



# ANNUAL REPORT & FINANCIAL STATEMENTS

for the year ended 31st March 2017



# Company Information

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## Directors

Mr A Fountain (Chairman, appointed 1 April 2016)  
Mr P Foster (Chief Executive Officer)  
Mr J M Seddon  
Mr R A B Higgins (appointed 1 April 2016)  
Mr M J Chown (appointed 13 October 2016)  
Mr S M Livingstone (appointed 13 October 2016)  
Mr N W R Smith  
Dr D Byrne  
Mr J Baxter (appointed 1 October 2016)  
Dr A F J Choho (appointed 1 October 2016)

## Secretary

Mr A M Carr (appointed 1 April 2016)

## Auditors

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

## Bankers

The Royal Bank Of Scotland plc  
1 Spinningfields Square  
Manchester  
M3 3AP

## Registered Office

Hinton House  
Risley  
Warrington  
Cheshire  
WA3 6GR

# Strategic report

The Directors present their Strategic report for the year ended 31 March 2017.

## Principal Activities and future developments

These financial statements contain certain forward-looking statements with respect to the financial condition and business of Sellafield Limited (the Company). Statements or forecasts relating to events in the future necessarily involve risk and uncertainty and are made by the Company in good faith based on the information available at the date of signing this report. The Company undertakes no obligation to update these forward-looking statements. Nothing in these financial statements should be construed as a profit forecast nor should past performances be relied upon as a guide to future performance.

The principal role of the Company is to operate nuclear sites under the site licence and a Services Agreement between itself and the Nuclear Decommissioning Authority (NDA) in a safe, secure, efficient and cost effective manner and in accordance with its Corporate Plan and Operating Plan. The Company is responsible for safely delivering the decommissioning and clean-up of the UK's nuclear legacy as well as fuel recycling and the management of low, high and intermediate level waste activities on behalf of the NDA, including the receipt and treatment of spent fuel, the storage of hazardous materials, the decommissioning and clean-up of installations, and the maintenance of laboratory and other facilities.

The Company's primary site is the Sellafield nuclear site in West Cumbria. The Company also has an engineering, design and functional support capability at its Risley office, near Warrington. In the year ended 31 March 2017, all costs incurred by the Company in the performance of the Services Agreement are directly recoverable from the NDA.

The commercial model at Sellafield changed with effect from 1 April 2016. Until 31 March 2016, the commercial model involved a Parent Body Agreement (PBA) between Nuclear Management Partners Limited (NMP), NDA and the Company, and a management and operations contract (M&O) between NDA and the Company. On 26 March 2015, the NDA implemented the termination for convenience clause in the PBA and NDA and NMP agreed a commercial agreement associated with the termination of the PBA in June 2015.

The PBA terminated with effect from 31 March 2016, with the Company becoming a wholly owned subsidiary of the NDA on 1 April 2016. The M&O contract between the Company and NDA was also terminated on 31 March 2016. Under the transition to the new commercial model, with effect from 1 April 2016, the Company has operated nuclear sites under the site licence and a Services Agreement between itself and NDA. The new arrangements will, in due course, see strategic partners appointed by Sellafield Limited to strengthen the programme management and commercial capability at the site as well as playing a key role in managing capital projects and contracts.

In 2016/17, the directors' aim was to operate the nuclear sites safely and meet the targets and milestones set by the NDA.

## Review of business

The Company is committed to safety. Safety and security always comes first and are the most important parts of the Company's culture. The Company measures its safety performance against industry best practice at a national and international level through membership of the World Association of Nuclear Operators. The Company measures safety performance through various Key Performance Indicators and the Company's safety performance in the year has continued to be strong. In the year ended 31 March 2017 the Company's Lost Time Accidents Rolling 12 month rate was 0.15 (2016: 0.21) and the Total Recordable Injuries Rolling 12 month rate was 0.29 (2016: 0.33). In 2016/17 the Company had five International Nuclear Events Scale (INES) events (2015/16: three). Although, statistically the Company's safety performance was good during 2016/17, management recognise that there is room for improvement. In particular, during 2016/17 the number of significant events has given cause for concern to management requiring further action to be taken.

During the year the Company incurred costs under management of £1,997 million (2016: £1,972 million). This expenditure is recoverable from the NDA under the Services Agreement and represents the operational costs of the Sellafield site including expenditure on:

- Risk and hazard reduction, including decommissioning Legacy Ponds and Silos buildings;

- Commercial operations, including spent fuel management and associated operations with UK and foreign customers;
- The safe treatment of low level, intermediate level and high level waste; and
- Asset care and maintenance – some of the facilities at Sellafield are over 50 years old so significant investment is required to ensure that they remain operational and in a safe state prior to decommissioning.

