

Corporate Responsibility Report 2007



Statement from Chairman and Group Chief Executive

Our report for 2007 is quite different from those in previous years to reflect the major changes that continue to take place in BNFL. Over the past year we have made substantial progress in implementing our corporate strategy through to its ultimate conclusion. We have been focused on repositioning our businesses in order to generate maximum shareholder value, improve their prospects for growth and secure good homes for employees. Undergoing change on this scale has been demanding for all concerned, not least for our many internal and external stakeholders as they come to terms with its implications. However, we have been very pleased with what has been achieved so far and with the professional way in which change is being embraced.

Over the past year we have completed the sale of the Westinghouse business to the Toshiba Corporation and have sold both BNG America and the Reactor Sites Management Company (RSMC) to the US-based company EnergySolutions. The sale of Westinghouse represented an excellent return on the Group's original investment, to the benefit of the shareholder and, ultimately, the UK taxpayer. The RSMC business, covering contracts and licences for ten nuclear reactor sites in the UK, is set to have a strong future under its new ownership and its employees can look forward to enhanced career prospects. As we write this report the sales processes for Project Services and our third share in AWE are underway.

The Group will continue to work with the Department for Business, Enterprise and Regulatory Reform on creating a National Nuclear Laboratory which, subject to contractual terms, will be based around the British Technology Centre at Sellafield and Nexia Solutions.

Left to right: Joe Darby, Board Director; David Bonser, HR Group Director; Paul Thomas, Health & Safety Group Director; Gordon Campbell, Chairman and Mike Parker, Group Chief Executive

In the midst of all these changes we have been careful to keep ourselves firmly focused on corporate responsibility, delivering strong safety, environmental, social and economic performance. We were delighted to retain our Gold status in the Business in the Community's CR Index, the UK's leading benchmark for responsible businesses, achieving sector leader in the Support Services sector.

Since its formation in 1971 BNFL has had a long history of active interface with stakeholders and has engaged on a multitude of environmental and social issues. As we explained in last year's report, accountability for corporate responsibility has been devolved to the businesses in preparation for their transfers to new ownership. The businesses have been developing their own visions and strategies together with their own reporting framework, building on the substantial foundations that BNFL has laid down over many years. The inserts in this report provide an overview of their performance across the broad spectrum of corporate responsibility, covering key achievements as well as areas of particular challenge.

Next year, as we bring the sales and transfers of our remaining businesses through to conclusion, our reporting at Group level will reduce further.

We are confident that all our businesses are now well equipped to take corporate responsibility forward in their own right. The knowledge and experience of BNFL, as the parent company, has been passed into good hands.

Gordon Campbell, Chairman

Mike Parker,
Group Chief Executive

Who we are and what we do

BNFL was formed by the UK Government in 1971 and became a public limited company in 1984. This was followed by a period of rapid and sustained growth. Significant corporate acquisitions included Magnox Electric plc in 1998, Westinghouse Electric Company in 1999 and the worldwide nuclear businesses of ABB in 2000.

With the launch of the Nuclear Decommissioning Authority in April 2005 the BNFL Group was restructured to comprise three Business Groups: British Nuclear Group, Westinghouse and Nexia Solutions. This was part of a major transition from owner/operator to contractor.

In parallel to this, a joint strategy review conducted by BNFL and the UK Government concluded in 2003 that BNFL's businesses would be managed to deliver value and to control risks to the UK taxpayer. The Group has since been engaged on a series of sales and transfer processes in order to realise these objectives. The constituent parts of British Nuclear Group are being sold separately and its centre has been closed.

Sales have already been concluded for Westinghouse, BNG America and Reactor Sites Management Company.

The span of BNFL's activities has reduced following the conclusion of the sales referred to above, which has resulted in reactor design and technology, fuel manufacture and electricity generation moving to new ownership. The areas of focus for the businesses in the BNFL Group that have yet to be sold or transferred are: decommissioning and clean-up of redundant nuclear sites, international nuclear services including reprocessing and transport (all under contract) and technology services and solutions across the nuclear fuel cycle.

BNFL, as the parent company for the BNFL group of businesses, is responsible for setting strategy and providing control functions, including the establishment of corporate key performance indicators. It is focused on completing the sales and transfers of the remaining businesses and on ensuring the Sellafield site is prepared for competition.



