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# United Kingdom Atomic Energy Authority Account 2006-2007

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# Management Commentary

## Nuclear clean-up

### **Delivering Nuclear Decommissioning Authority (NDA) contracts**

UKAEA's performance in site restoration at Dounreay, Harwell, Windscale and Winfrith remains good. During the year, 89 per cent of NDA Performance Based Incentives were delivered on or ahead of schedule. The work completed during the year was delivered at 16 per cent below estimated cost. Programme accelerations during the year allowed £49m of additional work (around 18 per cent) to be performed compared to the original work plan.

This year was the first of two years of restructuring decommissioning sites into site licence companies in preparation for bidding for the NDA contracts to run the sites. Shell companies were created, and logical separation of support services and IT systems took place. The licensing documentation was assembled for submission to the regulators in preparation for the nuclear site licences to be granted to the new site licence companies which will operate from 1 April 2008.

In October 2006, the NDA announced its decision to amalgamate the Windscale and Sellafield sites. UKAEA will manage the Windscale decommissioning programme as a sub-contractor to the Sellafield Site Licence Company. Work is ongoing to put in place arrangements for a smooth transition in April 2008.

The Harwell and Winfrith sites will be merged to form one site licence company which is planned to start operating on 1 April 2008. New management structures will be brought in to ensure the Harwell/Winfrith cluster operates effectively.

### **UKAEA/AMEC/CH2M HILL Alliance**

UKAEA, AMEC and CH2M HILL have been working in a collaborative partnership since January 2006. The alliance was formed primarily to bid for the Management & Operations (also known as Tier 1) contracts let by the NDA and to improve performance on UKAEA's current sites in the run-up to competition.

The alliance brings together UKAEA's UK licence holder and decommissioning experience, CH2M HILL's US and large facility decommissioning experience, and AMEC's commercial nuclear and oil and gas experience to create a formidable team.

AMEC and CH2M HILL have seconded experienced staff into management positions at UKAEA locations and are providing technical, safety and commercial advice both locally and corporately. This has helped UKAEA improve its NDA programme performance, strengthen its commercial and contract management capability and develop its lifetime plans. It has also helped the alliance develop strong working relationships which will be invaluable for future competitive bids.

Secondees are providing particular support to UKAEA's Sustained Excellence safety programme, cross-fertilising UKAEA practices with the Integrated Safety Management approach of the US decommissioning programme and with experience from non-nuclear, high hazard operations.

In addition, UKAEA has worked bilaterally with CH2M HILL and AMEC on a number of bids for work outside the NDA market, such as strategic support to decommissioning projects in the former Soviet Union and the European Union.

### **Decommissioning services**

UKAEA has had a successful year developing its Tier 2 and 3 decommissioning services business, with a wide range of clients both at home and overseas.

The work captured exploits UKAEA's core skills in nuclear decommissioning, waste management, environmental restoration and technical consulting.

During the year, UKAEA won £2.7 million worth of new work. The bid to win ratio has remained high at around 50 per cent, indicating the advantages of careful targeting and a rigorous bid development process. In addition, some 43 direct invitations to bid for work, as opposed to reactive responses to advertised work, were received.

Of particular note was the signing, in collaboration with AMEC, of a Memorandum of Understanding with KOPEC, the Korean nuclear operator, for the provision of decommissioning and waste management services associated with waste repository construction in Korea. Other work captured and implemented included decommissioning programme planning for an overseas redundant power reactor, UK test reactor decommissioning planning, and numerous technical studies associated with waste management packaging and waste minimisation solutions.

## **Dounreay**

### *Decommissioning projects*

During 2006-2007, Dounreay carried out work with a budgeted cost of £164m for an actual cost of £146m, enabling significant additional work to be accelerated. All major critical path projects have been progressed during the year, and the site's major hazards continue to be reduced. At the same time, the site's safety and environmental performance has improved steadily.

During the year, a total of 22 buildings were fully decommissioned and demolished, and the landmark of the 100th building to be demolished at Dounreay will be achieved during 2007, including the first demolition of a Category 1 facility in Scotland.

The Dounreay Fast Reactor (DFR) breeder containment building was constructed and is being fitted out to enable the removal of the breeder rods from the reactor. DFR's NaK disposal plant commenced inactive operation and will begin destroying the radioactively contaminated NaK during 2007. At the Prototype Fast Reactor (PFR), 75% of the PFR sodium has been destroyed and deployment of the innovative plenum drilling rig has reduced the overall decommissioning timescale significantly.

Clean-up work in the Dounreay Cementation Plant (DCP) continues, hampered by difficult working conditions and the continuing uncertainty about the extent of the contamination.

### *Waste management projects*

Conditional planning consent was received for the construction of a major new waste plant which will immobilise liquid waste and encapsulate solid waste from historical reprocessing of the fast reactor fuel which accounts for almost 80 per cent of the radioactive waste hazard on site. Site enabling works are now in progress.

The raised working platform around the intermediate level waste shaft has been completed and borehole drilling and grouting has commenced to isolate the shaft from the environment.

Dounreay submitted a planning application in July 2006 to the Highland Council to construct new low level waste disposal facilities at Dounreay. In January 2007 UKAEA agreed an extension to the planning application determination period to allow the Scottish Environment Protection Agency (SEPA) to further review the supporting documentation. UKAEA is continuing to work with SEPA to provide any further information required to allow it to conclude its assessment. It is anticipated that SEPA's response to Highland Council should be available around July 2008.

As a result of the DCP shut-down, the schedule for encapsulating liquid ILW (intermediate level waste) has slipped.

### *Land remediation projects*

Significant progress has been achieved to improve stakeholder relationships in this area throughout the year, most notably on the issue of particles. The release of the third Dounreay Particles Advisory Group (DPAG) report has greatly improved understanding of the whole particles subject. In addition, DPAG, COMARE (Committee on Medical Aspects of Radiation in the Environment) and other stakeholder groups have recognised and welcomed the more positive local stakeholder relationships with UKAEA. Interaction with the public and local landowners on the particles BPEO (Best Practicable Environmental Option) and beach monitoring have also led to some positive public statements.

Dounreay's programme of monitoring the local beaches continued during the year. Surveys of the seabed using remotely operated vehicles took place, and the results were made public.

In February 2007, UKAEA was fined £140,000 for the historical practices that gave rise to the particles in the environment, covering operating practices and incidents between the 1960s and 1984. Although the case concerned standards of waste management that were commonplace some quarter of a century ago, UKAEA accepts that mistakes were made. UKAEA's priority today is to minimise risk to people and the environment and to take forward feasible clean-up options following consultation with stakeholders.

## **Harwell**

### *Decommissioning projects*

A programme to decommission and repackage redundant gloveboxes from B220 – one of Harwell's major research facilities – was completed in March 2007, a year early and under budget. A total of 76 boxes were processed.

Work on the programme to clean up and eventually close Harwell's Liquid Effluent Treatment Plant (LETP) made good progress. The B336.3 chemical dosing plant was successfully demolished. A new technique – Blast 'n Vac – was used to strip contaminated paint, allowing the majority of the building to be classed as exempt waste suitable for landfill.

A range of buildings were removed as part of the accelerated plan to clean up the Harwell site. The large B393 former metallurgy building was demolished. B581, constructed in the late 1980s to house experimental rigs, was decommissioned and demolished. The former laboratories for Harwell's Material Development Division in B552 were also removed.

### *Waste management projects*

In March 2007, delivery of the component parts for Harwell's second Retrieval Machine (RM2) began. Once assembled and commissioned, RM2 will increase Harwell's intermediate level waste retrieval capacity, as part of the site's Active Waste Retrieval Programme. It will enhance the operations to deal with legacy waste stored on site so it can be safely retrieved, repackaged and conditioned, ready for final disposal. RM2 is due to be fully operational by Spring 2009.

Active commissioning of a plant to remobilise sludge at the LETP began. The remobilisation plant will enable radioactive sludges to be retrieved from tanks, pumped to the LETP and immobilised in cement in drums for long-term storage.

Construction of the Waste Encapsulation Plant, a key part of Harwell's waste management strategy, began in May 2006 and is now making good progress. The facility will enable UKAEA to cement ILW and is scheduled to be fully operational by mid-2008.

