policy in relation to

- its competitors and industry norms;
- compensation commitment; and
- contract periods.

As the members of the UKAEA Board are appointed by the DTI, UKAEA does not maintain a nominations committee.

### Audit Committee

During the year the Audit Committee comprised Rosemary Day, John Kennedy, John Macpherson, Mark Slaughter, Ken Vowles and Alan Young. Arnold Wagner joined the Committee after the year end. The Committee is chaired by Mark Slaughter. All members of the Committee were independent Non-Executive Directors. The Audit Committee met three times during the year.

The Committee has at least one member possessing what the Smith Report describes as recent and relevant experience. It will be seen from the directors' biographical details, appearing on page 15, that the other members of the Committee bring to it a wide range of experience from positions at the highest level both in the UK and the USA.

Under its terms of reference, the Committee is responsible for: monitoring the effectiveness of the external audit process and approving the terms of engagement and remuneration of the external auditor; endorsing the UKAEA's policy on the provision of non-audit services by the external auditor; monitoring and reviewing the effectiveness of the internal audit programme; reviewing the actions and judgements of management in relation to annual and other financial statements before submission to the UKAEA Board; and reviewing annually the systems of internal control and the processes for monitoring and evaluating the risks facing UKAEA.

## Statement on Internal Control

### Scope of responsibility

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of UKAEA's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in Government Accounting. He is assisted in this by the Chief Financial Officer.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of UKAEA's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in UKAEA for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### Capacity to handle risk

The Board has delegated day-to-day responsibility for risk management to the Executive Committee and each member of the Committee is responsible for ensuring that a sound system of risk management is in place in the Divisions that they represent.

### The risk and control framework

Each Division is responsible for the identification and evaluation of key risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are recorded in risk registers which identify the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.

Business reports are prepared by UKAEA sites focusing on the following areas

- key risks to the achievement of business objectives;
- progress against key performance indicators;
- milestone summary; and
- progress of programme against budget.

These reports are submitted monthly to the Executive Committee. A quarterly summary report is produced for the Board which includes the top ten risks to UKAEA.



### Review of effectiveness

The Accounting Officer is responsible for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within UKAEA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. He has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

UKAEA has an internal audit department which operates in accordance with Government Internal Audit Standards and an Audit Charter approved by the Audit Committee. The work of the internal audit department is determined by analysis of the risks to which UKAEA is exposed. The annual internal audit programme is based on this analysis. The Head of Internal Audit provides the Accounting Officer with regular reports on internal audit activity in UKAEA. These reports include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of UKAEA's system of internal control.

During the year, some liquid waste escaped onto the floor of a shielded cell in the Dounreay Cementation Plant. It was detected promptly and the facility was shut down immediately. Monitoring systems confirmed that the spillage was contained in the cell, in accordance with its design function, ensuring there was no harm to employees or the environment. An investigation into the incident revealed some internal control weaknesses in the operation of the facility and these have now been addressed and a recovery plan has been implemented. A review of other UKAEA sites confirmed that there were no similar internal control weaknesses.

Apart from the incident at the Dounreay Cementation Plant, there were no material internal control issues identified during the year.

*Dipesh Shah*  
Chief Executive and Accounting Officer

28 June 2006

## Remuneration report

UKAEA applies the Principles of Good Governance relating to Directors' remuneration to the extent that they are appropriate to UKAEA. The principal implementation arrangements are set out below.

### Remuneration policy

The remuneration of Directors is set by the Secretary of State for Trade and Industry with the approval of HM Treasury in accordance with the Atomic Energy Authority Act 1954. The UKAEA Remuneration Committee makes recommendations to the Department of Trade and Industry (DTI) on the overall remuneration package for Executive Directors. The Non-Executive Directors who form the Committee are not involved in decisions relating to their own remuneration.

In reaching its recommendations, the Committee has regard to the following considerations

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff; and
- the funding available to the UKAEA.

The Committee takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

### Service contracts

Directors are appointed by the Secretary of State for Trade and Industry for a three year term that may be renewed upon expiry.

Early termination of Executive Directors' contracts, other than for misconduct, would result in the Director receiving compensation as set out in UKAEA's Conditions of Employment. These conditions apply to all UKAEA employees and the compensation payment would be calculated on the basis of age and length of service at the effective date of termination and expressed as a number of weeks' pay. For these purposes, length of service is calculated from when the Directors joined UKAEA and not from when they were appointed to the Board. Non-Executive Directors are not entitled to compensation for early termination of their contracts.

### Remuneration and pension entitlements

The individual components of the remuneration packages are

#### Salary and fees

Executive Directors receive a basic salary which is reviewed annually and increased to take account of inflation if appropriate. The Chairman and Non-Executive Directors receive fees for their services.

#### Benefits

Executive Directors are entitled to certain benefits under the terms of their service contracts. These principally comprise a company car, private health care, expense allowances and accommodation benefits.

All Directors are also reimbursed for reasonable expenses incurred in line with the policy for UKAEA's employees. These reimbursements are not included in the table below.

### Performance related bonuses

These are calculated in accordance with fixed formulae that are agreed each year with the DTI on the basis of recommendations from the Remuneration Committee. The total bonus is made up of two components: the performance of UKAEA against specific quantified targets (see pages 13 and 14), and the performance of the sites or divisions for which Directors have responsibility against specific Divisional targets. The performance related bonuses for 2005-2006 shown in the table below are an estimate of the amounts which may be payable. The final amounts payable will be subject to approval by the DTI.

Individual Directors' remuneration for the year is shown in the table below (which is subject to audit)

	Salary/ Fees £	Benefits £	Bonus £	2006 Total £	2005 Total £
<b>Chairman</b>					
Barbara Thomas Judge	60,000	0	0	<b>60,000</b>	56,250
<b>Executive Directors</b>					
Dipesh Shah	174,963	75,258	27,329	<b>277,550</b>	264,964
Colin Bayliss	100,128	9,735	19,415	<b>129,278</b>	126,569
Stan Gordelier (resigned 17/01/05)	0	0	0	<b>0</b>	102,716
Norman Harrison	120,883	51,908	23,439	<b>196,230</b>	186,914
Andrew Jackson (appointed 01/09/05)	87,500	8,959	16,966	<b>113,425</b>	0
Paul White (retired on 29/06/05)	31,187	2,066	5,219	<b>38,472</b>	134,934
<b>Non-Executive Directors</b>					
Rosemary Day	15,000	0	0	<b>15,000</b>	15,000
John Kennedy (appointed 01/06/05)	20,833	0	0	<b>20,833</b>	0
John Macpherson (resigned 31/10/05)	8,750	0	0	<b>8,750</b>	15,000
Mark Slaughter (appointed 05/04/05)	24,722	0	0	<b>24,722</b>	0
Denis Tunnidiffe (resigned 30/04/04)	0	0	0	<b>0</b>	5,806
Ken Vowles	19,166	0	0	<b>19,166</b>	15,000
Alan Young	15,000	0	0	<b>15,000</b>	15,000
	<u>678,132</u>	<u>147,926</u>	<u>92,368</u>	<b><u>918,426</u></b>	<u>938,153</u>
Pensions paid to former Directors				<b>4,323</b>	4,194
				<b><u>922,749</u></b>	<u>942,347</u>

### Pension entitlements

Executive Directors other than the Chief Executive are members of the UKAEA Combined Pension Scheme that pays an annual pension based on pensionable final earnings together with a lump sum of three times the pension at normal retirement age. Benefits are also payable in the event of death or ill health retirement.