During 2016/17 the Company's performance has been excellent, meeting the majority of the targets, milestones and success criteria set by NDA, and demonstrating progress in all areas of its accountability, including high hazard reduction, nuclear operations and safe secure stewardship. The Company has also had a sound financial performance, ending the year within 1% of its budget and funding limit, and achieving its efficiency targets. The Company has recently published its Corporate Strategy and Transformation Plan, and these documents are available on the Company's website.

In 2015/16 and previous years, under the M&O contract, the Site Licence Company costs under management were funded by the NDA, and the Company had to control its expenditure within agreed funding limits. Under the M&O contract, the Company earned fees from its customer, the NDA, by meeting targets and milestones. As site owners, NDA set the Company a number of targets and milestones every year, which covered all elements of operations, from meeting milestones in Legacy Ponds and Silos risk and hazard reduction programmes through to production plant throughputs and the numbers of containers processed by waste management buildings.

Under the M&O contract and the previous commercial model, the Company's principal activity was to earn fees, and therefore revenue represented the fees earned on the M&O contract between the Company and the NDA.

With effect from 1 April 2016, following changes to the commercial model and operating structure, the Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA. In accordance with the Energy Act 2004, NDA has tasked the Company with carrying out activities set

# Strategic report

continued

out in the NDA Designation of Sellafield including the receipt and treatment of spent fuel, the storage of hazardous materials, the decommissioning and clean-up of installations and the maintenance of laboratory and other facilities. Under the Services Agreement between the Company and NDA, the Company has to control its expenditure within agreed funding limits (Annual Site Funding Limit), and operate the Sellafield site safely and securely whilst meeting targets, milestones and success criteria agreed with its shareholder, NDA. The Company no longer receives fees as a result of meeting targets, milestones and success criteria, but management and employee incentivisation schemes are linked to their achievement.

In 2016/17 under the Services Agreement and revised commercial and operational model, revenue represents the reimbursement of costs incurred under the Services Agreement in accordance with the principal activity of the Company.

Under the Services Agreement, the costs under management are funded by the NDA, and the Company must control its expenditure within agreed funding levels. In the year the Company spent 99.6% of the funds available (2016: 99.2%).

In 2015/16 the Company earned fees of £49 million from the NDA for the safe delivery of targets and milestones. As stated above, in 2016/17 under the Services Agreement, the Company does not earn fees.

In 2016/17 the operating profit before taxation and research and development tax credits was £nil (2016: profit £48 million).

The profit for the year, after taxation, amounted to £0.4 million (2016: profit £43 million).

During the year the Company employed an average of 10,976 employees (2016: 10,989) at a total cost of £738 million (2016: £722 million) after taxes and pension costs. The Company's work on the Sellafield site also supports a significant number of supply chain and agency workers. At 31 March 2017, there were 630 agency staff (31 March 2016: 852).

The Company is tackling unique challenges, in particular, in respect of the safe clean up and decommissioning of the Legacy Ponds and Silos buildings. In the year the Company invested £88 million on research and development (R&D) (2016: £92 million), with the majority of the R&D directly supporting the clean-up of the legacy

facilities, reprocessing and fuel fabrication plants, waste management facilities and the infrastructure of the site. R&D costs are directly recoverable from the NDA under the Services Agreement.

In 2016/17 the Operating Expenses of £1,997m (2016: Site License Company costs under management excluding fee £1,972m) includes socio-economic expenditure of £13.4 million (2016: £2.7 million), of which £4.1m is committed and will be paid during 2017/18 (2016: £nil). In 2016/17 under the terms of the Services Agreement, and also in 2015/16 under the M&O contract, this socio-economic expenditure was recoverable from NDA. Under the Services Agreement, the Company agrees in advance the level of socio-economic expenditure with its shareholder, NDA, and all such expenditure is recoverable by the Company. In 2015/16 under the terms of the M&O contract and PBA, the Company and its previous shareholder, NMP, chose to make additional socio-economic payments of £0.5m which were treated as disallowable costs under the M&O contract. The Company made no political contributions during the year (2016: £nil).

## Principal risks and uncertainties

As stated above, the Company operates the Sellafield nuclear site under the site licence and a Services Agreement between itself and the NDA, and this includes managing some of the most significant nuclear risks in Europe. The Company follows the Corporate Code and has comprehensive risk management and risk reporting processes to manage all nuclear, business, safety, security, operational and financial risks related to the Sellafield site.

As discussed in note 2.2m, if required the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. The Company does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board.

The Company's maximum exposure to credit risk is the carrying value of the Company's financial assets as reported in the Statement of financial position. Trade and other receivables are due from NDA and therefore the directors consider the risk of financial loss to be remote. The Company's liquidity risk is managed via the

working capital arrangements described in note 10. Exposure to price and cash flow risks are immaterial to the results and affairs of the Company.

With effect from 1 April 2016, the Company does not have major working capital requirements because all expenditure incurred by the Company is reimbursed by the NDA under defined contract terms within the Services Agreement, and the Company's working capital requirements are provided by NDA. In particular, with effect from 1 April 2016 the majority of the Company's payments to suppliers, employees and third parties are funded through a cash drawdown agreement with the NDA, and the NDA also provides the Company with a working capital facility of £2.5m so that the Company's other liabilities can be met as they fall due.