### *Land remediation projects*

Seven hectares of land at Harwell were delicensed on 30 September 2006 by the Nuclear Installations Inspectorate (NII) – the largest area in the UK to date to be removed from nuclear regulation. This involved the decommissioning and removal of some 43 buildings. A further delicensing case was submitted at the end of the year.

Construction of a replacement groundwater containment plant at Harwell's Western Storage Area was finished in March 2007. The plant will be used to capture and treat chemically contaminated groundwater caused by historic disposal of chemicals. In a first for the UK, a thermally enhanced soil vapour extraction technique was used to decontaminate land at Harwell's Western Storage Area, an old chemical waste disposal site.

## **Windscale**

### *Decommissioning projects*

Excellent progress was made in the Windscale clean-up programme in 2006-2007. Ninety nine per cent of planned work was achieved with a 25 per cent cost saving and significant programme accelerations.

A new Safety Case produced by the Piles Project Team and accepted by the NII has paved the way for safer, earlier decommissioning of the Pile reactors. The latest scientific information and assessment techniques have been used to demonstrate that the Pile 1 facility does not pose the risks previously considered and so does not require the same safety category. Trials have also been completed on the equipment which could be used for the fuel and isotope removal from Pile 1. Preparation work for the removal of isotopes from Pile 2 has been completed and the equipment has been commissioned. The Pile 2 isotope removal will be completed this year and the waste will be packaged as intermediate level waste.

Decommissioning work is progressing well at the Windscale Advanced Gas-cooled Reactor (WAGR). Of the 11 reactor decommissioning campaigns, eight have been completed and the ninth campaign to remove the pressure vessel and insulation is ongoing. The ninth campaign is due to be completed in early 2009.

The decommissioning of the WAGR post-irradiation examination facility is also continuing to schedule, with three of the five cave lines cleared and decontaminated.

The site demolition programme has advanced with seven buildings being demolished in the year changing the skyline on the site and making additional space available for re-use. Additional refurbishment and upgrade work has been carried out by the Balance of Site Structures team.

## **Winfrith**

### *Decommissioning projects*

During 2006-2007, significant progress has been made on many different clean-up projects at Winfrith.

Work has been progressing well at the Steam Generating Heavy Water Reactor (SGHWR). Phase one decommissioning finished at the end of March 2007 concluding the clearance of over 250 rooms and areas within the secondary containment. This included the removal of the 120-tonne condenser, redundant external facilities and the turbine alternator. The primary containment at SGHWR is having a new electrical distribution system installed in preparation for the removal of reactor peripherals and the core.

Decommissioning of Building A59, a Category 1 post-irradiation examination facility, has reached the demolition stage. All of the above ground structures, including the originally highly contaminated cave lines, have been demolished. Work is continuing with the removal of the below ground structures, through to final ground remediation and backfill.

All of the B2 buildings, consisting of a fissile materials store, office block and reactor hall, were fully decommissioned during 2006-2007. The site is now a grassed area and delicensing is underway.

### *Waste management projects*

The Winfrith Encapsulation Treatment Plant (WETP) is now being operated to recover and condition radioactive sludges which are a legacy of the operational days of SGHWR. During 2006-2007 198 drums of sludge were encapsulated and moved to the Treated Radwaste Store. This work will continue until all of the sludge has been recovered and conditioned. Following this the plant, including the current sludge storage tanks, will be decontaminated, decommissioned and demolished, with the site then being remediated and backfilled.

During the reporting period, 1,820 cubic metres of low level waste were shipped to the waste facility at Drigg. This is more than twice the amount of waste transported in any previous year.

## Fusion research

### ITER preparations

Much of UKAEA's fusion research work at Culham is focused on preparing for the ITER tokamak – the next-generation device that will test fusion power on a commercial scale.

Over half the world's population is represented by the project partners – the European Union, Japan, United States, India, China, Russia and South Korea. In November 2006, the seven partners signed the ITER agreement, which established the organisation needed to implement the project. The construction site is now being prepared at Cadarache in southern France and international teams are being formed to take the project forward, with the first operations scheduled in ten years time. Several UKAEA staff have been seconded to Cadarache to help ITER get started; others have provided technical advice through participation in meetings.

UKAEA, along with other national fusion associations, is closely involved in testing equipment and operational regimes for ITER. The Joint European Torus (JET) research facility (the world's largest existing fusion device), which UKAEA operates on behalf of its European partners, is a crucial test-bed for ITER. The UK's lead facility, MAST (Mega Amp Spherical Tokamak) is also making important contributions to ITER preparations.

At the same time, UKAEA continues to brief British industry on the economic opportunities arising from construction of the €5bn ITER facility. In June 2006 Culham Science Centre played host to the "ITER business opportunities for UK industry" event which was attended by delegates from 175 companies, UK Trade and Investment, trade associations and regional development agencies and devolved assemblies.

### UK fusion programme

Impressive results from the MAST device underlined the promise of the 'spherical tokamak' research approach being pioneered at Culham, which could provide a more compact and efficient type of fusion power generation in the future. The upgrade of the main heating systems during the year will give improved plasma performance. Some £4 million of investment in further enhancements are planned in 2007-2008 as the first steps towards a major machine upgrade which is planned subject to funding.

In August 2006 there was welcome support for fusion research in the Trade and Industry Select Committee's report on the work of UKAEA. The Committee recognised fusion's potential towards meeting future global energy demands and recommended continued investment in the UK research programme.

### JET

The year saw an intensification of the work at JET to support ITER, both in fusion experiments and in machine enhancements. A demanding programme of experiments conducted by scientists from all over Europe successfully investigated key issues for ITER's design and simulated ITER operating scenarios, as well as setting new plasma heating records. This will be followed in 2007-2008 by the installation of new systems directly simulating heating technology that will be used on ITER.

Operations at JET were viewed by a number of senior figures from the ITER project during the year. Notable among them were ITER Director General Kaname Ikeda, Principal Deputy Director General Dr Norbert Holtkamp and Deputy Director General Professor Dhiraj Bora.

### Research collaborations

UKAEA has built on its strong existing links with academic institutions and is now collaborating with around 20 universities on research projects. Many of these involve PhD students, about 40 of whom are working on UKAEA fusion programmes.

Collaborations with ITER partners are also being strengthened. In particular, an agreement established during 2006-2007 will see staff from the recently-constructed EAST tokamak in China seconded to Culham in the forthcoming year.



## Property regeneration

### Harwell Science and Innovation Campus

UKAEA's Harwell site in Oxfordshire is at the heart of a Government initiative to bring together public sector research with business to establish an international exemplar of science, technology and innovation. The Harwell Science and Innovation Campus, which is already home to some of the world's most prestigious research facilities, will pioneer new collaborative approaches to research, innovation and learning. Further major UK and international science facilities will be located at the Campus and an interactive community of scientists and innovators developed around them.

UKAEA, working with the Science and Technology Facilities Council, is leading a project to form a joint venture with an investing private sector partner for development of the Campus and delivery of the ambitious vision that Government has set. Selected candidate organisations were invited in October 2006 to submit their outline proposals. Negotiations are now in progress with a shortlist of potential partners. A preferred partner will be announced and the joint venture concluded later this year.

In November 2006, the then Prime Minister, Tony Blair, visited the new Diamond synchrotron to celebrate first light in the beamlines and to signal the importance of science to the UK's future prosperity. Diamond is the most recent addition to the scientific facilities at the Campus where scientists focus light into an intensely powerful and narrow beam that enables them to study the structure of matter on the nanoscale.

Also at Harwell

- private sector developers working in partnership with UKAEA completed a new headquarters building for UKERNA – the organisation that manages and develops the UK's academic computing network – and substantially completed a second innovation centre that opens in July 2007;
- three additional high-technology companies leased campus premises alongside the public sector research organisations. One of the companies is a graduate of the Innovation Centre at the campus; and
- a development agreement was concluded for a 140-bedroom hotel and associated leisure facilities at Harwell that will greatly enhance visitor facilities and staff amenities at the campus.

### Culham Science Centre

UKAEA's Culham Science Centre, also in south Oxfordshire, is a thriving location for business alongside the fusion research programme and home to 25 companies, mostly in high-technology sectors. The Culham Innovation Centre, run by Oxford Innovation in partnership with UKAEA, meets the needs of small and start-up businesses. UKAEA provides technical assistance to some of these companies, thereby encouraging transfer of technology from fusion research.