The Chief Executive has an unfunded pension arrangement providing a pension based on pensionable final earnings, and a death in service only benefit scheme providing a lump sum of four times basic salary. The Director, Dounreay also has an unfunded pension arrangement to take account of pensionable pay above the earnings cap introduced by the Finance Act 1989, which is reflected in his pension entitlements in the table below.

Further details of the pension schemes and unfunded pensions can be found at Note 7 to the accounts.

The pension entitlements shown in the table below (which is subject to audit) are those that would be paid annually on retirement based on service to 31 March 2006 and include the value of added years paid for by Directors.

	Accrued pension 2005 £	Lump sum 2005 £	Increase in accrued pension £	Increase in lump sum £	Accrued pension 2006 £	Lump sum 2006 £
Dipesh Shah	7,750	0	6,094	0	<b>13,844</b>	<b>0</b>
Colin Bayliss	23,937	71,812	2,655	7,965	<b>26,592</b>	<b>79,777</b>
Norman Harrison	44,113	132,340	3,023	9,068	<b>47,136</b>	<b>141,408</b>
Andrew Jackson (appointed 01/09/05)	0	0	2,965	8,896	<b>2,965</b>	<b>8,896</b>
Paul White (retired 29/06/05)	29,276	87,829	557	1,669	<b>0</b>	<b>0</b>
	<b>105,076</b>	<b>291,981</b>	<b>15,294</b>	<b>27,598</b>	<b>90,537</b>	<b>230,081</b>

The following table (which is subject to audit) sets out the transfer value of the Directors' accrued pension entitlements consistent with Actuarial Guidance Note GN11. The transfer values do not represent sums paid or payable to the Directors but represent a potential liability of the pension scheme or UKAEA.

	Transfer value 2005 £	Directors' contributions £	Increase net of contributions £	Transfer value 2006 £
Dipesh Shah	176,214	0	152,770	<b>328,984</b>
Colin Bayliss	390,999	15,019	25,332	<b>431,350</b>
Norman Harrison	752,013	5,280	56,649	<b>813,942</b>
Andrew Jackson (appointed 01/09/05)	0	3,080	48,251	<b>51,331</b>
Paul White (retired 29/06/05)	547,337	2,419	8,022	<b>0</b>
	<b>1,866,563</b>	<b>25,798</b>	<b>291,024</b>	<b>1,625,607</b>

Members of the pension scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above tables.

On behalf of the Board

*Arnold Wagner*  
28 June 2006



## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the United Kingdom Atomic Energy Authority for the year ended 31 March 2006 under the Atomic Energy Authority Act 1954. These comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Balance Sheets, the Consolidated Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of Directors, the Accounting Officer and auditor

The Directors and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Atomic Energy Authority Act 1954 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Directors and Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Atomic Energy Authority Act 1954 and HM Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if United Kingdom Atomic Energy Authority has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 21 and 22 reflects the Authority's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Authority's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's review, Board of Directors, Corporate Governance, Management Commentary, and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinion

### In my opinion

- the financial statements give a true and fair view, in accordance with the Atomic Energy Authority Act 1954 and HM Treasury directions made thereunder, of the state of the United Kingdom Atomic Energy Authority's affairs as at 31 March 2006 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Atomic Energy Authority Act 1954 and HM Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

18 July 2006

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## Consolidated profit and loss account for the year ended 31 March 2006

	Notes	2006 £m	2005 <sup>1</sup> £m
Turnover	3	361.4	353.0
Change in work in progress		(2.5)	(0.3)
Other operating income		4.7	3.7
		<u>363.6</u>	<u>356.4</u>
Raw materials and consumables		43.5	38.2
Other external charges		173.7	182.7
Staff costs	4	121.9	127.4
Depreciation, amortisation and impairment of fixed assets		6.0	3.4
Other operating charges		18.1	6.5
		<u>363.2</u>	<u>358.2</u>
<b>Operating profit/(loss)</b>	5	0.4	(1.8)
Profit/(loss) on disposal of fixed assets		0.4	(0.2)
<b>Profit/(loss) on ordinary activities before financing</b>		<u>0.8</u>	<u>(2.0)</u>
Income from investments		0	0.5
Interest receivable		2.8	2.1
Notional cost of capital		(2.7)	(2.3)
Other net financing charges	8	(0.5)	0
<b>Profit/(loss) on ordinary activities before taxation</b>		<u>0.4</u>	<u>(1.7)</u>
Tax on profit/(loss) on ordinary activities	9	0	0
<b>Profit/(loss) on ordinary activities after taxation</b>		<u>0.4</u>	<u>(1.7)</u>
Reversal of notional cost of capital		2.7	2.3
<b>Profit for the year</b>	23	<u>3.1</u>	<u>0.6</u>

1 Comparative figures restated as a result of transfer of function (see Note 2).

All amounts derive from continuing operations.

*The related notes numbered 1 to 28 form part of these accounts.*

## Consolidated statement of total recognised gains and losses for the year ended 31 March 2006

	Notes	2006 £m	2005 <sup>1</sup> £m
Profit for the year		3.1	0.6
Unrealised gain/(deficit) on revaluation of properties	12	32.5	(1.7)
<b>Total recognised gains/(losses) relating to the year</b>		<b>35.6</b>	<b>(1.1)</b>