Under the Energy Act 2004, the NDA has a statutory obligation to provide adequate funding to enable the Company to manage risks and keep the Sellafield site safe and secure.

The Company does not have significant supplier or credit risks.

The nuclear industry is regulated by bodies such as the Environment Agency and the Office of Nuclear Regulation, and the Company has detailed processes, procedures and controls to ensure that it complies with all aspects of this regulatory environment. Any fines arising as a result of the Company's non-compliance are generally allowable costs under the Services Agreement with the NDA.

By order of the board



**A M Carr**  
Secretary

Date: 20 June 2017  
Registered Company Number: 1002607

Hinton House  
Risley  
Warrington  
Cheshire  
WA3 6GR

# Directors' report

The directors present their Directors' report for the year ended 31 March 2017.

## Directors

The directors who held office during the year and to the date of this report were as follows:

Mr A Fountain (appointed Chairman 1 April 2016)  
Mr A H Price (Chairman, resigned 1 April 2016)  
Mr P Foster (Chief Executive Officer)  
Mr J M Seddon  
Dr A P Jupp (appointed 1 April 2016, resigned 25 August 2016)  
Mr R A B Higgins (appointed 1 April 2016)  
Rear-Admiral T C Chittenden (resigned 31 December 2016)  
Mr N W R Smith  
Dr D Byrne  
Mr G D Beveridge (resigned 1 April 2016)  
Mr S D Long (resigned 1 April 2016)  
Mr C F Reed (appointed 19 September 2016, resigned 2 December 2016)  
Mr J Baxter (appointed 1 October 2016)  
Dr A F J Choho (appointed 1 October 2016)  
Mr M J Chown (appointed 13 October 2016)  
Mr S M Livingstone (appointed 13 October 2016)

## Secretary

Mr C L Fidler (resigned 1 April 2016)  
Mr A M Carr (appointed 1 April 2016)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company (2016: same). According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year (2016: same).

## Directors' and officers' liability insurance

Directors' and officers' liability insurance is provided, covering inter alia the defence costs of civil legal proceedings and the damages resulting from the unsuccessful defence of such proceedings except, in each case, to the extent that a Director or Officer acted fraudulently or dishonestly (2016: same).

## Directors' indemnities

As at the date of this report, the Company entered into Deeds of Indemnity with certain of the Directors (2016: same). These indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006 (UK).

## Dividends

Dividends totalling £12,115,378 were paid to the B shareholder during the 2016/17 financial year, including dividends of £11,751,000 in relation to the year ended 31 March 2016, and dividends of £364,378 in relation to the year ended 31 March 2017.

Date declared	Amount £	Date paid to shareholder
<b>Dividends in relation to 2015/16</b>		
11 May 2016	6,000,000	19 May 2016
19 September 2016	5,751,000	23 September 2016 (final dividend)
<b>Dividends in relation to 2016/17</b>		
22 March 2017	364,378	23 March 2017 (final dividend)

## Policy and practice on payment of creditors

The Company has continued its commitment to the Prompt Payers Code of Practice drawn up by the Confederation of British Industry (CBI), with rigorous monitoring of payment performance. Copies of the Code are available from CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. Over the year 98% (2016: 98%) of invoices submitted against the standard payment terms were paid on time.

# Directors' report

continued

## Employees

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

The Company is committed to a policy of equal opportunities for all employees. Great care is exercised in our recruitment and selection procedures to ensure that there is no discrimination and that training is given to meet individual needs. Applications by people with disabilities are given full and fair consideration and wherever practical, provision is made for their special needs. The same criteria for training and promotion apply to people with disabilities as to any other employee. If an employee becomes disabled, every effort is made to ensure their continued employment.

## Going concern

Under the Services Agreement between the Company and the NDA, the Company's working capital requirements are now provided by NDA. In particular, with effect from 1 April 2016 the majority of the Company's payments to suppliers, employees and third parties are funded through a cash drawdown agreement with the NDA, and the NDA also provides the Company with a working capital facility of £2.5m so that the Company's other liabilities can be met as they fall due.

Having reviewed the cash flow forecasts against agreed funding levels, the directors have concluded that the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern.

## Research and development (R&D) expenditure

The Company's activities and expenditure in respect of R&D are discussed in the Strategic report.

## Financial instruments

The Company finances its activities through the working capital facilities described in note 10 and finance leases (note 16). Use of derivatives and other financial instruments and the Company's exposure to price, credit, liquidity and cash flow risks is described in the Strategic report.