During the year several occupiers took additional space at Culham, including a company providing specialist engineering services and a biotech company. The site also welcomed three new occupiers including a start-up company researching and developing new products in battery technology. In addition, two existing occupiers whose leases expired have chosen to stay at Culham.

### Transfer of property interests

UKAEA's main property interests at Dounreay, Winfrith and Windscale were transferred to the NDA at the end of the year to facilitate the clean-up process. Uniquely, the NDA will complete its clean-up programme at Harwell occupying land under a lease from UKAEA. This arrangement enables the progressive release of the land for development as part of the Harwell Science and Innovation Campus.

## Corporate social responsibility

Safety, sensitivity to the environment and social responsibility are central to UKAEA's operations and working culture. The organisation has a well defined approach to fulfilling its responsibilities and undertakes independent audits to benchmark its activities and identify improvements. In particular UKAEA aims to:

- safeguard the health and safety of the public, employees and contractors;
- protect the environment;
- be open and transparent in communications with the public;
- consult and engage with stakeholders;
- support the prosperity and well-being of local communities; and
- deal fairly with contractors and suppliers.

## Safety, health, environment and security

### *Management of safety, health, environment and security*

UKAEA has an excellent and improving safety, health, environmental and security record to match the high standards of delivery in its decommissioning and fusion programmes.

Over the year UKAEA maintained a high level of performance, shown by a wide range of internal and external indicators, including retention of external certification to ISO 9001 and ISO 14001. UKAEA also took the opportunity, during its wider restructuring programme, to bring in new safety and environmental systems to improve future performance at each site. The Sustained Excellence initiative involves staff at all levels as well as contractors and alliance partners. Although co-ordinated centrally, sites will implement their own programmes, building on existing safety improvement projects and delivering improvements most relevant to their own site.

UKAEA will continue to strive for further improvements and ensure that the protection of its staff, the sites it operates and the wider environment remain firmly at the top of the agenda.

### *UKAEA's performance*

Safety, health and environmental events – UKAEA reduced the number of events across its sites to the lowest number since the reporting system was introduced. There were 20 events in 2006-2007, compared to 40 the previous year.

International Nuclear Event Scale – One Level 1 anomaly was reported on the International Nuclear Event Scale. The event occurred when an interlocked shield door opened without operator instruction during the examination, inspection, maintenance and testing of a cave transfer tunnel at Windscale. No operators received any detectable radiation dose. Appropriate remedial action was promptly taken by the project team.

Lost time accidents and RIDDOR Reportable Injuries Incident Rate – UKAEA's lost time accident frequency rate for all absences (of one day or more) rose during the year to 0.19 per 100,000 hours worked, compared with 0.16 the previous year. Although this is slight, any increase in this rate is unwelcome and action is being taken to reduce the incidence of lost time accidents in 2007-2008. By contrast, the incident rate for those injuries that are reportable under the UK Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) was 179 per 100,000 employees, a significant reduction from 262 in the previous year. Over the last three years, UKAEA has more than halved its incident rate.

Radiation dose – The total radiation dose to the individuals working for UKAEA in the 2006 calendar year was very low. No employee received a dose greater than 3.56mSv. The average occupational dose received by employees was 0.10mSv, equivalent to 3.7 per cent of the average background radioactive dose received by all members of the public.

International Safety Rating System (ISRS) – Aggregate ISRS score levels have been maintained, with Dounreay at Level 8 and all other licensed sites at Level 7.

Safety maintenance plans – Completion of safety maintenance plans shows an almost perfect score. Out of over 34,000 maintenance plans for the year, all but 247 were completed on time, an achievement of 99.0 per cent.

Completion of audits and actions from investigations – A 98.1 per cent closeout rate reflects timely completion of all but two of 143 investigation actions. All but two out of 80 audits were completed.

Environmental improvement milestones – For the Environmental Performance Measure, UKAEA measures the proportion of environmental improvement milestones achieved during the year. In 2006-2007, 98 per cent success was achieved against a target range of 92-97 per cent. The net result is completion on time of 113 milestones in total across UKAEA.

Nuclear material unaccounted for – The annual holdings of safeguarded nuclear material for 2006-2007 were submitted for consideration by DTI. The Inventory Difference figures for UKAEA gave no cause for concern and are consistent with expectations for the re-measurement of historic waste and decommissioning of former nuclear facilities.

Discharges from UKAEA sites – UKAEA has continued to make discharges of very low levels of radioactive substances in both liquid and gaseous form in accordance with authorisations given by the Environment Agency and SEPA under the Radioactive Substances Act. Authorisations include limits for these discharges 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, UKAEA has applied Best Practicable Means (BPM) and used Best Practicable Environmental Option (BPEO) studies to further minimise discharges. Confirmation that UKAEA discharges have a negligible impact on the environment has been successfully demonstrated during this year as a result of the extensive environmental monitoring programmes that have been undertaken.

### *Security*

In light of current threats to the UK, the requirement to maintain high standards of security throughout UKAEA has been of paramount importance during the past year. Each UKAEA managed site is subject to the Nuclear Industries Security Regulations 2003. Site specific security plans ensure that robust and rigorous security regimes are in place to mitigate against current threats and to ensure appropriate protection of nuclear material in storage on sites, or in transit, and any associated sensitive information.

The security regimes at each site are periodically inspected by the security regulator (the Office for Civil Nuclear Security) which, together with a range of security checks and inspections undertaken by site based security teams, provides a high level of assurance that appropriate standards and measures are being fully implemented and maintained.

### *Emergency arrangements*

Emergency arrangements at all sites have been assessed by the NII for adequacy during 2006-2007. All sites have been deemed to have adequate emergency arrangements. However there was a requirement for Winfrith to repeat an exercise. This has since been successfully completed. An exercise/training/development day was undertaken with members of the Department for Transport in attendance which was deemed successful. The Crisis Management Centre was deployed in response to a loss of electrical supply at Dounreay.

## **Stakeholder engagement**

### *Public consultations*

UKAEA continued to involve the communities around its sites in developing publicly acceptable options for decommissioning and waste management projects

- Over 1,000 stakeholders were engaged in the second stage of consultation to identify the BPEO for dealing with radioactive particles in Dounreay's marine environment;
- Throughout 2006-2007 dialogue continued on the proposed new low level waste disposal facility at Dounreay, especially with near neighbours;

- UKAEA invited public participation in reaching a recommended option on the management of High Volume Low Activity (HVLA) waste arising from the restoration of the Harwell site, involving 72 interested individuals and groups; and
- Public consultation was launched to identify stakeholder values and concerns that need to be taken into account when determining the Integrated Waste Strategy for the Windscale site.

#### *Site Stakeholder Groups*

During the year UKAEA supported independently chaired Site Stakeholder Groups which act as forums for community representatives to review performance, inform decision-making and comment on strategies and plans.

As part of the NDA's aim to agree end states for all UK decommissioning sites, UKAEA facilitated independent public consultations on behalf of Site Stakeholder Groups at each of its sites. Recommendations for end states based on these findings were submitted to the NDA at the end of March 2007.

#### *UKAEA/AMEC/CH2M HILL alliance*

UKAEA, AMEC and CH2M HILL held a number of discussions with key stakeholders to understand their concerns and to explain what the alliance has to offer in the NDA nuclear decommissioning market. This included a stakeholder engagement event at Dounreay, attended by senior representatives from the NDA and the Trade Unions and representatives of the local community and local and regional organisations. The event proved so popular that a follow up event is being arranged for later in 2007. In addition, an event will be arranged for the Harwell/Winfrith cluster once the new management structure has been implemented.

#### *Community and stakeholder relations*

UKAEA has always placed great importance on working closely with its stakeholders and playing a full part in the community.

A key aim, shared with the NDA, is to minimise the impact of site clean-up programmes on local communities and leave positive legacies for the future. In line with this, UKAEA has continued to engage with interested parties and produce site socio-economic development plans on behalf of the NDA.

UKAEA again provided support to a wide variety of community projects and groups during 2006-2007, many on behalf of the NDA – from pipe bands in the Scottish Highlands near Dounreay to a youth tennis scheme close to Winfrith on the south coast of England.

Throughout the year, UKAEA also played host to thousands of visitors who viewed its decommissioning and fusion projects, ranging from local community groups to senior politicians and international energy delegations.