1 Comparative figures restated as a result of transfer of function (see Note 2).

*The related notes numbered 1 to 28 form part of these accounts.*

## Balance sheets at 31 March 2006

	Notes	Group 2006 £m	Group 2005 <sup>1</sup> £m	UKAEA 2006 £m	UKAEA 2005 <sup>1</sup> £m
<b>Assets employed</b>					
<b>Fixed assets</b>					
Intangible assets	11	0.8	1.3	0.8	1.3
Tangible assets	12	105.3	78.7	105.3	78.7
Investments	13	0	0	3.0	3.0
		<b>106.1</b>	80.0	<b>109.1</b>	83.0
<b>Current assets</b>					
Stocks and work in progress	14	4.7	7.1	4.7	7.1
Debtors: amounts falling due within one year	15	90.3	63.0	91.6	63.0
Debtors: amounts falling due after more than one year	15	32.3	33.7	32.3	33.7
Nuclear liability debtor	15	160.0	138.7	160.0	138.7
Investments	16	0	10.8	0	0
Cash at bank and in hand		104.8	89.5	93.2	89.2
		<b>392.1</b>	342.8	<b>381.8</b>	331.7
Less:					
Creditors: amounts falling due within one year	17	151.2	124.5	151.2	124.5
<b>Net current assets</b>		<b>240.9</b>	218.3	<b>230.6</b>	207.2
<b>Total assets less current liabilities</b>		<b>347.0</b>	298.3	<b>339.7</b>	290.2
Less:					
Creditors: amounts falling due after more than one year	18	25.5	30.7	25.5	30.7
Deferred income	20	12.6	16.6	12.6	16.6
Nuclear liabilities	21	160.0	138.7	160.0	138.7
Other provisions for liabilities and charges	22	48.7	47.7	47.5	46.3
<b>Total assets less liabilities</b>		<b>100.2</b>	64.6	<b>94.1</b>	57.9
<b>Reserves</b>					
General reserve	23	86.8	86.8	86.8	86.8
Revaluation reserve	23	9.2	12.0	9.2	12.0
Investment revaluation reserve	23	59.0	24.3	59.0	24.3
Profit and loss account	23	(54.8)	(58.5)	(60.9)	(65.2)
<b>Total Government funds</b>		<b>100.2</b>	64.6	<b>94.1</b>	57.9

1 Comparative figures restated as a result of transfer of function (see Note 2).

The accounts were signed on behalf of the Directors of UKAEA on 28 June 2006.

*Dipesh Shah*  
Chief Executive and Accounting Officer

*Andrew Jackson*  
Chief Financial Officer

*The related notes numbered 1 to 28 form part of these accounts.*

## Consolidated cash flow statement for the year ended 31 March 2006

	Notes	2006 £m	2006 £m	2005 <sup>1</sup> £m	2005 <sup>1</sup> £m
<b>Net cash inflow from operating activities</b>			<b>0.4</b>		<b>33.8</b>
<b>Net cash inflow from returns on investments and servicing of finance</b>					
Investment income		0		0.5	
Interest received		<u>2.8</u>	<u>2.8</u>	<u>2.1</u>	<u>2.6</u>
<b>Net cash inflow from capital expenditure and financial investment</b>					
Purchase of intangible fixed assets	11	0		(0.4)	
Purchase of tangible fixed assets	12	(0.6)		(5.0)	
Disposal of tangible fixed assets		1.4		2.0	
Capital grants received	20	<u>0.5</u>	<u>1.3</u>	<u>4.1</u>	<u>0.7</u>
<b>Net cash inflow/(outflow) from management of liquid resources</b>					
Withdrawal from/(investment in) short term deposits			<u>10.8</u>		<u>(0.6)</u>
<b>Increase in cash</b>			<u>15.3</u>		<u>36.5</u>

1 Comparative figures restated as a result of transfer of function (see Note 2).

*The related notes numbered 1 to 28 form part of these accounts.*



## Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	Notes	2006 £m	2005 <sup>1</sup> £m
Operating profit/(loss)		0.4	(1.8)
Amortisation of intangible fixed assets	11	0.5	1.3
Depreciation and impairment of tangible fixed assets	12	5.5	3.4
Capital grants released	20	(4.5)	(3.3)
Decrease in stocks and work in progress		2.4	0.2
(Increase)/decrease in debtors		(27.6)	9.8
Increase in creditors		21.5	25.0
Increase/(decrease) in provisions		2.2	(0.8)
<b>Net cash inflow from operating activities</b>		<b>0.4</b>	<b>33.8</b>

1 Comparative figures restated as a result of transfer of function (see Note 2).

## Reconciliation of net cash flow to movement in net funds

	2006 £m	2005 £m
Increase in cash in the year	15.3	36.5
Cash (inflow)/outflow from management of liquid resources	(10.8)	0.6
<b>Change in net funds</b>	<b>4.5</b>	<b>37.1</b>
Net funds at 1 April 2005	100.3	63.2
<b>Net funds at 31 March 2006</b>	<b>104.8</b>	<b>100.3</b>

## Analysis of net funds

	At 1 April 2005 £m	Cash Flows £m	At 31 March 2006 £m
Current asset investments	10.8	(10.8)	0
Cash at bank and in hand	89.5	15.3	104.8
	100.3	4.5	104.8

The related notes numbered 1 to 28 form part of these accounts.

## Notes to the accounts for the year ended 31 March 2006

### 1 Principal accounting policies

The accounts comply with the provisions of the Atomic Energy Authority Act 1954 (Section 4(3)) and the HM Treasury Accounts Direction. The latter requires the accounts to be prepared in accordance with

- i the Companies Act 1985;
- ii generally accepted accounting principles in the UK (UK GAAP); and
- iii the accounting and disclosure requirements of 'Government Accounting' and the 'Government Financial Reporting Manual';

insofar as these are appropriate to UKAEA. The Accounts Direction requires the following departures from the Companies Act and accounting standard requirements

- i the note on historical cost profit and losses required under FRS 3 'Reporting Financial Performance' has not been disclosed; and
- ii the historical cost information regarding assets included at valuation as required by paragraph 33(3) of Schedule 4 to the Companies Act 1985 has not been disclosed.

The disclosure exemptions permitted by the Companies Act do not apply to UKAEA unless specifically approved by HM Treasury.

#### 1.1 Basis of accounting

These accounts have been prepared on the going concern basis, as UKAEA will remain in being as a non-departmental public body. Future funding arrangements are expected to be sufficient to support UKAEA's continuing operations for the foreseeable future.

The accounts have been prepared in accordance with the historical cost convention modified by the revaluation of certain tangible fixed assets.

#### 1.2 Basis of consolidation

The consolidated profit and loss account, consolidated statement of total recognised gains and losses, consolidated balance sheet and consolidated cash flow statement include the accounts of UKAEA and of its subsidiary undertakings for the year ended 31 March 2006. Intra-group transactions and profits are eliminated on consolidation.

#### 1.3 Intangible fixed assets

Intangible fixed assets comprise purchased software licences and are valued at cost, net of amortisation and impairment, or depreciated replacement cost where materially different.

The cost or valuation of intangible fixed assets, less their estimated residual values, is amortised on a straight-line basis over a period up to five years. Provision is made for any impairment.

#### 1.4 Tangible fixed assets

Specialised buildings and plant and equipment are valued at cost, net of depreciation and impairment, or depreciated replacement cost where materially different.

Non-specialised land and buildings and the land on which specialised buildings stand are valued at open market value for existing use. Independent, professionally qualified valuers make full valuations at least every five years and, in the intervening years, these valuations are updated by UKAEA with the assistance of independent professional advice as required.

Investment properties are revalued annually and no depreciation is provided. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principles set out in SSAP 19 "Accounting for Investment Properties". UKAEA considers that to depreciate such properties would not give a true and fair view, but that a true and fair view is given by following SSAP 19. Depreciation is only one of many factors reflected in the annual valuation and the amount that might otherwise have been included cannot be separately identified or quantified.