## Events since the balance sheet date

On 15 May 2017 the Company sold its 20% interest in Gen 11 Engineering and Technology Training Limited (Gen 2) to City & Guilds Group for £1.5m. Gen 2 is a company limited by guarantee and was established in 2000 as a joint venture by the Company and four other major employers with locally based operations in West Cumbria. Gen 2 provides apprentice training and other training services for the engineering, advanced manufacturing, energy and technology sectors. Under the terms of the Services Agreement between the Company and NDA, the Company's interest in Gen 2 was effectively held for the benefit of NDA. Proceeds from the sale of Gen 2 have been paid to NDA during the year ending 31 March 2018.

## Directors' statement regarding information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Annual General Meeting and Auditors

In accordance with the requirements of the Companies Act 2006 the Company is not required to hold an Annual General Meeting or to re-appoint the Auditors on an annual basis.

By order of the board



**A M Carr**  
Secretary

Date: 20 June 2017  
Registered Company Number: 1002607

Hinton House  
Risley  
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## Directors' responsibilities statement

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The directors are responsible for preparing the Strategic report, Directors' report and the Company financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position and financial performance of the Company for that period.

In preparing the Company financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditor's report

to the members of Sellafield Limited

We have audited the financial statements of Sellafield Limited for the year ended 31 March 2017 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

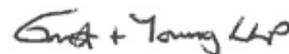
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Jennifer Hazlehurst**  
(Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Statutory Auditor, Manchester

20 June 2017

The maintenance and integrity of the Sellafield Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Income statement

For the 12 months ended 31 March 2017

	Notes	2017 £m	2016 £m
Gross revenue including fees and Site Licence Company costs under management		–	2,021
Less: Site Licence Company costs under management excluding fees		–	(1,972)
<b>Revenue</b>	4	<b>1,997</b>	49
Operating costs and expenses	4	<b>(1,997)</b>	(1)
<b>Operating profit from continuing operations before research and development (R&amp;D) tax credits</b>		<b>–</b>	48
R&D tax credits	4	<b>10</b>	10
NDA share of R&D tax credits	4	<b>(8)</b>	(4)
<b>Operating profit from continuing operations</b>		<b>2</b>	54
<b>Profit on continuing activities before taxation</b>		<b>2</b>	54
Tax expense	7	<b>(2)</b>	(11)
<b>Profit for the year</b>		<b>–</b>	43
<b>Profit attributable to:</b>			
<b>Equity holders of the Company</b>		<b>–</b>	43

As explained in note 2.2c, in 2016/17 revenue represents the Company's costs under management which are recoverable from the NDA under the Services Agreement. In the previous year, revenue represented net fees earned on the M&O contract between the Company and NDA. Under the M&O contract, Sellafeld Limited earned fees based on the Company's performance against the NDA's targets and milestones, but in 2016/17 under the Services Agreement, the Company does not earn fees.

Continuing operations in 2017 include the costs recovered from the NDA under the Services Agreement on the work undertaken by the Company. Continuing operations in 2016 include the fees earned from the NDA on the work undertaken by the Company.

All of the Company's operations in both 2017 and 2016 are continuing.

# Statement of comprehensive income

For the 12 months ended 31 March 2017

	Notes	2017 £m	2016 £m
<b>Profit for the year</b>		-	43
<b>Other comprehensive income items that will not be reclassified to profit or loss:</b>			
Actuarial (loss)/gain recognised on the GPS section of the CNPP defined benefit pension plan	17	(67)	33
Actuarial loss/(gain) on the GPS section of the CNPP to be funded by (for the benefit of) the NDA	17	67	(33)
Actuarial (loss)/gain recognised on CNPP defined benefit pension plan	17	(301)	87
Actuarial loss/(gain) on CNPP to be funded by (for the benefit of) the NDA	17	301	(87)
<b>Total other comprehensive income items that will not be reclassified to profit or loss for the year, net of tax</b>		-	-
<b>Total comprehensive income for the year</b>	13	-	43
<b>Total comprehensive income attributable to: Equity holders of the Company</b>		-	43

# Statement of financial position

At 31 March 2017

	Notes	31 March 2017 £m	31 March 2016 £m
<b>Assets</b>			
<b>Non-current assets</b>			
NDA receivable in respect of pension liability	17	640	221
Other debtors	8	45	49
<b>Total non-current assets</b>		<b>685</b>	270
<b>Current assets</b>			
Trade and other receivables	9	396	365
Cash and cash equivalents	10	5	2
		<b>401</b>	367
<b>Total assets</b>		<b>1,086</b>	637
<b>Current liabilities</b>			
Trade and other payables	11	(423)	(380)
<b>Non-current liabilities</b>			
Pension liability	17	(640)	(221)
Finance lease payable	11	(23)	(24)
<b>Total liabilities</b>		<b>(1,086)</b>	(625)
<b>Net assets</b>		<b>-</b>	12
<b>Capital and reserves</b>			
Equity share capital	12	-	-
Retained earnings	13	-	12
<b>Total equity</b>		<b>-</b>	12

These financial statements were approved by the board of directors on 20 June 2017 and were signed on its behalf on 20 June 2017 by:



**Jon Seddon**  
Programme & Finance Director

Registered Company Number: 1002607

## Statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Retained earnings £m	Total equity £m
Shareholders' funds at 1 April 2015	–	30	30
Total comprehensive income for the year	–	43	43
Dividends (note 14)	–	(61)	(61)
Changes in equity for year ended 31 March 2016	–	(18)	(18)
<b>Shareholders' funds at 31 March 2016</b>	<b>–</b>	<b>12</b>	<b>12</b>
Total comprehensive income for the year	–	–	–
Dividends (note 14)	–	(12)	(12)
Changes in equity for year ended 31 March 2017	–	(12)	(12)
<b>At 31 March 2017</b>	<b>–</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements

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## 1 Corporate information

The financial statements of the Company for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on 20 June 2017. The Company is a limited company incorporated and domiciled in England. The registered office is located at Hinton House, Risley, Warrington, Cheshire WA3 6GR in the UK.

The immediate parent undertaking is the Nuclear Decommissioning Authority (NDA). The consolidated financial statements of the NDA are available to the public and may be obtained from its headquarters at Herdus House, Westlakes Science & Technology Park, Moor Row, Cumbria CA24 3HU.

The Company's shareholder, NDA, is a Non Departmental Public Body sponsored by the Department for Business, Energy and Industrial Strategy. As a result, in the Directors' opinion, the Company's ultimate controlling party is Her Majesty's Government.

The principal activity of the Company is to operate nuclear sites under the site licence and a Services Agreement with the NDA.

In 2015/16 and previous years, under the M&O contract, the Site Licence Company costs under management were funded by the NDA, and the Company had to control its expenditure within agreed funding limits. Under the M&O contract, the Company earned fees from its customer, the NDA, by meeting targets and milestones. As site owners, NDA set the Company a number of targets and milestones every year, which covered all elements of operations, from meeting milestones in Legacy Ponds and Silos risk and hazard reduction programmes through to production plant throughputs and the numbers of containers processed by waste management buildings.

Under the M&O contract and the previous commercial model, the Company's principal activity was to earn fees, and therefore revenue represented the fees earned on the M&O contract between the Company and the NDA.

With effect from 1 April 2016, following changes to the commercial model and operating structure, the Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA. In accordance with the Energy Act 2004, NDA has tasked the Company with carrying out activities set out in the NDA Designation of Sellafield including the receipt and treatment of spent fuel, the storage of hazardous materials, the decommissioning and clean-up of installations and the maintenance of laboratory and other facilities. Under the Services Agreement between the Company and NDA, the Company has to control its expenditure within agreed funding limits (Annual Site Funding Limit), and operate the Sellafield site safely and securely whilst meeting targets, milestones and success criteria agreed with its shareholder, NDA. The Company no longer receives fees as a result of meeting targets, milestones and success criteria, but management and employee incentivisation schemes are linked to their achievement.

In 2016/17 under the Services Agreement and revised commercial and operational model, revenue represents the reimbursement of costs incurred under the Services Agreement in accordance with the principal activity of the Company.

### 2.1 Basis of preparation and statement of compliance

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2017 the Company has undergone transition from reporting under International Financial Reporting Standards (IFRS's) adopted by the European Union to Financial Reporting Standard 101 (FRS 101) as issued by the Financial Reporting Council. These financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework'. The transition has not had an effect on the financial statements.

The Company is a wholly owned subsidiary of the NDA and, as permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the following:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of IAS 24 'Related Party Disclosures' and the requirement of the same standard to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of IAS 24 'Related Party Disclosures' to disclose the costs of the Key Management Personnel of the Company; and
- the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to disclose details of new IFRS's which have been issued but are not yet effective or have not yet been applied.

Equivalent disclosures are given in the group accounts of the NDA, which are available to the public and can be obtained as set out above.

The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£M) except where otherwise indicated.

The Company's financial assets include cash and cash equivalents and trade and other receivables, the measurement of which are described in notes 2.2n and 2.2k respectively. The Company's financial liabilities comprise trade and other payables (note 2.2q), leases (note 2.2d) and loans and borrowings (note 2.2o).

# Notes to the financial statements

continued

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## 2.2 Summary of significant accounting policies

### a) Property, plant and equipment

The Company does not own any property, plant and equipment. Under the Energy Act 2004, all assets previously owned by the Company were transferred on 1 April 2005, with the majority being transferred to the NDA. The Company utilises the NDA's assets as provided for within the Services Agreement between the NDA and the Company.

### b) Foreign currencies

The Company's functional currency and presentation currency is pounds Sterling. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

### c) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT and other sales taxes.

#### Gross revenue earned on the Services Agreement (M&O contract) between the Company and the NDA

In 2015/16 and previous years, under the M&O contract, the Site Licence Company costs under management were funded by the NDA, and the Company had to control its expenditure within agreed funding limits. Under the M&O contract, the Company earned fees from its customer, the NDA, by meeting targets and milestones.