#### **Freedom of Information**

UKAEA makes every effort to comply with the requirements of the Freedom of Information (FOI) Act. In 2006-2007, UKAEA received 263 FOI requests and responded to 93 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 <http://www.ukaea.org.uk>.

#### **UKAEA employees**

Equal opportunity – UKAEA's 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. UKAEA 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 UKAEA's 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 regular team briefings. Various other matters are addressed during regular consultation and discussion with local and central employee representatives. The Trade Unions have been consulted throughout the business transformation programme, and UKAEA has continued to discuss other matters of importance to staff with employee representatives.

Organisational development and training – UKAEA recognises that the full potential of its 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.

Improving health – UKAEA attaches great importance to the health of staff and provides 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 employees.

Employee numbers – The average number of full-time equivalent employees during the year was 2,228.

### **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 2006-2007 UKAEA continued to nourish a healthy supply chain by competing contracts wherever possible.

## **Financial review**

### **NDA Transfer Scheme**

The Energy Act 2004, which established the NDA, gave the Secretary of State for Trade and Industry the power to transfer property, rights and liabilities from UKAEA to the NDA, using nuclear transfer schemes.

The 2007 transfer scheme, which came into force on 1 April 2007, transferred UKAEA property, rights and liabilities limited to activities defined by the Energy Act. Properties, rights and liabilities not related to the 'relevant activity', in particular in relation to the fusion programme, the Culham site, freehold of land at Harwell, pensions administration and other non-NDA work, were excluded from the transfer scheme. The scheme transferred

- freehold land and buildings at Dounreay, Windscale and Winfrith;
- plant, equipment and stock as required for the relevant activity;
- intellectual property related to the relevant activity other than that excluded for continued exploitation by UKAEA;
- UKAEA's ownership of Special Nuclear Materials and its holdings of radioactive wastes; and
- certain liabilities together with the benefit of any related insurance policies where appropriate.

The freehold of land at Harwell which relates to the relevant activity was not transferred to the NDA. Instead, the land has been leased to the NDA and will be progressively returned to UKAEA as decommissioning is completed.

The NDA accepted that most of UKAEA's intellectual property, including that licensed from third parties, could remain in UKAEA ownership and be excluded from the transfer scheme, subject to the NDA being given an irrevocable royalty free licence to use it within its field of use. Certain intellectual property that the NDA regards as strategic transferred to its ownership and UKAEA has been given a free licence to use this.

The land, buildings, plant, equipment and stock transferred to the NDA, including the land leased at Harwell, have been derecognised from UKAEA's accounts as the risks and benefits have already transferred to the NDA even though legal or leasehold title did not transfer until 1 April 2007.

On 1 April 2008 a further Transfer Scheme will transfer UKAEA employees into separate legal entities which will be established as site licence companies. These companies will be subsidiaries within the UKAEA group and their results will be included in UKAEA's consolidated accounts.

### **Operating performance**

Turnover for the year amounted to £378.2m (2005-2006 – £361.3m), with the increase being mainly attributable to the NDA programme. The fee received from the NDA in relation to the achievement of Performance Based Incentives (PBI) under the M&O contract has been used to finance the ongoing restructuring of UKAEA and to fund certain costs not allowable under the contract. This resulted in an operating profit of £14.3m (2005-2006 – £0.4m). The retained profit for the year after financing and tax was £15.3m (2005-2006 – £3.1m) and reflects the high standard of UKAEA's performance during a period of significant restructuring.

### **Fixed assets**

Details of the movement on fixed assets are set out in Notes 10, 11, and 12 to the accounts. Certain fixed assets on the NDA-designated sites were derecognised from UKAEA's accounts and this was accounted for by restating the opening balances. Further details are available in Note 2.

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

### **Treasury**

Bank and cash balances decreased by £67m compared to the previous year. This reduction followed the settlement during the year of BNFL pre- and post-71 liabilities and the transfer of a VAT receipt received on behalf of the NDA in the previous year.

UKAEA continued to use forward foreign exchange contracts to mitigate the risk of losses on foreign exchange. During the year, forward contracts to sell €72.3m were placed on a competitive basis.

### **Nuclear liabilities estimate**

The estimated cost of decommissioning and environmentally restoring the JET facilities at UKAEA's Culham site is £157.6m, in 2006-2007 money values, and discounted at 2.2 per cent to the balance sheet date. The 2005-2006 estimate, restated on the same terms, was £168.6m. It is expected that the part of the Culham site on which the JET facilities are located will be designated to the NDA after the current research programme has ended and the liabilities will be derecognised from UKAEA's accounts at that time.

### **Taxation**

The profit and loss account shows an estimated corporation tax charge for the year of £1.1m (2005-2006 – nil) in respect of tax on non-trading profits. This is still subject to agreement with HMRC and there are ongoing discussions with HMRC about the possibility of UKAEA obtaining additional reliefs in respect of research and development and capital allowances.

Further details of the tax position are set out in Note 8 to the accounts.

## Pensions

Details of UKAEA pension arrangements are set out in Note 6 to the accounts. With effect from 1 April 2006, a revised method to determine employer contributions to the UKAEA defined benefit schemes has been introduced in line with other public sector pension schemes. This new method, known as SCAPE (Superannuation Contributions Adjusted for Past Experience), calculates employer contributions on the basis of the expected cost of members' benefits as they accrue rather than on the actuarial value of notional surpluses in the scheme and resulted in employer contributions of £11.7m (2005-2006 – nil) being payable for the year.

## 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 £200m throughout the year. There were no borrowings during the current or previous year.

## Charitable and political contributions

During the year UKAEA made charitable contributions of £181,760 (2005-2006 – £271,216) to local charities in line with its policy of supporting local stakeholders. This included many contributions made on behalf of and funded by the NDA. No political contributions were made in the current or previous year.

## Research and development

UKAEA performs a wide range of research and development activities across all its 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 £0.1m (2005-2006 – £0.1m). There were no non-audit services.

## Statement of payment policy and practice

UKAEA follows the CBI Prompt Payment Code. UKAEA's 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 2007 trade creditors were equivalent to 10 days (2006 – 14 days) purchases during the year which is well within the 30 days specified in the Prompt Payment Code.

## 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 must achieve excellent results in delivering work plans and maintaining or improving performance against the key 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 is made up of performance on the NDA programme (80 per cent) and the delivery of key fusion milestones (20 per cent). Under the M&O contract with the NDA, UKAEA has agreed a number of Performance Based Incentives (PBI) that will measure performance in delivering the agreed site programmes. The potential fee that UKAEA can earn from the NDA contract depends on the performance against these PBIs together with efficiency savings. The key fusion milestones define the successful delivery of the 2006-2007 programme. The outcome for the delivery measure for 2006-2007 was 4.74 per cent (2005-2006 – 4.62 per cent) against a target range of 0 per cent – 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 2006-2007 was 54.2 (2005-2006 – 56.8) against a target range of 0 – 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 2006-2007 was the achievement of 98 per cent (2005-2006 – 100 per cent) of the milestones against a target range of 92 per cent – 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 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 2006-2007 was 48.1 per cent (2005-2006 – 50.7 per cent) against a target range of 48 per cent – 50 per cent.



## Board of Directors

**Barbara Thomas Judge**, *Chairman* – appointed to the Board on 1 September 2002 and appointed Chairman on 1 May 2004. She is Chairman of the School of Oriental & 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.

**Norman Harrison**, *Chief Executive and Accounting Officer* – 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.

**Colin Bayliss**, *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.

**Andrew Jackson**, *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**, *Non-Executive Director* – appointed to the Board on 1 June 2005. He is Chairman of Wellstream Holdings plc and Bifold Group Ltd, both of whom provide high quality engineering products for oil and gas production. Additionally, he is also a Director of a number of companies both private and public. He has had a successful career in the oil and gas industry during which he held several positions that included Executive Vice President at the Halliburton Company and most recently Chairman of Vetco International.

**Mark Slaughter**, *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, he 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**, *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**, *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**

Norman Harrison, Chief Executive

Colin Bayliss

Andrew Jackson

Dipesh Shah (resigned from the Board on 31 August 2006)

#### **Non-Executive Directors**

John Kennedy

Mark Slaughter

Ken Vowles

Arnold Wagner (appointed 1 May 2006)

Biographical details of the Directors are included on page 15. The responsibilities of the Directors are included on page 16.