Surplus properties are revalued annually and no depreciation is provided. UKAEA does not consider it appropriate to depreciate surplus properties on a formal basis since they are not being used for operational purposes and any depreciation or impairment of the properties will be reflected in the annual revaluation.

Surpluses arising from the valuations of properties are taken direct to a revaluation reserve. Any deficit arising from the valuation of properties is taken direct to a revaluation reserve to the extent that such deficits are regarded as temporary. Where impairment in value of an individual property is identified, the deficit is eliminated against any revaluation reserve in respect of that property, with any excess being charged to the profit and loss account. Any subsequent surplus in valuation will be credited to the profit and loss account to the extent of the amount previously charged. Valuation surpluses realised on sale are transferred from the revaluation reserve to the profit and loss reserve.

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are

Freehold land	not depreciated
Buildings	up to 40 years
Investment properties	not depreciated
Surplus properties	not depreciated
Plant and equipment	up to 10 years

### 1.5 Turnover

Turnover represents the total value, excluding VAT and intra-group sales, of products delivered and services rendered to customers, grant-in-aid and the value of long term contract work completed during the year.

Income received relating to the purchase of fixed assets is treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned.

### 1.6 Nuclear liabilities

Full provision is made for nuclear liabilities on sites not designated to the NDA under the Energy Act 2004. Changes in the liabilities estimate are accounted for in the year in which they arise. Provision is made on the basis of the current best estimate which is reviewed annually (see Note 21). As the management of these liabilities is the principal activity of the Group, the costs and turnover associated with the current year work programme are included in the profit and loss account.

The provision is expressed at current price levels and discounted at 2.2 per cent, a real rate of interest specified by HM Treasury, to take account of the long timescale over which work will be carried out. The financing charges in the profit and loss account include the adjustments to amortise one year's discount and restate the liabilities to current price levels.

A letter issued by the then Secretary of State for Energy in 1986 stated that the Government was prepared to continue to accept responsibility in principle for those costs which UKAEA incurs in treating and disposing of nuclear wastes and in decommissioning plant arising from

- i programmes carried out by UKAEA and its predecessors prior to 1 April 1986; and
- ii programme agreement work undertaken for the Department of Trade and Industry (DTI) and its predecessors after 1 April 1986.



These assurances were reconfirmed by the DTI in June 1996. On the basis of these assurances, a debtor is included in the balance sheet. The provision and debtor are identified separately.

### *1.7 Operating leases*

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

### *1.8 Stocks and work in progress, excluding long-term contracts*

Stocks are valued at the lower of cost and net realisable value. Work in progress is valued at cost, less the cost of work invoiced on incomplete contracts and less foreseeable losses. Cost means direct cost plus production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

### *1.9 Taxation*

Taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse on a non-discounted basis.

### *1.10 Insurance*

UKAEA insures most non-nuclear risks through its wholly owned subsidiary AEA Insurance Limited. This subsidiary also covers some nuclear risks but in the main these continue to be covered by the UK Government under the Nuclear Installations Act 1965.

### *1.11 Pension costs*

UKAEA operates two unfunded defined benefit schemes for the benefit of its employees, one of which is closed to new members. These schemes are multi-employer and are accounted for in these accounts as defined contribution schemes in accordance with guidance issued by HM Treasury while separate accounts are prepared for the schemes. The amounts charged to the profit and loss account are the contributions payable for the year.

UKAEA also operates two defined contribution schemes that are fully insured. No employer contribution is made to one and for the other the cost, which is directly linked to salary, is charged to the profit and loss account at the same time as the salary.

Unfunded pension arrangements are accounted for in accordance with FRS 17 'Retirement Benefits'. The amounts charged to the profit and loss account are the current service cost and interest on liabilities. Actuarial gains or losses are included in the statement of total recognised gains and losses.

### *1.12 Foreign currencies*

All transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date the transaction takes place or at the contracted rate if the transaction is covered by a forward exchange contract. Balances denominated in foreign currencies are translated into sterling at the exchange rate ruling at the end of the year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Forward exchange contracts are used to reduce exposure to foreign exchange risk. UKAEA does not hold forward exchange contracts for speculative purposes.

### 1.13 Notional cost of capital

Notional cost of capital is calculated as 3.5 per cent of the average capital employed by UKAEA during the year. For this purpose, capital employed is defined as comprising general reserve, revaluation reserve, investment revaluation reserve and profit and loss account. The notional cost of capital is abated by any actual interest incurred during the year.

### 1.14 Restructuring

Full provision is made for the future costs of any reorganisation or restructuring having a material effect on the nature and focus of UKAEA's operations where the criteria of FRS 12 'Provisions, Contingent Liabilities and Contingent Assets' are met.

Restructuring provisions are expressed at current price levels and discounted at 2.8 per cent, a real rate of interest specified by HM Treasury, to take account of the long timescale over which payments are due to be made. The financing charges in the profit and loss account include the adjustments to amortise one year's discount and restate the liabilities to current price levels.

Assurances covering restructuring provisions made before 1 April 2004 have been received from the DTI and the associated liabilities have been declared to Parliament. A grant debtor for these liabilities is included on the balance sheet.

These assurances do not cover new restructuring provisions created since 1 April 2004 and the cost of these provisions is charged directly to the profit and loss account.

### 1.15 Government grants

Government grants are recognised either when invoiced or earlier, where Department of Trade and Industry letters of comfort or other assurances are held.

Government grants relating to the purchase of fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

### 1.16 Research and development

Research and development costs are charged to the profit and loss account as incurred.

### 1.17 Current asset investments

Current asset investments are stated at market value.

### 1.18 Transfers of function

In accordance with the Government Financial Reporting Manual, transfers of function from UKAEA to other public sector organisations are accounted for using merger accounting as described in FRS 6 'Acquisitions and Mergers'. Where applicable, the comparative figures in the accounts are restated as if the transfer had taken place in both the current and preceding accounting periods.

## 2 Transfers of function

### a Transfer to Civil Nuclear Police Authority

On 1 April 2005, responsibility for the UKAEA Constabulary was transferred from UKAEA to a new independent policy authority, the Civil Nuclear Police Authority, established by the Energy Act 2004. The UKAEA Constabulary is no longer part of UKAEA and has been renamed the Civil Nuclear Constabulary (CNC).

The assets, liabilities and employees transferred were

	£m
Fixed assets	1.9
Debtors	0.6
Creditors	(0.6)
Deferred income	(1.9)
Provisions	(0.2)
	<u>(0.2)</u>
Number of employees	<u>645</u>

Only assets and liabilities that related to the CNC's ongoing operations were transferred. Other current assets and liabilities were retained and settled by UKAEA.

*b Derecognition of nuclear liabilities*

The Nuclear Decommissioning Authority was established on 1 April 2005 by the Energy Act 2004 to have strategic responsibility for the decommissioning and clean-up of the UK public sector civil nuclear sites. From that date, UKAEA ceased to have legal or financial responsibility for nuclear liabilities on UKAEA sites which have been designated to the NDA or on non-UKAEA sites. Nuclear liabilities of £4.28bn as at 1 April 2005 have been derecognised from UKAEA's accounts and the majority have been transferred to the NDA who will make provision for the liabilities going forward.