As site owners, NDA set the Company a number of targets and milestones every year, which covered all elements of operations, from meeting milestones in Legacy Ponds and Silos risk and hazard reduction programmes through to production plant throughputs and the numbers of containers processed by waste management buildings.

Under the M&O contract and the previous commercial model, the Company's principal activity was to earn fees, and therefore revenue represented the fees earned on the M&O contract between the Company and the NDA.

With effect from 1 April 2016, following changes to the commercial model and operating structure, the Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA. In accordance with the Energy Act 2004, NDA has tasked the Company with carrying out activities set out in the NDA Designation of Sellafield including the receipt and treatment of spent fuel, the storage of hazardous materials, the decommissioning and clean-up of installations and the maintenance of laboratory and other facilities. Under the Services Agreement between the Company and NDA, the Company has to control its expenditure within agreed funding limits (Annual Site Funding Limit), and operate the Sellafield site safely and securely whilst meeting targets, milestones and success criteria agreed with its shareholder, NDA. The Company no longer receives fees as a result of meeting targets, milestones and success criteria, but management and employee incentivisation schemes are linked to their achievement.

In 2016/17 under the Services Agreement and revised commercial and operational model, revenue represents the reimbursement of costs incurred under the Services Agreement in accordance with the principal activity of the Company.

### d) Leases

#### Company as a lessee

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the lease term. Operating lease rentals are recoverable from the NDA under the terms of the Services Agreement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company are classified as finance leases. Finance lease liabilities are recognised at the commencement of the lease at the present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss and are recoverable from the NDA.

As discussed in note 16, the Company has entered into 30 year leases with the NDA in respect of an office development, and these leases are accounted for as finance leases. However, under the Services Agreement, the future lease payments including finance charges will be reimbursed by the NDA, and the NDA bears the ultimate risks and rewards associated with the office development. As a result, instead of disclosing the office development as buildings held under finance leases, the reimbursement of the future lease payments by NDA are included in Other debtors in notes 8 and 9 respectively.

#### Company as a lessor

The Company has sub-let certain operating leases to third parties. The rental income from these operating leases, including the effect of any lease incentives, is recognised on a straight line basis over the lease term. Under the terms of the Services Agreement, rental income received from third parties is transferred to the NDA.

# Notes to the financial statements

continued

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## 2.2 Summary of significant accounting policies continued

### e) Post-retirement benefits

The Company provides pension plans for the benefit of all of its employees. The schemes are funded by contributions partly from the employees and partly from the Company. These payments are made to separately administered funds for the Sellafield section of the Combined Nuclear Pension Plan (CNPP), the Group Pension Scheme (GPS) section of the CNPP and the Electricity Supply Pension Scheme (ESPS). The CNPP defined benefit pension plan was closed to new employees with effect from 24 November 2008, from which time membership of a CNPP defined contribution plan is available.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

The Company has applied the option in IAS 19 (R) to recognise actuarial gains and losses in full in the statement of comprehensive income in the period in which they occur.

The defined benefit pension asset or liability comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

The NDA is the principal employer of the CNPP. The Company does not have an unconditional right to actuarial surpluses on either the GPS or Sellafield sections of the CNPP. As a result, under IFRIC 14, surpluses are not recognised on the balance sheet. Any deficits, on both the GPS and Sellafield sections of the CNPP are recognised in full with a corresponding asset from the NDA for the full value of the deficit.

The Company is unable to identify its share of the underlying assets and liabilities of the ESPS on a consistent and reasonable basis and therefore, accounts for the scheme as if it were a defined contribution scheme.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

### f) Research and development (R&D) expenditure and government credits

Research and development costs are expensed as incurred and are directly recoverable from the NDA under the Services Agreement.

The Company claims research and development government credits in the UK, and these credits are judged to have characteristics more akin to grants than income taxes. Credits are recognised to the extent there is reasonable assurance they will be received which, given the necessary claims processes, can be some time after the original expense is incurred.

### g) Inventories

Inventories and work in progress were transferred to the NDA with effect from 1 April 2005 under the Energy Act 2004. Raw material and consumable costs are directly recoverable from the NDA under the terms of the Services Agreement.

### h) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

# Notes to the financial statements

continued

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## 2.2 Summary of significant accounting policies continued

### h) Provisions (continued)

The Company's accounts historically included provisions for the Company's obligations in respect of nuclear liabilities, being liabilities in respect of the costs associated with nuclear decommissioning, waste management, and reprocessing of fuel from reactors. Following the restructuring under the Energy Act 2004, on 1 April 2005 the nuclear assets and liabilities on the Company's sites transferred to the NDA, which now has full financial responsibility for discharging the nuclear liabilities on these sites.

### i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

### j) Exceptional items

The Company presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

### k) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and the recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made where there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as remote.