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, Norman Harrison, 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, three 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 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 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 (4)	0
Norman Harrison	8 (8)	0	0
Colin Bayliss	8 (8)	0	0
Andrew Jackson	7 (8)	0	0
Dipesh Shah (resigned 31 August 2006)	2 (3)	0	0
John Kennedy	6 (8)	1 (4)	1 (2)
Mark Slaughter	7 (8)	3 (4)	2 (2)
Ken Vowles	8 (8)	4 (4)	1 (2)
Arnold Wagner	7 (8)	4 (4)	2 (2)

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, John Kennedy, Mark Slaughter, Ken Vowles and Arnold Wagner. The Committee is chaired by Arnold Wagner. All members of the Committee were independent Non-Executive Directors. The Remuneration Committee met four 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 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 John Kennedy, Mark Slaughter, Ken Vowles and Arnold Wagner. The Committee is chaired by Mark Slaughter. All members of the Committee were independent Non-Executive Directors. The Audit Committee met twice during the year. A third meeting of the Audit Committee was cancelled due to adverse weather conditions but the agenda was dealt with by correspondence.

The Committee has at least one member possessing what the Smith Report describes as recent and relevant financial 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 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 2007 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 main 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.

There were no material internal control issues identified during the year.

*Norman Harrison*  
Chief Executive and Accounting Officer

28 June 2007

## 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 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. This is normally 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 page 14), and the performance of the sites or divisions for which Directors have responsibility against specific Divisional targets. The performance related bonuses for 2006-2007 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 £	<b>2007 Total £</b>	2006 Total £
<i>Chairman</i>					
Barbara Thomas Judge	60,000	0	0	<b>60,000</b>	60,000
<i>Executive Directors</i>					
Norman Harrison	147,878	53,463	39,271	<b>240,612</b>	196,230
Colin Bayliss	102,632	10,233	23,605	<b>136,470</b>	129,278
Andrew Jackson	153,750	15,883	38,437	<b>208,070</b>	113,425
Dipesh Shah (resigned 31 August 2006)	111,420	28,884	22,417	<b>162,721</b>	277,550
<i>Non-Executive Directors</i>					
John Kennedy	25,000	0	0	<b>25,000</b>	20,833
Mark Slaughter	25,000	0	0	<b>25,000</b>	24,722
Ken Vowles	25,000	0	0	<b>25,000</b>	19,166
Arnold Wagner (appointed 1 May 2006)	22,917	0	0	<b>22,917</b>	0
<i>Former Directors</i>					
Paul White	0	0	0	<b>0</b>	38,472
Rosemary Day	0	0	0	<b>0</b>	15,000
John Macpherson	0	0	0	<b>0</b>	8,750
Alan Young	0	0	0	<b>0</b>	15,000
	<b>673,597</b>	<b>108,463</b>	<b>123,730</b>	<b>905,790</b>	<b>918,426</b>

### Pension entitlements

Executive Directors 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 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 6 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 2007 and include the value of added years paid for by Directors.

	Accrued Pension 2006 £	Lump sum 2006 £	Increase in accrued pension £	Increase in lump sum £	<b>Accrued Pension 2007 £</b>	<b>Lump sum 2007 £</b>
Norman Harrison	47,136	141,408	12,308	36,925	<b>59,444</b>	<b>178,333</b>
Colin Bayliss	26,592	79,777	2,546	7,636	<b>29,138</b>	<b>87,413</b>
Andrew Jackson	2,965	8,896	1,441	4,321	<b>4,406</b>	<b>13,217</b>
	<b>76,693</b>	<b>230,081</b>	<b>16,295</b>	<b>48,882</b>	<b>92,988</b>	<b>278,963</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 2006 £	Directors' contributions £	Increase net of contributions £	<b>Transfer value 2007 £</b>
Norman Harrison	813,942	6,608	229,786	<b>1,050,336</b>
Colin Bayliss	431,350	15,395	79,056	<b>525,801</b>
Andrew Jackson	51,331	5,430	21,341	<b>78,102</b>
	<b>1,296,623</b>	<b>27,433</b>	<b>330,183</b>	<b>1,654,239</b>

The accrued pension and accrued transfer value for Dipesh Shah at the time of his resignation from the Board on 31 August 2006 are shown in the table below

	Accrued pension £	Transfer value £
Balance at 1 April 2006	13,844	328,984
Increase to 31 August 2006	4,066	100,671
	<b>17,910</b>	<b>429,655</b>

These pension entitlements for Dipesh Shah are unfunded and are included in the liability for unfunded pension arrangements in Note 6(c) to the accounts.

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 2007

# 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 2007 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Directors and Chief Executive as 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 and the part of the remuneration report to be audited 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 report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chairman's Statement, the Chief Executive's Review, the Management Commentary, Board of Directors, Corporate Governance and the unaudited part of the Remuneration Report, is consistent with the financial statements. 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.

In addition, I report to you if the 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the United Kingdom Atomic Energy Authority's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the United Kingdom Atomic Energy 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. 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 United Kingdom Atomic Energy 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.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with the Atomic Energy Authority Act 1954 and directions made thereunder by HM Treasury, of the state of the United Kingdom Atomic Energy Authority's affairs as at 31 March 2007 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
- information given within the Annual Report, which comprises the Chairman's Statement, the Chief Executive's Review, the Management Commentary, Board of Directors, Corporate Governance and the unaudited part of the Remuneration Report, is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

18 July 2007

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

## Consolidated Profit and Loss Account for the year ended 31 March 2007

	Notes	2007 £m	2006 <sup>1</sup> £m
Turnover	3	<b>378.2</b>	361.3
Change in work in progress		<b>1.3</b>	(2.5)
Other operating income		<b>4.1</b>	4.5
		<b>383.6</b>	363.3
Raw materials and consumables		<b>39.4</b>	43.4
Other external charges		<b>178.8</b>	173.7
Staff costs	4	<b>140.5</b>	121.9
Depreciation, amortisation and impairment of fixed assets		<b>4.2</b>	5.8
Other operating charges		<b>6.4</b>	18.1
		<b>369.3</b>	362.9
<b>Operating profit</b>	5	<b>14.3</b>	0.4
Profit on disposal of fixed assets		<b>0</b>	0.4
<b>Profit on ordinary activities before financing</b>		<b>14.3</b>	0.8
Interest receivable		<b>2.6</b>	2.8
Notional cost of capital		<b>(2.6)</b>	(1.8)
Other net financing charges	7	<b>(0.5)</b>	(0.5)
<b>Profit on ordinary activities before taxation</b>		<b>13.8</b>	1.3
Tax on profit on ordinary activities	8	<b>(1.1)</b>	0
<b>Profit on ordinary activities after taxation</b>		<b>12.7</b>	1.3
Reversal of notional cost of capital		<b>2.6</b>	1.8
<b>Profit for the year</b>	21	<b>15.3</b>	3.1

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 27 form part of these accounts.*

## Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	Notes	2007 £m	2006 <sup>1</sup> £m
Profit for the year		<b>15.3</b>	3.1
Transfer of stock to the NDA	2	<b>(1.8)</b>	0
Actuarial loss on unfunded pension liabilities	6	<b>(0.7)</b>	0
Unrealised gain on revaluation of properties	11	<b>2.2</b>	32.7
<b>Total recognised gains relating to the year</b>		<b>15.0</b>	35.8