*c Derecognition of fixed assets*

The designation of UKAEA's sites at Dounreay, Harwell, Windscale and Winfrith to the NDA under the Energy Act 2004 has resulted in the risks and benefits associated with certain fixed assets on these sites transferring to the NDA. In accordance with FRS 5 'Reporting the Substance of Transactions', assets with an opening book value of £67.1m have been derecognised from UKAEA's accounts. These assets along with certain new assets purchased during 2005-2006 are now included in the accounts of the NDA.

*d Restatement of comparatives*

These transfers of function have been accounted for using merger accounting as defined in FRS 6 'Acquisitions and Mergers' in accordance with the Government Financial Reporting Manual and the comparative figures in these accounts have been restated. The impact of this restatement on the main account headings is shown below

	Original £m	Transfer £m	Restated £m
<b>Profit and loss account</b>			
Turnover	401.5	(48.5)	353.0
Other income	8.1	(4.4)	3.7
Operating expenditure	411.1	(52.9)	358.2
<b>Balance sheet</b>			
Tangible fixed assets	147.7	(69.0)	78.7
Current assets	4,605.3	(4,262.5)	342.8
Long term liabilities	4,551.3	(4,312.7)	238.6
Reserves	80.7	(16.1)	64.6



### 3 Turnover

Turnover is analysed by geographical area as follows

	<b>2006</b>	2005 <sup>1</sup>
	<b>£m</b>	£m
United Kingdom	<b>315.4</b>	304.5
Rest of Europe	<b>46.0</b>	48.3
Rest of World	<b>0</b>	0.2
	<b><u>361.4</u></b>	<u>353.0</u>

All turnover originates in the United Kingdom.

Turnover is analysed by activity as follows

	<b>2006</b>	2005 <sup>1</sup>
	<b>£m</b>	£m
Decommissioning and environmental restoration	<b>277.1</b>	259.3
Fusion research	<b>65.2</b>	64.2
Property	<b>6.3</b>	9.9
Pensions	<b>1.4</b>	1.2
Other	<b>11.4</b>	18.4
	<b><u>361.4</u></b>	<u>353.0</u>

1 Comparative figures restated as a result of transfer of function (see Note 2).

Turnover includes grants-in-aid of £9.7m (2004-2005 – £264.1m) received from the DTI. This has reduced as funding for decommissioning and environmental restoration is now provided by the NDA and classed as external turnover.

A segmental analysis of net assets has not been disclosed. Most of the net assets are not allocated to UKAEA's main business activities. The profit for the year originated in the United Kingdom and does not relate to UKAEA's main business activities.

### 4 Staff costs

	<b>2006</b>	2005 <sup>1</sup>
	<b>£m</b>	£m
Salaries	<b>85.5</b>	83.4
Social security costs	<b>7.6</b>	7.2
Other pension costs	<b>0.3</b>	0.5
Staff costs capitalised	<b>0</b>	(0.7)
	<b><u>93.4</u></b>	<u>90.4</u>
Hired staff	<b>28.5</b>	37.0
	<b><u>121.9</u></b>	<u>127.4</u>

The average number of staff during the year was

	<b>2006</b>	2005 <sup>1</sup>
UKAEA staff		
Senior staff	<b>34</b>	35
Other staff	<b>2,255</b>	2,318
	<b>2,289</b>	2,353
Hired staff	<b>570</b>	767

1 Comparative figures restated as a result of transfer of function (see Note 2).

## 5 Operating profit/(loss)

Operating profit/(loss) is stated after charging the following items

	<b>2006</b>	2005
	<b>£m</b>	£m
Auditors' remuneration – audit fees	<b>0.1</b>	0.1
Operating lease rentals – plant and machinery	<b>0.4</b>	0.3
– other	<b>0.3</b>	0
Exchange loss	<b>0.1</b>	0

## 6 Summary of Directors' emoluments

Directors' emoluments in the year were

	<b>2006</b>	2005
	<b>£000</b>	£000
Fees	<b>163</b>	122
Salaries	<b>515</b>	569
Benefits	<b>148</b>	118
Performance related bonuses	<b>92</b>	129
	<b>918</b>	938
Pensions paid to former Directors	<b>4</b>	4
	<b>922</b>	942

Further details of Directors' emoluments are included in the Remuneration Report on pages 26 to 28.

## 7 Pension costs

### a Defined benefit schemes

UKAEA has two defined benefit schemes: the Combined Pension Scheme (CPS), which is open to new members, and the Protected Persons Superannuation Scheme (PPSS), which is a closed scheme. These schemes have members from other employers as well as UKAEA. No information in these accounts relates to other employers participating in the CPS or PPSS, although UKAEA has overall responsibility for the schemes. No contingent liability is expected to arise from this responsibility.

All contributions are paid to and benefits paid by HM Government via the Consolidated Fund. The surpluses of contributions over benefits are deemed to have been invested in portfolios of notional securities reflecting the investments of a sample of UK funded pension schemes. The most recent actuarial valuations of the CPS dated 31 March 2003 and the PPSS dated 31 March 2002 show notional surpluses in the UKAEA sub-funds and UKAEA has followed the Government Actuary's recommendation that no employer contributions need to be paid for the period covered by these accounts (2004-2005 – nil).

In accordance with guidance issued by HM Treasury, these schemes are accounted for as defined contribution schemes in these accounts. Separate audited accounts are prepared for these schemes.

*b Defined contribution schemes*

UKAEA has two defined contribution schemes (the Additional Voluntary Contribution (AVC) scheme and the Shift Pay Pension Savings Plan (SPPP) scheme) which are fully insured schemes administered by Prudential Assurance Company Limited to whom contributions are paid. The AVC scheme covers those employees of UKAEA, and of other employers, who are members of CPS or PPSS and who have opted to pay additional voluntary contributions. No employer contributions are made to this scheme. The SPPP scheme covers most of those shift working employees of the employers participating in the AVC scheme who are members of CPS or PPSS. The costs of the SPPP scheme, which are directly linked to shift pay earnings, are charged to the profit and loss account at the time the shift pay is paid. The total contributions paid by UKAEA during the year were £43,725 (2004-2005 – £44,063). No contributions were outstanding at this or the previous year end.

*c Unfunded pension arrangements*

The UKAEA Chief Executive, Director, Dounreay and former Chief Executive have unfunded pension arrangements which are not included in the UKAEA pension schemes. The movement in the liability for these arrangements is shown below

	<b>2006</b>	2005
	<b>£000</b>	£000
At 1 April	<b>483</b>	63
Change in discount rate	<b>62</b>	0
Interest on liability	<b>29</b>	0
New liabilities	<b>0</b>	420
Current service cost	<b>143</b>	0
Benefits payable	<b>(4)</b>	0
Actuarial loss	<b>36</b>	0
<b>At 31 March</b>	<b>749</b>	483

The movement in the liability during the year is included in staff costs in the profit and loss account (see Note 4) and the closing liability, discounted at 2.8 per cent, is included in other provisions for liabilities and charges in the balance sheet (see Note 22).