### l) Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

### m) Derivatives and commodity contracts

If required the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. All treasury activities are carried out under policies approved by the Board. Derivative financial instruments are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any gains and losses arising from changes in the fair value of derivative contracts are taken to the income statement. Company policy and practice is to review all new sale and purchase agreements to ensure that they do not include embedded leases.

### n) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

### o) Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

### p) De-recognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

### q) Trade and other payables

Trade and other payables are non-interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

### r) Operating profit

Operating profit is stated before research and development tax credits and taxation.

# Notes to the financial statements

continued

## 3 Significant accounting judgements, estimates and assumptions

### Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

### Research and development expenditure credits

The Company claims research and development government credits in the UK. Management judgement is required to determine the expenditure that is likely to meet HM Revenue & Custom's criteria for qualifying research and development credits. Research and development credits are recognised to the extent that there is reasonable assurance they will be received which, given the necessary claims processes, may be some time after the original expense is incurred.

### Taxation

The Company is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Tax computations for all periods ending before 31 March 2015 have been agreed with the relevant authorities.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Costs under management

The costs under management, which are recoverable from the NDA under the Services Agreement, include management estimates for any known risks such as sub-contractor and supplier claims.

### Pension benefits

The cost of defined benefit pension plans and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions, and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rates are based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are given in Note 17.

## 4 Revenue, operating costs and expenses, and operating profit

During the years ended 31 March 2017 and 2016 the Company managed sites funded by the NDA as a Site Licence Company. Previously, revenue represented fees that were earned by the Company under the M&O contract with the NDA (2016: £49 million). Earning fees ceased following the implementation of the new commercial model. During the year the Company incurred costs recoverable under the Services Agreement of £1,997 million (2016: £1,972 million).

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
<b>Revenue, operating costs and expenses, and operating profit:</b>		
Fees	–	49
Costs recovered from NDA	1,997	–
Costs under management	(1,997)	–
Disallowable costs	–	(1)
R&D tax credits shown as grant income	10	10
Taxation credit due to NDA	(8)	(4)
<b>Operating profit</b>	<b>2</b>	<b>54</b>

# Notes to the financial statements

continued

## 4 Revenue, operating costs and expenses, and operating profit continued

### Disallowable costs

In 2016/17 under the Services Agreement, all costs incurred by the Company are recoverable from the NDA. In previous years, under the M&O contract, certain costs were not recoverable from the NDA and were treated as disallowable costs. In particular, in 2015/16 under the terms of the M&O contract and PBA, the Company and its previous shareholder, NMP, chose to make additional socio-economic payments of £0.5m which were treated as disallowable costs under the M&O contract.

### Geographical segment analysis

In both 2017 and 2016, all revenue, other operating costs and income respectively relates to either the operation of the Services Agreement (in 2016/17) or M&O contract (in 2015/16) in the UK.

### Research and development expenditure

All research and development costs, £88 million (2016: £92 million) are included within costs under management and relate to the Company and are directly recoverable from the NDA.

### Operating leases

Operating lease expenditure is included within costs under management and are directly recoverable from the NDA. Charges for operating leases related to land and buildings were £4,411,000 (2016: £3,745,000). Charges for operating leases related to motor vehicles were £949,000 (2016: £816,000).

### Auditors' remuneration

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Audit	110	110
<i>Other fees to Auditors:</i>		
Taxation services	81	89
Other services – fees receivable by the Auditors and their associates	4	4
	<b>195</b>	<b>203</b>

Under the Services Agreement in 2016/17 (and the M&O contract in 2015/16) the above fees have been paid by Sellafield Limited and reimbursed by the NDA.

## 5 Remuneration of directors

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Directors' emoluments (in 2015/16 included payments to NMP for directors' services)	1,991	2,599
Aggregate amounts receivable under long term incentive plans	78	–
Post-retirement benefit costs	70	–
<b>Total directors' remuneration</b>	<b>2,139</b>	<b>2,599</b>

Since 1 April 2016, the Executive Directors have been employees of the Company, and the directors' remuneration in the table above includes the cost of their qualifying service as directors, including the fees paid to non-executive directors.

In 2015/16 the Executive Directors were seconded to the Company from its parent company, NMP, remunerated as employees of the shareholding companies of NMP (see note 18) and seconded to NMP. In 2015/16, the Company received a charge from NMP for their services as directors, which in 2015/16 totalled £2,434,000. This amount is included in the analysis above, and for some secondees included an uplift to cover detached duties to the UK, tax equalisation and exchange rate fluctuations. The charge from NMP for 2015/16 included credits of £74,000 in respect of 2014/15 and previous periods.

In 2016/17 the highest paid director was employed by the Company and their aggregate emoluments were £594,934. In 2015/16 the highest paid director was seconded to the Company from NMP as discussed above, and the Company paid £741,000 to NMP for their services as a director.

In 2016/17 none of the directors were active members of the Company's defined benefit pension plans discussed in note 17 (2016: nil). During 2016/17 four of the directors were active members of the defined contribution section of the Combined Nuclear Pension Plan discussed in note 17 (2016: nil).