Board EH&S Committee statement on performance

In this statement for the BNFL Group, we are reporting a mixed environment, health and safety performance. We are pleased that the Group KPIs on environmental and nuclear safety have been met and that no fatalities occurred. However, the Group KPI on occupational safety was missed despite considerable efforts in the businesses affected.

On the environmental front, there have been no category 1 or 2 non-compliances with authorisations or permits. On the nuclear safety front, there were no events at INES Level 2 or above. Whilst not a KPI in 2006/07, there was also a very low number of INES Level 1 events (10), which are defined as anomalies on the scale. We believe this came about as a result of increased management focus on nuclear safety as WANO tools and techniques were deployed throughout the Group.

Occupational safety performance at Group level was disappointing with a decline in performance from a Days Away Case Rate (DACR) KPI from 0.25 in 2005/06 to 0.27 in 2006/07 (measured per 200,000 hrs). This missed the KPI of 0.25. Behind the Group figures are a range of performances from excellent to frankly disappointing. Our Nexia Solutions and Project Services businesses together with the Corporate Centres achieved excellent performance with no lost time accidents over the year; a DACR of 0.0. Magnox Electric met its objective with a DACR of 0.18. Sellafield had a disappointing performance missing its objective with an outturn of 0.33 as did Westinghouse for the six months prior to its sale with a DACR of 0.29.

Although the safety targets were not met Sellafield put considerable effort into turning around its conventional safety performance during the year with joint management and union initiatives, and the involvement of HSE specialists to advise on the avoidance of slips and trips, which were the major contributor. This effort had to be balanced with a continued focus on nuclear safety, where the site's performance was good, and delivering the Sellafield Improvement Plan.

Safety during organisational change

Each business group is undergoing considerable organisational change. Since 1 April 2005 primary accountability for safety has been with the constituent companies of the BNFL Group. The corporate centre has continued to provide a Group-wide focus on EH&S matters through the quarterly EH&S Executive which aims to ensure good practice is spread across the Group (for example: learning from events such as the tragic accident at BP's Texas City oil refinery) and that Group-wide concerns are aired. Following restructuring, individual businesses became responsible for their own safety leadership, an example of which is the introduction of WANO principles at Sellafield where they are being used for benchmarking.

Commitment recognised

Directors and Lead Teams have continued to demonstrate their commitment to EHS&Q with a number of Executive Directors taking part in Assurance Visits and Safety Inspections during the year.

We are pleased that our commitment was recognised again at the RoSPA awards with Reactor Sites being joint winners in the Engineering and Construction Sector and Nexia Solutions winning the Research and Development Sector. In addition 3 President's Awards, 8 Gold Medal Awards, 4 Gold Awards and a Silver Award were won by the Sites managed by the Group.

We are delighted that in the Business in the Community Environment Index we achieved Gold status which was the top performance in the Support Services Sector. In the wider Corporate Responsibility Index we also achieved Gold status.

Key performance indicators

Key measures	Actual	BNFL Company Objective
12 month rolling Days Away Case Rate (DACR) for employees, agency supplied workers and contractors per 200,000 hours worked**	0.27	0.25
Number of events at INES Level 2 or above	0	0
Number of category 1 or 2 non-compliances with environmental compliance matrix	0	0

* DACR figures include Westinghouse data up to end Q2, ie up to completion of the sale
** DACR refers to the rate of lost workdays as a result of work-related injury or illness

The economic footprint of the BNFL Group is wide-reaching. It stretches beyond turnover to include our employees, suppliers, partners, as well as our investments in site and community infrastructure.

In 2006/07 BNFL delivered profit before taxation of £2,304 million. The disposal of the Westinghouse business provided an exceptional profit and enabled us to make a dividend to our shareholder, the UK Government, of £1,800 million. This represents an excellent return on our original investment, bringing significant value to the ultimate benefit of the UK taxpayer.