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

*The related notes numbered 1 to 27 form part of these accounts.*

## Balance Sheets at 31 March 2007

	Notes	Group		UKAEA	
		2007 £m	2006 <sup>1</sup> £m	2007 £m	2006 <sup>1</sup> £m
<b>Assets employed</b>					
<b>Fixed assets</b>					
Intangible assets	10	0.3	0.6	0.3	0.6
Tangible assets	11	77.8	79.7	77.8	79.7
Investments	12	0	0	3.0	3.0
		<b>78.1</b>	80.3	<b>81.1</b>	83.3
<b>Current assets</b>					
Stocks and work in progress	13	4.9	3.5	4.9	3.5
Debtors: amounts falling due within one year	14	105.1	90.3	104.6	90.5
Debtors: amounts falling due after more than one year	14	30.3	32.3	30.3	32.3
Nuclear liability debtor	14	157.6	160.0	157.6	160.0
Cash at bank and in hand		37.8	104.8	25.9	93.2
		<b>335.7</b>	390.9	<b>323.3</b>	379.5
<i>Less</i>					
<b>Creditors: amounts falling due within one year</b>	15	<b>92.9</b>	151.2	<b>92.9</b>	151.2
<b>Net current assets</b>		<b>242.8</b>	239.7	<b>230.4</b>	228.3
<b>Total assets less current liabilities</b>		<b>320.9</b>	320.0	<b>311.5</b>	311.6
<i>Less</i>					
<b>Creditors: amounts falling due after more than one year</b>	16	<b>20.0</b>	25.5	<b>20.0</b>	25.5
Deferred income	18	8.7	12.2	8.7	12.2
Nuclear liabilities	19	157.6	160.0	157.6	160.0
Other provisions for liabilities and charges	20	46.0	48.7	43.9	47.5
<b>Total assets less liabilities</b>		<b>88.6</b>	73.6	<b>81.3</b>	66.4
<b>Reserves</b>					
General reserve	21	70.8	72.6	70.8	72.6
Revaluation reserve	21	9.3	9.2	9.3	9.2
Investment revaluation reserve	21	48.2	46.6	48.2	46.6
Profit and loss account	21	(39.7)	(54.8)	(47.0)	(62.0)
<b>Total Government funds</b>		<b>88.6</b>	73.6	<b>81.3</b>	66.4

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

The accounts were approved by the Board of Directors on 28 June 2007 and signed on their behalf by

*Norman Harrison*  
Chief Executive and Accounting Officer

*Andrew Jackson*  
Chief Financial Officer

*The related notes numbered 1 to 27 form part of these accounts.*

## Consolidated Cash Flow Statement for the year ended 31 March 2007

	Notes	2007		2006 <sup>1</sup>	
		£m	£m	£m	£m
<b>Net cash (outflow)/inflow from operating activities</b>			<b>(68.4)</b>		0.4
<b>Net cash inflow from returns on investments and servicing of finance</b>					
Interest received			<b>2.6</b>		2.8
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>					
Transfer of stock to the NDA	2	<b>(1.8)</b>		0	
Purchase of tangible fixed assets	11	<b>(0.4)</b>		(0.7)	
Disposal of tangible fixed assets		<b>0.6</b>		1.4	
Capital grants received	18	<b>0.4</b>	<b>(1.2)</b>	0.6	1.3
<b>Net cash inflow from management of liquid resources</b>					
Withdrawal from short term deposits			<b>0</b>		10.8
<b>(Decrease)/increase in cash</b>			<b>(67.0)</b>		15.3

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

*The related notes numbered 1 to 27 form part of these accounts.*



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

	Notes	2007 £m	2006 <sup>1</sup> £m
Operating profit		<b>14.3</b>	0.4
Amortisation of intangible fixed assets	10	<b>0.3</b>	0.4
Depreciation and impairment of tangible fixed assets	11	<b>3.9</b>	5.4
Capital grants released	18	<b>(3.9)</b>	(4.3)
(Increase)/decrease in stocks and work in progress		<b>(1.4)</b>	2.4
Increase in debtors		<b>(15.0)</b>	(27.6)
(Decrease)/increase in creditors		<b>(64.9)</b>	21.5
(Decrease)/increase in provisions		<b>(1.7)</b>	2.2
Net cash (outflow)/inflow from operating activities		<b>(68.4)</b>	0.4

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

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

	2007 £m	2006 £m
(Decrease)/increase in cash in the year	<b>(67.0)</b>	15.3
Cash inflow from management of liquid resources	<b>0</b>	(10.8)
<b>Change in net funds</b>	<b>(67.0)</b>	4.5
Net funds at 1 April 2006	<b>104.8</b>	100.3
<b>Net funds at 31 March 2007</b>	<b>37.8</b>	104.8

## Analysis of net funds

	At 1 April 2006 £m	Cash flows £m	At 31 March 2007 £m
Cash at bank and in hand	104.8	(67.0)	<b>37.8</b>

The related notes numbered 1 to 27 form part of these accounts.

# Notes to the Accounts

## 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 2007. 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 increase 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 and grant in aid received. Grant in aid is treated as turnover rather than financing in agreement with DTI and HM Treasury.

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 UKAEA 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 19).

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 matching 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*

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 as separate accounts are prepared for the schemes. The amounts charged to the profit and loss account are the employer 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 which are not part of a scheme 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 2.2 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 DTI 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 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 Transfer of assets to the NDA

The designation of UKAEA's sites at Dounreay, Harwell, Windscale and Winfrith to the NDA under the Energy Act 2004 resulted in the risks and benefits associated with certain assets on these sites transferring to the NDA. In accordance with FRS 5 'Reporting the Substance of Transactions', assets with a closing book value of £103.5m were derecognised from UKAEA's accounts as at 31 March 2006. These assets were included in the accounts of the NDA for the year ended 31 March 2006.

A review of UKAEA assets during 2006-2007 identified additional assets where the risks and benefits have also transferred to the NDA. These assets have now been derecognised from UKAEA's accounts and are included in the accounts of the NDA. This additional derecognition of assets has been accounted for as a transfer of function using merger accounting as defined in FRS 6 'Acquisitions and Mergers' in accordance with the Government Financial Reporting Manual. The comparative figures in these accounts have been restated and the impact on the balance sheet is shown overleaf.

	<b>Original £m</b>	<b>Transfer £m</b>	<b>Restated £m</b>
Intangible assets	0.8	(0.2)	0.6
Tangible assets	105.3	(25.6)	79.7
Stocks and work in progress	4.7	(1.2)	3.5
Deferred income	12.6	(0.4)	12.2
Reserves	100.2	(26.6)	73.6

The impact on the profit and loss account did not affect the retained profit for the year.

All assets derecognised from UKAEA's accounts were formally transferred to the NDA on 1 April 2007. The value of stock at the transfer date was £3.0m and the increase in stock during the year has been transferred to the general reserve (see Note 21).

### 3 Segmental information

#### a Turnover

Turnover is analysed by geographical area as follows

	<b>2007 £m</b>	2006 <sup>1</sup> £m
United Kingdom	<b>331.8</b>	315.3
Rest of Europe	<b>46.3</b>	46.0
Rest of World	<b>0.1</b>	0
	<b><u>378.2</u></b>	<u>361.3</u>

All turnover originates in the United Kingdom.

Turnover includes £45.5m (2005-2006 – £45.5m) received from the European Union.

Turnover is analysed by activity as follows

	<b>2007 £m</b>	2006 <sup>1</sup> £m
Decommissioning and environmental restoration	<b>291.6</b>	277.0
Fusion research	<b>64.6</b>	65.2
Property	<b>7.9</b>	6.3
Pensions	<b>2.0</b>	1.4
Other	<b>12.1</b>	11.4
	<b><u>378.2</u></b>	<u>361.3</u>

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

*b Profit for the year*

	<b>2007</b> <b>£m</b>	2006 £m
Decommissioning and environmental restoration	<b>16.9</b>	9.1
Pensions	<b>0.2</b>	0
Other	<b>(1.8)</b>	(6.0)
	<b>15.3</b>	3.1

*c A segmental analysis of net assets has not been disclosed as net assets are not allocated by business segment.*

**4 Staff costs**

	<b>2007</b> <b>£m</b>	2006 £m
Salaries	<b>88.9</b>	85.5
Social security costs	<b>7.8</b>	7.6
Other pension costs <sup>1</sup>	<b>12.6</b>	0.3
	<b>109.3</b>	93.4
Hired staff	<b>31.9</b>	28.5
	<b>141.2</b>	121.9

1 The 2006-2007 pension costs include £0.7m of actuarial losses recognised in the statement of total recognised gains and losses.

The average number of staff during the year was

	<b>2007</b>	2006
<i>UKAEA staff</i>		
Senior staff	<b>33</b>	34
Other staff	<b>2,195</b>	2,255
	<b>2,228</b>	2,289
Hired staff	<b>587</b>	570

**5 Operating profit**

Operating profit is stated after charging the following items:

	<b>2007</b> <b>£m</b>	2006 £m
Auditors' remuneration – audit fees	<b>0.1</b>	0.1
Operating lease rentals – plant and machinery	<b>0.4</b>	0.4
– other	<b>0.3</b>	0.3
Exchange loss	<b>0</b>	0.1

The fee payable to National Audit Office for the 2006-2007 audit was £76,000.