**8 Other net financing charges**

	2006 £m	2006 £m	2005 <sup>1</sup> £m	2005 <sup>1</sup> £m
<i>Revalorisation of nuclear liabilities</i>				
Change in discount rate	16.9		0	
Changes in price levels	4.8		3.4	
Amortisation of one year's discount	3.5		4.7	
Escalation of nuclear liability debtor	(25.2)	0	(8.1)	0
<i>Revalorisation of other provisions</i>				
Change in discount rate	1.5		0	
Changes in price levels	1.1		1.9	
Amortisation of one year's discount	1.2		2.0	
Escalation of DTI grant debtor	(3.3)	0.5	(3.9)	0
		0.5		0

1 Comparative figures restated as a result of transfer of function (see Note 2).

**9 Taxation***a Analysis of tax charge in the year*

	2006 £m	2005 £m
<b>Current tax</b>		
UK corporation tax for current year at 30 per cent	0	0
<b>Deferred tax</b>		
Origination and reversal of timing differences	0	0
<b>Tax on loss on ordinary activities</b>	0	0

*(b) Factors affecting the tax charge for the year*

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below

	2006 £m	2005 <sup>1</sup> £m
Profit/(loss) on ordinary activities before tax	0.4	(1.7)
Profit/(loss) on ordinary activities before tax at the UK standard rate of corporation tax of 30 per cent	0.1	(0.5)
Effects of		
Income which qualifies for statutory exemptions	0	(1.3)
Capital allowances for the year in excess of depreciation	(0.9)	(0.4)
Expenses not deductible for tax purposes	1.8	0.8
Income not subject to tax	(0.2)	0
Losses brought forward not previously recognised	(0.8)	0
Losses carried forward	0	1.4
<b>Current tax charge for the year</b>	0	0

1 Comparative figures restated as a result of transfer of function (see Note 2).

Prior to 2000-2001, UKAEA applied for an annual exemption from corporation tax as a scientific research association under Section 508 of the Income and Corporation Taxes Act 1988. The introduction of new criteria for defining scientific research associations meant that this exemption is no longer available to UKAEA. The basis on which UKAEA will be subject to tax from 2000-2001 to 2005-2006 has been agreed with HM Revenue & Customs and is unlikely to result in UKAEA incurring any tax liabilities for the years up to the balance sheet date.

For years up to 31 March 2005, UKAEA benefited from a statutory exemption from tax in respect of rental income, yearly interest and chargeable gains. The exemptions were removed with effect from 1 April 2005 and the effect of this change is included in the calculation above.

*c Factors that may affect the future tax charge*

The changes to the nuclear industry that are currently being implemented and the establishment of site licence companies will require the tax position of UKAEA in future years to be re-addressed with HM Revenue & Customs.

The estimated value of the deferred tax asset not recognised, measured at a standard rate of 30 per cent, is £8.2m (2005 - £14.0m).

## 10 Profit for the financial year

As a consolidated profit and loss account is included in these accounts, UKAEA's individual profit and loss account has not been included. The result for the financial year of UKAEA was a profit of £3.7m (2004-2005 - £0.7m).

## 11 Intangible fixed assets

Group and UKAEA	Software Licences £m
<b>Cost</b>	
At 1 April 2005	5.8
Disposals	(0.1)
<b>At 31 March 2006</b>	<b>5.7</b>
<b>Amortisation</b>	
At 1 April 2005	4.5
Charge for year	0.5
Disposals	(0.1)
<b>At 31 March 2006</b>	<b>4.9</b>
<b>Net book value</b>	
<b>At 31 March 2006</b>	<b>0.8</b>
<b>At 31 March 2005</b>	<b>1.3</b>

**12 Tangible fixed assets**

Group and UKAEA	Land and buildings £m	Investment properties £m	Surplus properties £m	Plant and equipment £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2005 <sup>1</sup>	23.4	39.7	1.8	25.1	90.0
Additions	0	0	0	0.6	0.6
Disposals	(0.4)	0	(0.5)	(1.1)	(2.0)
Transfers between categories	(0.4)	1.4	(1.0)	0	0
Revaluation	(1.5)	34.1	(0.1)	0	32.5
<b>At 31 March 2006</b>	<b>21.1</b>	<b>75.2</b>	<b>0.2</b>	<b>24.6</b>	<b>121.1</b>
<b>Depreciation and impairment</b>					
At 1 April 2005 <sup>1</sup>	1.4	0	0	9.9	11.3
Charge for year	0.6	0.9	0	4.0	5.5
Disposals	0	0	0	(1.0)	(1.0)
Transfers between categories	(0.8)	0.8	0	0	0
<b>At 31 March 2006</b>	<b>1.2</b>	<b>1.7</b>	<b>0</b>	<b>12.9</b>	<b>15.8</b>
<b>Net book value</b>					
<b>At 31 March 2006</b>	<b>19.9</b>	<b>73.5</b>	<b>0.2</b>	<b>11.7</b>	<b>105.3</b>
<b>At 31 March 2005</b>	<b>22.0</b>	<b>39.7</b>	<b>1.8</b>	<b>15.2</b>	<b>78.7</b>
<b>Net book value at 31 March 2006 is represented by</b>					
Valuation	19.9	73.5	0.2	0	93.6
Cost	0	0	0	11.7	11.7
	<b>19.9</b>	<b>73.5</b>	<b>0.2</b>	<b>11.7</b>	<b>105.3</b>

1 Opening balances restated as a result of transfer of function (see Note 2).

a Non-specialised land and buildings and the land on which specialised buildings stand were valued at open market value for existing use at 28 February 2006 by the Valuation Office, an agency of HM Revenue & Customs.

Investment properties and surplus properties were valued at open market value at 28 February 2006 by the Valuation Office. UKAEA has adopted this valuation at 31 March 2006 on the grounds that there were no material changes between these dates. Investment properties are held for their investment potential. Rental income from tenants outside the Group is negotiated at arm's length. Surplus properties are not being used in the Group's operating activities and are included within fixed assets as it is unlikely that they will all be disposed of within a year of the balance sheet date.

b All land and buildings are freehold. Land is stated at its revalued amount of £15.6m (2005 – £16.9m).

c Capital commitments at 31 March 2006 amounted to £nil (2005 – £nil).



**13 Fixed asset investments**

UKAEA	Subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost and net book value</b>			
At 1 April 2005 and 31 March 2006	3.0	0	3.0

*Subsidiary undertakings*

AEA Insurance Ltd, which is incorporated in the Isle of Man, is a wholly owned subsidiary of UKAEA. The company's principal activity is insurance.

UKAEA Ltd, was incorporated in the United Kingdom during the year and is a wholly owned subsidiary of UKAEA. The company's principal activity is project management and consultancy.