2.3 billion

BNFL delivered profits before taxation of £2,304m for the year ending 31 March 2007

Highlights and lowlights 2006/07

Highlights

- Both Nexia Solutions and British Nuclear Group Project Services Ltd achieved zero Days Away Case Rate (DACR). Nexia Solutions have recorded 1.5 million man-hours without a lost time accident, whilst British Nuclear Group Project Services Ltd have registered over 5 million man-hours with no lost time accident greater than 3 days.
- An Environmental Leadership Conference was held at Sellafield in June 2006 with keynote speeches from senior environmental regulators. This was part of a sustained initiative to raise the profile of environmental issues on the site.
- In International Nuclear Services the "Hooked on Safety" behavioural safety observation process has been instrumental in improving the safety culture in PNTL, contributing to improvement in their overall safety performance.
- Socio-economic criteria have been introduced in the procurement processes for Sellafield contracts, aimed at delivering wider benefits to the community, helping to build skills and increase local employment opportunities. Sellafield's achievement of CIPS accreditation for its procurement policies and procedures, one of only a few in the UK to achieve such status, also points to excellent progress made in a demanding commercial environment.
- A new Company Employee Agreement has been negotiated and accepted at Reactor Sites, bringing greater focus on employee development and reskilling. Its emphasis on continuing consultation with employees will help to align business objectives with personal aspirations.
- The Sellafield Mox Plant successfully completed its first campaign of Mox fuel assemblies for the Swiss utility, NOK.
- The growth of the Union Learning Centre programme, now extended to Calder Hall and Risley, provides a good illustration of a productive partnership between the Company and the unions. The programme has proved very popular with employees, supporting 1,000 learners so far and enabling them to pursue personal learning opportunities.

Lowlights

- Across the BNFL Group as a whole we had an increased number of lost time accidents this year. The majority of the instances at Sellafield related to slips, trips, falls and muscle strains. This is disappointing, given the number of awareness initiatives we introduced over the year specifically to reduce such incidences. This will be a major focus for the site together with nuclear safety and the deployment of WANO tools and techniques during 2007/08.
- A pipe failure at Sizewell A nuclear power station resulted in the release of 40,000 gallons of pond cooling water containing trace levels of radioactivity. Whilst no-one was injured and the incident did not give rise to unauthorised discharges, it was nonetheless frustrating that such a release was able to occur. The internal inquiry has established the lessons to be drawn from this and they are being applied across the Group.

Social performance

BNFL's understanding of and relationships with stakeholders and communities has been key in its own journey along the corporate responsibility agenda. During this transition period BNFL is seeking to ensure that the individual businesses take on and sustain these activities.

For example, in Cumbria the Sellafield site continues to support the West Cumbria Development Fund (WCDF) which was set up nearly 20 years ago as a partnership between the local councils and BNFL to assist in economic regeneration. WCDF has supported many projects and was instrumental in establishing the Westlakes Science and Technology Park which houses over 60 companies employing more than 1,100 people.

Also, individual sites operated by the various Group businesses produce socio-economic plans which are submitted to the site owners (the NDA) annually. Indeed, many of the examples in the individual business reports are continuations of the projects initiated by BNFL.

Security performance

Responsibility for security corporate governance transferred from the BNFL Board to the Boards of the Site Licence Companies (SLCs) on 1 October 2006, a transition that was fully endorsed in advance by the Office for Civil Nuclear Security (OCNS). Following a period of shadow working it was assessed that the delegated governance arrangements were being implemented satisfactorily. It has been agreed that the SLCs will continue the BNFL corporate policy of voluntarily submitting annual security assurance reports to OCNS and the NDA.

Overall security performance across these SLCs, based on the analysis of an extensive range of key performance indicators, is assessed by BNFL and OCNS as good. There were no security incidents at any of these sites or during transport operations that threatened the security of nuclear material or other assets at any time. Reports continued to be made to OCNS in respect of minor security issues, in accordance with the UK security regulations, but none were the subject of significant regulatory criticism and no security improvement notices were issued by OCNS to the BNFL Group during the year.

Issues

Thorp

In our last report one of our lowlights was an incident at the Thermal Oxide Reprocessing Plant (Thorp) at Sellafield. The plant has remained closed since April 2005 due to a pipe failure in one of the shielded cells containing radioactive material in liquid form. The Health and Safety Executive (HSE) brought a successful prosecution in the Crown Court against British Nuclear Group Sellafield Ltd, resulting last October in a fine of £500,000 plus costs for breach of health and safety law. The HSE referred to a "significant prolonged reduction in attention to the high standards demanded".

Since the incident, staff at Sellafield have continued to work hard to overcome what has been a considerable setback, determined to learn the lessons and to move forward to an operational plant again. The Health and Safety Executive gave its consent for the restart in January 2007 but we await authorisation from the Plant's owner, the NDA, before this can proceed. This in turn depends on regulatory acceptance of the case relating to evaporator capacity.