## 6 Pension costs

### a Defined benefit schemes

UKAEA has two unfunded 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. With effect from 1 April 2006 and in line with other public service pension schemes, a revised method to determine employer contributions has been introduced, known as Superannuation Contributions Adjusted for Past Experience (SCAPE). Employer contributions are now based on the expected cost of members' benefits as they accrue. The total contributions paid by UKAEA during the year were £11,723,846 (2005-2006 – nil). No contributions were outstanding at this or the previous year end.

In accordance with guidance issued by HM Treasury, the schemes are accounted for as defined contribution schemes in these accounts. Separate audited accounts are prepared for the 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 £120,583 (2005-2006 – £43,725). No contributions were outstanding at this or the previous year end.

### c Unfunded pension arrangements

The UKAEA Chief Executive and former Chief Executives 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>2007</b>	2006
	<b>£000</b>	£000
At 1 April	<b>749</b>	483
Change in discount rate	<b>254</b>	62
Interest on liability	<b>40</b>	29
Current service cost	<b>109</b>	143
Benefits payable	<b>(11)</b>	(4)
Actuarial loss	<b>476</b>	36
<b>At 31 March</b>	<b>1,617</b>	749

The interest on liability and current service cost less benefits payable are included in the profit and loss account and the change in discount rate and actuarial loss are included in the statement of total recognised gains and losses. The closing liability, discounted at 1.8 per cent, is included in other provisions for liabilities and charges in the balance sheet (see Note 20).



**7 Other net financing charges**

	2007		2006	
	£m	£m	£m	£m
<b>Revalorisation of nuclear liabilities</b>				
change in discount rate	0		16.9	
changes in price levels	5.0		4.8	
amortisation of one year's discount	3.6		3.5	
escalation of nuclear liability debtor	(8.6)	0	(25.2)	0
<b>Revalorisation of other provisions</b>				
change in discount rate	1.3		1.5	
changes in price levels	1.4		1.1	
amortisation of one year's discount	1.0		1.2	
escalation of debtor	(3.3)	0.4	(3.3)	0.5
Interest on pension scheme liabilities		0.1		0
		<u>0.5</u>		<u>0.5</u>

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

	2007	2006
	£m	£m
<b>Current tax</b>		
UK corporation tax for current year at 30 per cent	1.1	0
<b>Deferred tax</b>		
Origination and reversal of timing differences	0	0
Tax on profit on ordinary activities	<u>1.1</u>	<u>0</u>

*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

	2007	2006
	£m	£m
Profit on ordinary activities before tax	<u>13.8</u>	<u>1.3</u>
Profit on ordinary activities before tax at the UK standard rate of corporation tax of 30 per cent	4.1	0.4
<i>Effects of</i>		
Capital allowances for the year in excess of depreciation	(2.2)	(0.9)
Expenses not deductible for tax purposes	1.0	1.5
Income not subject to tax	0	(0.2)
Losses brought forward not previously recognised	(1.8)	(0.8)
Current tax charge for the year	<u>1.1</u>	<u>0</u>

*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 from 1 April 2008 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 £7.1m (2006 – £8.2m) and relates to fixed asset timing differences of £6.6m and UK tax losses of £0.5m. This deferred tax asset is not recognised on the basis that it cannot be regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset may reverse.

**9 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 £15.2m (2005-2006 – £3.7m).

**10 Intangible fixed assets**

Group and UKAEA	Software Licences £m
<b>Cost</b>	
At 1 April 2006 <sup>1</sup> and 31 March 2007	4.6
<b>Amortisation</b>	
At 1 April 2006 <sup>1</sup>	4.0
Charge for year	0.3
<b>At 31 March 2007</b>	<b>4.3</b>
<b>Net book value</b>	
<b>At 31 March 2007</b>	<b>0.3</b>
At 31 March 2006	0.6

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

**11 Tangible fixed assets**

Group and UKAEA	Land and buildings £m	Investment properties £m	Surplus properties £m	Plant and equipment £m	<b>Total £m</b>
<b>Cost or valuation</b>					
At 1 April 2006 <sup>1</sup>	11.6	58.6	0.5	24.3	<b>95.0</b>
Additions	0	0	0	0.4	<b>0.4</b>
Disposals	0	(1.1)	(0.2)	(2.4)	<b>(3.7)</b>
Revaluation	0.3	1.9	0	0	<b>2.2</b>
<b>At 31 March 2007</b>	<b>11.9</b>	<b>59.4</b>	<b>0.3</b>	<b>22.3</b>	<b>93.9</b>
<b>Depreciation and impairment</b>					
At 1 April 2006(1)	1.2	1.6	0	12.5	<b>15.3</b>
Charge for year	0.2	0.1	0	3.6	<b>3.9</b>
Disposals	0	(0.8)	0	(2.3)	<b>(3.1)</b>
<b>At 31 March 2007</b>	<b>1.4</b>	<b>0.9</b>	<b>0</b>	<b>13.8</b>	<b>16.1</b>
<b>Net book value</b>					
<b>At 31 March 2007</b>	<b>10.5</b>	<b>58.5</b>	<b>0.3</b>	<b>8.5</b>	<b>77.8</b>
At 31 March 2006	10.4	57.0	0.5	11.8	<b>79.7</b>
<b>Net book value at 31 March 2007 is represented by</b>					
Valuation	10.5	58.5	0.3	0	<b>69.3</b>
Cost	0	0	0	8.5	<b>8.5</b>
	<b>10.5</b>	<b>58.5</b>	<b>0.3</b>	<b>8.5</b>	<b>77.8</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. There has been no material change since that valuation.

Investment properties and surplus properties were valued at open market value at 28 February 2007 by the Valuation Office. UKAEA has adopted this valuation at 31 March 2007 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 £6.3m (2006 – £6.3m).

c Capital commitments at 31 March 2007 amounted to £nil (2006 – £nil).

**12 Fixed asset investments**

UKAEA	Subsidiary undertakings £m	Other investments £m	<b>Total</b> <b>£m</b>
<b>Cost and net book value</b>			
At 1 April 2006 and 31 March 2007	<u>3.0</u>	<u>0</u>	<u>3.0</u>

*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, which is incorporated in the United Kingdom, is a wholly owned subsidiary of UKAEA. The company is currently dormant.

*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.

**13 Stocks and work in progress**

	Group and UKAEA	
	<b>2007</b>	2006 <sup>1</sup>
	<b>£m</b>	£m
Short-term work in progress	<u>4.9</u>	<u>3.5</u>

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

**14 Debtors**

	Group		UKAEA	
	2007 £m	2006 £m	2007 £m	2006 £m
<b>Amounts falling due within one year</b>				
Trade debtors	5.3	4.9	5.3	4.9
Restructuring debtors	5.7	5.9	5.7	5.9
Prepayments and accrued income	50.8	39.7	50.5	39.5
VAT	8.0	4.8	8.0	4.8
DTI current account	34.7	34.7	34.7	34.7
Other debtors	0.6	0.3	0.4	0.7
	<b>105.1</b>	90.3	<b>104.6</b>	90.5
<b>Amounts falling due after more than one year</b>				
Restructuring debtors	30.1	32.1	30.1	32.1
Other debtors	0.2	0.2	0.2	0.2
	<b>30.3</b>	32.3	<b>30.3</b>	32.3
<b>Nuclear liability debtor</b> (see Note 19)				
	<b>157.6</b>	160.0	<b>157.6</b>	160.0
<b>Debtors include intra-government balances as follows</b>				
Balances with the Department of Trade and Industry	228.2	230.9	228.2	230.9
Balances with other central government bodies	46.1	37.7	46.1	37.7
Balances with public corporations	0	0.4	0	0.4
	<b>274.3</b>	269.0	<b>274.3</b>	269.0

**15 Creditors: amounts falling due within one year**

	Group and UKAEA	
	2007 £m	2006 £m
Trade creditors	9.3	10.0
Accruals	42.3	79.6
Payments received on account	25.2	15.6
Taxation and social security	4.2	2.4
NDA VAT repayment	0	34.6
Other creditors	11.9	9.0
	<b>92.9</b>	151.2
<b>Creditors include intra-government balances as follows</b>		
Balances with the Department of Trade and Industry	0	0
Balances with other central government bodies	0.3	34.6
Balances with public corporations	0.3	30.3
	<b>0.6</b>	64.9

