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Tel: (03)3287-1385
Fax: (03)3213-6674

4/15 田嶋 氏 2セ-1市

Mr Kazuhisa Mori
Executive Vice Chairman
Japan Atomic Industrial Forum Inc.
Toshin Bldg. 6th floor
1-13, Shimbashi 1-chome
Minato-ku, Tokyo 105-8605

Dear Mr Mori,

As it is the beginning of the new Financial Year, I would like to take the opportunity to further update you on the progress that BNFL is continuing to make in a number of areas following on from my letter at the end of December. We ended December on a high note and we have continued the first three months of this year in the same way.

We were highly delighted that, on 6 March, Japan received approval from the US Government for the documentation (MB10) supporting the return of Takahama 4 MOX to the UK. This clears all the hurdles for shipment to take place and we are committed to achieving this as soon as possible this year. Discussions are currently underway about the detailed programmes and we hope that arrangements will soon be finalised. We are ready to proceed with the shipment.

Following receipt of the licence in December to go ahead with operation of SMP, we will very soon be manufacturing MOX for our first customer in SMP and this is a key step forward for us. We already have business with Swiss, German and Swedish customers for the first few years of operation of SMP and our desire is to supply MOX fuel from SMP to our Japanese customers. We recognise that the time has to be right for us to take this forward and that we have to complete the five conditions set by the Japanese Utilities.

In January, we brought a team of people from Sellafield to Japan to explain the progress we have made against these conditions. We were encouraged by the interest of the Utilities and Japanese Government in what we had to say and we thank you for supporting these events. We were further encouraged by the positive media coverage and information put out by METI on its web site, but at the same time, we recognise that we must continue to work hard to complete the five conditions.

We have put in an enormous amount of effort to improving our QA/QC system, which we have had to get right for our first fuel manufacture in SMP. As we will soon start

producing fuel, our first customers have to be happy with the QA/QC systems we have in place. Furthermore, our Regulator issued the license for SMP because they were clearly satisfied with the arrangements. This is undoubtedly endorsement of the quality systems in place in SMP as testimony of the significant progress we have made in the last two years and shows that we have met the reform system for QA/QC that the Regulator recommended.

Furthermore, on 26 February, the NII granted the license to re-commission the MOX Demonstration Facility (MDF), which we will use as a support facility to SMP. As we have said before, MDF will not be used for commercial fuel production and will only be used to carry out a number of support trials for SMP, which will be important in current commissioning work and to the future operation of SMP.

We have seen continued improvement in our operations at Sellafield over the last year, particularly the reprocessing output, which has been the highest for a number of years, with THORP and Magnox reprocessing achieving a combined output of more than 1500tes. Although performance in the vitrification plants has been disappointing, production over the last couple of months has been encouraging. Active commissioning of Line 3 continues on schedule with the plant looking to deal with full strength Highly Active Liquor soon. We have also seen our trend in safety performance continue to improve both at Sellafield and overall for our Company over the last year. This is good news and we are working on achieving the same high standards in quality as we have achieved in our good safety performance.

The creation of the Liabilities Management Authority (LMA) and the prospects for potential public private partnership in the future provides us with further impetus to continue the good work that we have already done. There has been UK press speculation on delays to setting up the LMA, but we are still working hard with the DTI to maintain the timetable set out by Patricia Hewitt in Parliament at the end of November last year.

During the year so far, we have seen continued interest in the prospects for new nuclear build in the UK, the USA and Finland. Combined with the nuclear build programmes already underway in Japan, China and Korea, I am optimistic both about the role of nuclear in the future and BNFL's part in this.

In February, there were several encouraging signs regarding the UK energy situation. A report by the Performance and Innovation Unit was issued to the Government on 14 February recommending we keep the nuclear option open. Two other reports from Parliamentary Select Committees (House of Lords and House of Commons) made further positive statements about the future role of nuclear in the UK. Professor David King, who is the UK Government's Chief Scientific Advisor, was even more emphatic in his positive statements about the need to maintain 25-30% nuclear in the UK. This fully supports BNFL's own views on the future of nuclear, particularly if we are going to meet our environmental commitments.

In this respect, British Energy and BNFL announced, on 26 February, an agreement to assess the feasibility of the Westinghouse AP1000 reactor design as a potential option to

replace the existing UK nuclear power stations when they reach the end of their planned operating lives. In the UK, we are continuing our phased programme of closing down Magnox stations, which we announced in 2000. Most recently, and in line with our programme, Bradwell Nuclear Power Station stopped generating electricity on 31 March 2002. The station will now be de-fuelled before undergoing a programme of decommissioning. If we do nothing to replace our existing nuclear capacity in the UK, the amount of electricity generated by nuclear will fall from the current figure of around 25% to only 5%. We clearly need to act now. There is obviously much work to do before new nuclear build could be realised and we should recognise that this can not happen immediately.

We have now set in place arrangements to improve BNFL's public profile in Japan, with the appointment of a PR company in Japan, Weber Shandwick Worldwide Japan, to advise us on our strategy. The aim of this is to complete one of the remaining conditions, out of the five we have been set for supply of MOX to Japan. The first phase, intended to focus on national newspaper journalists, will be initiated during the week of the JAIF Conference later this month. As well as presenting a paper to the JAIF Conference on the opening day, Norman Askew will hold a press conference on 23 April and several one-to-one newspaper interviews later that week. We do intend to keep you informed of our plans regarding media relations and we would be grateful for your continued support. In taking this pro-active approach, we have to be very mindful of the attention that nuclear can receive in the media, particularly when there are any negative issues concerned. The recent example of the small fire on board the Atlantic Osprey only serves to remind us that the anti-nuclear organisations are all too willing to present issues in a way that is completely out of proportion, which then becomes the focus of media attention. We clearly have no room to be complacent. Despite this, we have continued to receive positive coverage in the media like, for example, the article published by the Denki Shimbun on 19 March following a recent, successful visit to Sellafield.

Over the months ahead, we will continue to devote our efforts to regaining the confidence of Japanese Utilities, the Government and the public in Japan. We have come a long way and we are committed to continue going forward. We hope that our efforts, particularly in achieving the successful return of Takahama 4 MOX, will help contribute in some small way to progressing Japan's Pu thermal programme. This is fundamentally important for Japan and we hope that it can move forward this year. We are all looking forward to the opportunity to meet with many of you and your colleagues during the JAIF Conference and we would be pleased to answer any questions you may have regarding BNFL's continued progress.

With very best regards,

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'David Powell', written in a cursive style.

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David Powell
President

BNFL Japan K.K./Westinghouse Electric Asia S.A. Japan