Autopsy sampling

A request by the Westlakes Research Institute to re-examine historic data in support of new research studies have raised questions about sampling of autopsy material and the basis on which this was carried out between the 1960s and early 1990s. On 18 April 2007 the then Secretary of State for Trade and Industry, Alistair Darling, announced that there was to be an independent investigation. Terms of reference have been published and Michael Redfern QC has been appointed to lead the inquiry. BNFL is committed to giving full support and cooperation to the inquiry as it proceeds.

Organisational change

The extent and complexity of change occurring in the BNFL Group has brought major challenges in relation to corporate responsibility. Each business has devoted significant effort to communicating the implications to their stakeholders and helping them understand the context in which change is taking place. These have been very unsettling times for our employees, faced with uncertainty over future ownership and concern over pension provision. In respect of pensions there has been extensive consultation between BNFL, unions and trustees in order to ensure the best outcome for employees.

At Group level, expectations have been set with wider external stakeholders about the close-down of BNFL on completion of the sales and transfer processes. Continuity of relationships is being assured by handover from Group to the businesses, where appropriate. Other relationships (eg group membership of industry organisations) are being phased out. For those who have not been closely involved in the industry or Company changes, implications are taking longer to absorb. BNFL will continue to concentrate on achieving close-down in a professional and responsible way.

In particular, the BNFL Group CR Executive continues to meet quarterly where, as well as monitoring performance, the Executive has specifically focused its attention on ensuring the individual businesses are implementing their own processes to take the CR agenda forward.

5
million

The Project
Services businesses
recorded more than
5 million man-hours
without a lost time
accident greater
than three days

Independent assurance statement to BNFL management

The BNFL Corporate Responsibility Report 2007 (the Report) has been prepared by the management of BNFL, who are responsible for the collection and presentation of information within it. Our responsibility, in accordance with BNFL management's instructions, is to carry out a limited assurance engagement on the Report in accordance with ISAE3000¹ as outlined below, in order to provide conclusions on the claims, data and coverage of issues within it.

Our responsibility in performing our assurance activities is to the management of BNFL only and in accordance with the terms of reference agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance that any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

The Report has been evaluated against the following criteria:

- Whether the Report covers the key corporate responsibility (CR) issues relevant to BNFL in 2006/07 which were raised in the media and selected internal documentation.
- Whether CR claims made in the Report are consistent with the explanation and evidence provided by relevant BNFL managers.
- Whether the CR data presented in the Report are consistent with the relevant corporate level data records.

In order to form our conclusions we undertook the steps outlined below:

1. Reviewed a selection of external media reports and internal documents relating to the CR performance of BNFL in 2006/07 as a check on the scope, balance and accuracy of statements made in the Report.
2. Interviewed key management and functional staff identified as having group responsibilities for CR performance to understand the current status of CR activities and progress made during the reporting period.
3. Reviewed information or explanation about the Report's CR performance data and statements. Whilst we reviewed documentation to support the CR data contained within the Report, we did not test the processes for gathering, collating and reporting data at site level.

Our conclusions

On the basis of our review and in accordance with the terms of reference for our work we provide the following conclusions on the Report.

1. Does the Report cover the key issues?

With the exception of the subject area described below, we are not aware of any key CR issues that have been excluded from the Report.

We consider that greater coverage could have been given to the CR governance mechanisms that are being established within the individual businesses.

2. Are the data and statements regarding BNFL's CR performance contained within the Report supported by evidence or explanation?

We are not aware of any misstatements in the assertions and data presented by BNFL management within the Report regarding BNFL's CR performance



Ernst & Young LLP
London
September 2007

¹International Federation of Accountants' International Standard for Assurance Engagements Other than Audits or reviews of Historical Financial Information (ISAE3000).

BNFL is an active member of the LBG (London Benchmarking Group). The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes.

It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information).

As managers of the LBG, we have worked with BNFL to ensure that it understands the LBG model and has applied its principles to the measurement of community involvement programmes during 2006/07. Having conducted an assessment, we are satisfied that this has been achieved. Our work has not extended to an independent audit of the data.

The Corporate Citizenship Company
www.corporate-citizenship.co.uk
July 2007



This product has been printed on 100% recycled paper. It is manufactured using the FSC chain of custody by a company employing the ISO14001 environmental standard.