*Other investments*

UKAEA's 49 per cent interest in the ordinary share capital of Fast Reactor Technology Limited is included as an investment at a book value of £49 and not treated as an associate, since the Secretary of State for Trade and Industry has ruled that dividends shall be paid to the Department of Trade and Industry. The company has been dormant for the current and previous year and has net assets at 31 March 2006 of £0.1m (2005 – £0.1m).

**14 Stocks and work in progress**

	Group and UKAEA <b>2006</b>	2005
	£m	£m
Raw materials and general stores	<b>1.2</b>	1.1
Short-term work in progress	<b>3.5</b>	6.0
	<b>4.7</b>	7.1

The replacement cost of raw materials and general stores is not materially different from the balance sheet value.

**15 Debtors**

	<b>Group 2006</b>	Group 2005 <sup>1</sup>	<b>UKAEA 2006</b>	UKAEA 2005 <sup>1</sup>
	£m	£m	£m	£m
<b>Amounts falling due within one year</b>				
Trade debtors	<b>4.9</b>	9.6	<b>4.9</b>	9.6
Restructuring debtors	<b>5.9</b>	6.4	<b>5.9</b>	6.4
Prepayments and accrued income	<b>39.7</b>	3.5	<b>39.5</b>	3.5
Inter-company account	<b>0</b>	0	<b>1.2</b>	0
VAT	<b>4.8</b>	8.5	<b>4.8</b>	8.5
DTI current account	<b>34.7</b>	34.7	<b>34.7</b>	34.7
Other debtors	<b>0.3</b>	0.3	<b>0.6</b>	0.3
	<b>90.3</b>	63.0	<b>91.6</b>	63.0
<b>Amounts falling due after more than one year</b>				
Restructuring debtors	<b>32.1</b>	33.3	<b>32.1</b>	33.3
Other debtors	<b>0.2</b>	0.4	<b>0.2</b>	0.4
	<b>32.3</b>	33.7	<b>32.3</b>	33.7

<b>Nuclear liability debtor</b> (see Note 21)	<b>160.0</b>	138.7	<b>160.0</b>	138.7
Debtors include intra-government balances as follows				
Balances with the Department of Trade and Industry	<b>230.9</b>	213.0	<b>230.9</b>	213.0
Balances with other central government bodies	<b>37.7</b>	0.9	<b>37.7</b>	0.9
Balances with public corporations	<b>0.4</b>	0.7	<b>0.4</b>	0.7
	<b>269.0</b>	214.6	<b>269.0</b>	214.6

1 Comparative figures restated as a result of transfer of function (see Note 2).

## 16 Current asset investments

	<b>Group 2006 £m</b>	Group 2005 £m
Fixed term deposits with commercial banks	<b>0</b>	10.7
Other investments	<b>0</b>	0.1
	<b>0</b>	10.8

## 17 Creditors: amounts falling due within one year

	<b>Group and UKAEA 2006 £m</b>	2005 <sup>1</sup> £m
Trade creditors	<b>10.0</b>	15.3
Accruals	<b>79.6</b>	69.2
Payments received on account	<b>15.6</b>	30.7
Taxation and social security	<b>2.4</b>	2.8
NDA VAT repayment	<b>34.6</b>	0
Other creditors	<b>9.0</b>	6.5
	<b>151.2</b>	124.5
Creditors include intra-government balances as follows		
Balances with the Department of Trade and Industry	<b>0</b>	0.1
Balances with other central government bodies	<b>34.6</b>	0
Balances with public corporations	<b>30.3</b>	29.6
	<b>64.9</b>	29.7

1 Comparative figures restated as a result of transfer of function (see Note 2).

**18 Creditors: amounts falling due after more than one year**

	Group and UKAEA	
	2006	2005 <sup>1</sup>
	£m	£m
Payments received on account	25.2	30.4
Other creditors	0.3	0.3
	<u>25.5</u>	<u>30.7</u>
<i>Repayable as follows</i>		
Between one and two years	3.5	5.5
Between two to five years	3.0	17.3
After five years	19.0	7.9
	<u>25.5</u>	<u>30.7</u>

1 Comparative figures restated as a result of transfer of function (see Note 2).

**19 Commitments under operating leases**

	Plant and equipment	
	2006	2005
	£m	£m
<i>Annual commitments under non-cancellable operating leases were as follows</i>		
Expiring within one year	0.7	0.4
Expiring between one and two years	0.6	0.3
Expiring between two and five years	1.7	0.2
	<u>3.0</u>	<u>0.9</u>

**20 Deferred income**

	Group and UKAEA	
	2006	2005 <sup>1</sup>
	£m	£m
At 1 April	16.6	15.8
Capital grants received	0.5	4.1
Released to profit and loss account	(4.5)	(3.3)
At 31 March	<u>12.6</u>	<u>16.6</u>

1 Comparative figures restated as a result of transfer of function (see Note 2).



**21 Nuclear liabilities**

	Group and UKAEA	
	2006	2005 <sup>1</sup>
	£m	£m
At 1 April	<b>138.7</b>	129.5
<i>Financing charges</i>		
Change in discount rate	<b>16.9</b>	0
Changes in price levels	<b>4.8</b>	3.4
Amortisation of one year's discount	<b>3.5</b>	4.7
Increase/(decrease) in liabilities	<b>(2.6)</b>	2.6
Expenditure during year	<b>(1.3)</b>	(1.5)
<b>At 31 March</b>	<b>160.0</b>	138.7

1 Comparative figures restated as a result of transfer of function (see Note 2).

UKAEA's nuclear liabilities comprise the estimated costs of decommissioning nuclear fusion research facilities at its Culham site, including the storage, processing and eventual disposing of radioactive wastes.

Calculation of the liabilities is based on the technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are derived from the latest technical knowledge and commercial information available, taking into account current legislation, regulations and Government policy. Summary figures are built up by aggregating detailed estimates for individual liabilities. Allowance is also made for infrastructure costs, which are an appropriate share of site running costs and other overhead costs attributable to plant and buildings. The calculation is reassessed annually.

The best estimate of £160.0m at 31 March 2006 is discounted at 2.2 per cent to the balance sheet date and expressed in 2005-2006 money values. The timescale over which it is estimated the costs will need to be incurred is as follows

	2006	2005 <sup>1</sup>
	£m	£m
Up to 3 years	<b>9.8</b>	2.9
From 4 to 10 years	<b>106.0</b>	92.0
Beyond 10 years	<b>44.2</b>	43.8
	<b>160.0</b>	138.7

1 Comparative figures restated as a result of transfer of function (see Note 2).

The latest estimate of the undiscounted cost of dealing with the liabilities is £188.2m (2005 - £185.0m).

The cost is recoverable from the Department of Trade and Industry under a Letter of Understanding issued by the then Secretary of State for Energy in May 1986 and confirmed in June 1996. A debtor is included on the balance sheet for contributions receivable from the DTI.