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

	Group and UKAEA	
	2007	2006
	£m	£m
Payments received on account	<b>19.7</b>	25.2
Other creditors	<b>0.3</b>	0.3
	<b>20.0</b>	25.5
<i>Repayable as follows</i>		
Between one and two years	<b>13.8</b>	3.5
Between two to five years	<b>1.5</b>	3.0
After five years	<b>4.7</b>	19.0
	<b>20.0</b>	25.5

**17 Commitments under operating leases**

	Group and UKAEA	
	2007	2006
	£m	£m
<i>Annual commitments under non-cancellable operating leases were as follows</i>		
Expiring within one year	<b>0.7</b>	0.7
Expiring between one and two years	<b>1.7</b>	0.6
Expiring between two and five years	<b>0.1</b>	1.7
	<b>2.5</b>	3.0

**18 Deferred income**

	Group and UKAEA	
	2007	2006 <sup>1</sup>
	£m	£m
At 1 April	<b>12.2</b>	15.9
Capital grants received	<b>0.4</b>	0.6
Released to profit and loss account	<b>(3.9)</b>	(4.3)
<b>At 31 March</b>	<b>8.7</b>	12.2

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

**19 Nuclear liabilities**

	Group and UKAEA	
	2007	2006
	£m	£m
At 1 April	<b>160.0</b>	138.7
<i>Financing charges</i>		
Change in discount rate	<b>0</b>	16.9
Changes in price levels	<b>5.0</b>	4.8
Amortisation of one year's discount	<b>3.6</b>	3.5
Decrease in liabilities	<b>(10.3)</b>	(2.6)
Expenditure during year	<b>(0.7)</b>	(1.3)
<b>At 31 March</b>	<b>157.6</b>	160.0

UKAEA's nuclear liabilities comprise the estimated costs of decommissioning nuclear fusion research facilities at its Culham site, including the storage, processing and eventually 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 the cost of dealing with the liabilities at 31 March 2007 is discounted at 2.2 per cent to the balance sheet date and expressed in 2006-2007 money values. The timescale over which it is estimated the costs will need to be incurred is as follows

	2007	2006
	£m	£m
Up to 3 years	<b>2.7</b>	9.8
From 4 to 10 years	<b>112.5</b>	106.0
Beyond 10 years	<b>42.4</b>	44.2
	<b>157.6</b>	160.0

The best estimate of the undiscounted cost of dealing with the liabilities is £186.2m (2006 – £188.2m).

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 matching 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.

**20 Other provisions for liabilities and charges**

Group	Restructuring £m	Other £m	Total £m
At 1 April 2006	43.7	5.0	<b>48.7</b>
<i>Financing charges</i>			
Change in discount rate	1.3	0.2	<b>1.5</b>
Changes in price levels	1.4	0	<b>1.4</b>
Amortisation of one year's discount	1.0	0.1	<b>1.1</b>
Increase in provisions	0.9	1.0	<b>1.9</b>
Expenditure during year	(8.0)	(0.6)	<b>(8.6)</b>
<b>At 31 March 2007</b>	<b>40.3</b>	<b>5.7</b>	<b>46.0</b>

UKAEA	Restructuring £m	Other £m	Total £m
At 1 April 2006	43.7	3.8	<b>47.5</b>
<i>Financing charges</i>			
Change in discount rate	1.3	0.2	<b>1.5</b>
Changes in price levels	1.4	0	<b>1.4</b>
Amortisation of one year's discount	1.0	0.1	<b>1.1</b>
Increase in provisions	0.9	0.1	<b>1.0</b>
Expenditure during year	(8.0)	(0.6)	<b>(8.6)</b>
<b>At 31 March 2007</b>	<b>40.3</b>	<b>3.6</b>	<b>43.9</b>

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 2007. 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 £45.4m (2006 – £50.7m) and are estimated to be incurred over a period up to 24 years.

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

**21 Reserves**

Group	General £m	Revaluation £m	Investment revaluation £m	Profit and loss £m
At 1 April 2006 <sup>1</sup>	72.6	9.2	46.6	(54.8)
Surplus on revaluation of tangible fixed assets	0	0.3	1.9	0
Depreciation on revalued tangible fixed assets	0	(0.1)	0	0.1
Disposal of revalued tangible fixed assets	0	(0.1)	(0.3)	0.4
Actuarial loss on unfunded pension liabilities	0	0	0	(0.7)
Transfer of stock to the NDA	(1.8)	0	0	0
Profit for the year	0	0	0	15.3
<b>At 31 March 2007</b>	<b>70.8</b>	<b>9.3</b>	<b>48.2</b>	<b>(39.7)</b>



UKAEA	General £m	Revaluation £m	Investment revaluation £m	Profit and loss £m
At 1 April 2006 <sup>1</sup>	72.6	9.2	46.6	(62.0)
Surplus on revaluation of tangible fixed assets	0	0.3	1.9	0
Depreciation on revalued tangible fixed assets	0	(0.1)	0	0.1
Disposal of revalued tangible fixed assets	0	(0.1)	(0.3)	0.4
Actuarial loss on unfunded pension liabilities	0	0	0	(0.7)
Transfer of stock to the NDA	(1.8)	0	0	0
Profit for the year	0	0	0	15.2
<b>At 31 March 2007</b>	<b>70.8</b>	<b>9.3</b>	<b>48.2</b>	<b>(47.0)</b>

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

## 22 Reconciliation of movements in Government funds

	Group		UKAEA	
	2007 £m	2006 <sup>1</sup> £m	2007 £m	2006 <sup>1</sup> £m
Total recognised gains relating to the year	<b>15.0</b>	35.8	<b>14.9</b>	36.4
Opening Government funds	<b>73.6</b>	37.8	<b>66.4</b>	30.0
<b>Closing Government funds</b>	<b>88.6</b>	73.6	<b>81.3</b>	66.4

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

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

## 23 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 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 2007, euro net assets were £0.4m (2006 – £0.5m). In order to hedge its exposure to foreign currency risk on future euro income, UKAEA has taken out forward exchange contracts. At 31 March 2007, the fair value of the asset under the forward exchange contracts was estimated at £0.2m (2006 – liability of £0.4m), reflecting the appreciation of sterling against the euro since the contracts were entered into. This asset will crystallise during the year ended 31 March 2008. Unrealised losses of £0.4m arising in the previous year were realised during the year.

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

During 2006-07, 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.

#### **25 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.

#### **26 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 14 and 15.

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

#### **27 Post balance sheet events**

UKAEA's report and accounts are laid before the Houses of Parliament by the Comptroller and Auditor General. FRS 21 'Events After The Balance Sheet Date' requires UKAEA to disclose the date on which the accounts are authorised for issue. This is the date on which the approved report and accounts are despatched by the Comptroller and Auditor General to the Houses of Parliament.

The authorised date for issue is 23 July 2007.

## Glossary

BNFL	British Nuclear Fuels plc
BPEO	Best Practicable Environmental Option
BPM	Best Practicable Means
COMARE	Committee on Medical Aspects of Radiation in the Environment
DCP	Dounreay Cementation Plant
DFR	Dounreay Fast Reactor
DPAG	Dounreay Particles Advisory Group
DTI	Department of Trade and Industry (now part of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills)
EAST	Experimental Advanced Superconducting Tokamak
FOI	Freedom of Information
FRS	Financial Reporting Standard
HMRC	HM Revenue & Customs
HVLA	High Volume Low Activity
ILW	Intermediate Level Waste
INES	International Nuclear Event Scale
ISRS	International Safety Rating System
ITER	Next generation international experimental fusion reactor
JET	Joint European Torus
LETP	Liquid Effluent Treatment Plant
MAST	Mega Amp Spherical Tokamak
M&O	Management and Operations
NaK	Sodium/Potassium Alloy
NDA	Nuclear Decommissioning Authority
NDPB	Non-Departmental Public Body
NII	Nuclear Installations Inspectorate
PBI	Performance Based Incentive
PFR	Prototype Fast Reactor
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
SCAPE	Superannuation Contributions Adjusted for Past Experience
SEPA	Scottish Environment Protection Agency
SGHWR	Steam Generating Heavy Water Reactor
SLC	Site Licence Company
WAGR	Windscale Advanced Gas-Cooled Reactor
WETP	Winfrith Encapsulation Treatment Plant

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