Since much of the work required to deal with the liabilities will not be done until well into the future, there is a significant uncertainty as to the amount of the provision and the associated debtor due from the DTI. This significant uncertainty does not impact on either net assets or the net profit reported in the accounts.

**22 Other provisions for liabilities and charges**

Group	Restructuring £m	Other £m	Total £m
At 1 April 2005 <sup>1</sup>	43.6	4.1	47.7
<i>Financing charges</i>			
Change in discount rate	1.5	0	1.5
Changes in price levels	1.1	0	1.1
Amortisation of one year's discount	1.2	0	1.2
Increase in provisions	5.1	1.2	6.3
Expenditure during year	(8.8)	(0.3)	(9.1)
<b>At 31 March 2006</b>	<b>43.7</b>	<b>5.0</b>	<b>48.7</b>
UKAEA	Restructuring £m	Other £m	Total £m
At 1 April 2005 <sup>1</sup>	43.6	2.7	46.3
<i>Financing charges</i>			
Change in discount rate	1.5	0	1.5
Changes in price levels	1.1	0	1.1
Amortisation of one year's discount	1.2	0	1.2
Increase in provisions	5.1	1.5	6.6
Expenditure during year	(8.8)	(0.4)	(9.2)
<b>At 31 March 2006</b>	<b>43.7</b>	<b>3.8</b>	<b>47.5</b>

1 Opening balances restated as a result of transfer of function (see Note 2).

The restructuring provisions have been made to cover continuing annual payments to be made under UKAEA's early retirement arrangements to individuals who had retired early, or had accepted early retirement, before 31 March 2006. These payments continue at least until the date at which the individual would have reached normal retirement age. Lump sums paid to individuals on retirement are held as debtors, since they are refundable to UKAEA from the appropriate pension scheme at or after the date on which the individual concerned would have reached normal retirement age. Provisions for other areas are now minimal and are based on UKAEA's best judgement of the level and cost of the restructuring which will be needed. The undiscounted costs are £50.7m (2005 – £49.9m) and are estimated to be incurred over a period up to 27 years.

Other provisions include provisions for insurance claims and unfunded pension liabilities.

**23 Reserves**

Group	General £m	Revaluation £m	Investment Revaluation £m	Profit and loss £m
At 1 April 2005 <sup>1</sup>	86.8	12.0	24.3	(58.5)
Surplus on revaluation of tangible fixed assets	0	(2.2)	34.7	0
Depreciation on revalued tangible fixed assets	0	(0.1)	0	0.1
Disposal of revalued tangible fixed assets	0	(0.5)	0	0.5
Profit for the year	0	0	0	3.1
<b>At 31 March 2006</b>	<b>86.8</b>	<b>9.2</b>	<b>59.0</b>	<b>(54.8)</b>
UKAEA				
At 1 April 2005 <sup>1</sup>	86.8	12.0	24.3	(65.2)
Surplus on revaluation of tangible fixed assets	0	(2.2)	34.7	0
Depreciation on revalued tangible fixed assets	0	(0.1)	0	0.1
Disposal of revalued tangible fixed assets	0	(0.5)	0	0.5
Profit for the year	0	0	0	3.7
<b>At 31 March 2006</b>	<b>86.8</b>	<b>9.2</b>	<b>59.0</b>	<b>(60.9)</b>

1 Opening balances restated as a result of transfer of function (see Note 2).

**24 Reconciliation of movements in Government funds**

	Group 2006 £m	Group 2005 <sup>1</sup> £m	UKAEA 2006 £m	UKAEA 2005 <sup>1</sup> £m
Total recognised gains/(losses) relating to the year	35.6	(1.1)	36.2	(1.2)
Opening Government funds	64.6	65.7	57.9	59.1
Closing Government funds	100.2	64.6	94.1	57.9

1 Comparative figures restated as a result of transfer of function (see Note 2).

Government funds comprise general reserve, revaluation reserve and profit and loss account.

**25 Financial instruments**

FRS 13 'Derivatives and Other Financial Instruments' requires disclosure of the role that financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which it is financed, UKAEA is not exposed to the degree of financial risk faced by other business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing UKAEA in undertaking its activities.

UKAEA has taken advantage of the exemption in FRS 13 not to give disclosures in respect of short term debtors and creditors.

While UKAEA has significant financial liabilities attaching to nuclear liabilities and other provisions, the risks attaching to these financial liabilities do not rest with UKAEA as they are broadly matched by debtor balances due from the DTI. UKAEA had no other long term financial liabilities at any time during the current or prior financial years.



Besides the long term debtor balances referred to above, UKAEA's financial assets comprised cash at bank and in hand.

### **Liquidity, Interest Rate and Foreign Currency risk**

UKAEA is mainly financed by income from other public sector bodies and there is therefore no exposure to significant liquidity risks.

All current asset investments and cash balances on deposit were held in highly rated short term fixed rate deposits and UKAEA therefore had no significant interest rate risk.

UKAEA is exposed to foreign currency risk through its operations as it receives a proportion of its income in euros. At 31 March 2006, euro net assets were £0.5m (2005 – £9.4m). In order to hedge its exposure to foreign currency risk on future euro income, UKAEA has taken out forward exchange contracts. At 31 March 2006, the fair value of the liability under the forward exchange contracts was estimated at £0.4m (2005 – asset of £0.7m), reflecting the depreciation of sterling against the euro since the contracts were entered into. This liability will crystallise during the year ended 31 March 2007. Unrealised gains of £0.7m arising in the previous year were realised during the year.

### **26 Statement relating to statutory borrowing limit**

During 2005-2006, the statutory borrowing limit set by Section 3 of the Atomic Energy Authority Act 1986 as amended by the UK Atomic Energy Authority (Limit of Borrowing) Order 1991 remained at £200m. There were no borrowings during the current or previous year.

### **27 Contingent liabilities**

There are contingent liabilities in respect of guarantees and claims arising in the normal course of business; claims relating to asbestos contamination; and indemnities issued with the consent of the Secretary of State for Trade and Industry and HM Treasury in respect of claims for nuclear damage arising from nuclear matter in the course of carriage. It is not expected that these will have a material impact on the financial position of UKAEA.

### **28 Related parties**

#### *Government Bodies*

UKAEA is a Non-Departmental Public Body sponsored by the DTI, which is regarded as a related party. During the year, UKAEA has had various material transactions with the DTI and with other entities for which the DTI is regarded as the responsible department, mainly the Nuclear Decommissioning Authority. Further details of UKAEA's transactions with these bodies are included in the Management Commentary and the balances at the year end are included at Notes 15 and 17.

In addition, UKAEA has a small number of material transactions with other Government Departments and other central Government bodies.

#### *Agency Transactions*

Contracts administered by UKAEA on behalf of the DTI, but not directly related to the Group's activities, have been excluded from the profit and loss account. The value of these contracts in 2005-2006 amounted to £1.5m (2004-2005 – £1.6m). Costs incurred and charges to customers made for the administration of these contracts are included in the profit and loss account.

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