# Notes to the financial statements

continued

## 5 Remuneration of directors continued

In 2016/17 three of the directors were deferred members of the Combined Pension Scheme (2016: 3). In 2016/17 none of the directors were a deferred member of the Group Pension Scheme (2016: 1). Both schemes are discussed in note 17.

In 2016/17, under the Services Agreement the above directors' costs are reimbursed by the NDA as allowable costs, and are included within the operating costs and expenses within note 4.

In 2015/16, under the M&O contract the above directors' costs and the costs of directors seconded from NMP were reimbursed by the NDA as allowable costs, and were not included within the operating costs and expenses within note 4.

With effect from 1 April 2016, the Company's Executive Directors participate in a Long Term Incentive Plan which allows the participants to receive a bonus based on the performance of the Company over a three year period from 1 April 2016 to 31 March 2019.

## 6 Employee benefits expense

The average number of persons employed by the Company, excluding directors, during the year was as follows:

	Year ended 31 March 2017 Number	Year ended 31 March 2016 Number
Average number of employees	10,976	10,989

The aggregate employee benefits expense of these persons was as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Wages and salaries	577	570
Social security costs	66	56
Pension costs	95	96
	738	722

Pension costs disclosed above represent employer contributions paid in respect of defined benefit schemes £77m (2016: £80m) and defined contribution schemes £18m (2016: £16m). All contributions paid are included in costs under management and are recovered from the NDA on a paid basis. Amounts relating to net benefit expense under IAS 19 (R) £129m (2016: £148m) (note 17) are included in costs under management together with offsetting amounts reflecting the fact that any overall pension surplus or deficit is for the benefit of or to be funded by the NDA.

In 2016/17 under the Services Agreement the above employee costs are reimbursed by the NDA, and are included within the operating costs and expenses within note 4.

In 2015/16, under the M&O contract the above employee costs were reimbursed by the NDA as allowable costs, and were not included within the operating costs and expenses within note 4.

## 7 Income tax

The major components of income tax expense for the years ended 31 March 2017 and 2016 are:

### Income statement

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
UK Corporation Tax		
<b>Current income tax</b>		
Current income tax charge	2	11
<b>Income tax expense reported in the income statement</b>	<b>2</b>	<b>11</b>

# Notes to the financial statements

continued

## 7 Income tax continued

The reconciliation between the tax charge and the product of the accounting profit multiplied by the UK's domestic corporation tax rate for the years ended 31 March 2017 and 2016 is as follows:

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Profit from continuing operations before taxation	2	54
Accounting profit multiplied by the UK rate of Corporation Tax of 20% (2016: 20%)	–	11
Effects of:		
Permanent differences	2	–
<b>Total income tax charge</b>	<b>2</b>	<b>11</b>

### Factors affecting the future tax charge

Under the Services Agreement, R&D tax credits that arise are wholly to the benefit of the NDA. As a result, the accounts include a creditor that reflects the NDA's interest in the Company's R&D tax credits (note 11).

There are no tax consequences attached to the payment of dividends by the Company to NMP, its B shareholder (note 14).

Finance (No.2) Act 2015 received Royal Assent on 18 November 2015 and as a result a reduction in the UK corporation tax rate to 19%, with effect from 1 April 2017, was enacted. On 15 September 2016, Finance Act 2016 received Royal Assent. As a result a further reduction in the UK corporation tax rate to 17%, with effect from 1 April 2020, was enacted.

## 8 Other debtors

	2017 £m	2016 £m
Other debtors	45	49
	45	49

The other debtors of £45 million (2016: £49 million) represent costs that will be recognised in future periods and ultimately recovered from the NDA under the Services Agreement.

## 9 Trade and other receivables

	2017 £m	2016 £m
Company's fees and costs under management recoverable from the NDA	385	353
R&D tax credits shown as grant income	10	11
Other debtors	1	1
	396	365

The other debtors of £1 million (2016: £1 million) represent costs that will be recognised in future periods and ultimately recovered from the NDA under the Services Agreement. There are no non-current receivables (2016: nil)

Working capital recoverables from the NDA are non-interest bearing and are on terms set out in the Services Agreement. There are no provisions for impairment of trade and other receivables at 31 March 2017 (31 March 2016: £nil). All trade and other receivables are denominated in Sterling and the carrying value approximates to fair value.

# Notes to the financial statements

continued

## 10 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	5	2
	<b>5</b>	<b>2</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents at 31 March 2017 is £5 million (31 March 2016: £2 million). The Company only deposits cash surpluses with major banks of high quality credit standing.

With effect from 1 April 2016, the Company does not have major working capital requirements because all expenditure incurred by the Company is reimbursed by the NDA under defined contract terms within the Services Agreement, and the Company's working capital requirements are provided by NDA. In particular, with effect from 1 April 2016 the majority of the Company's payments to suppliers, employees and third parties are funded through a cash drawdown agreement with the NDA, and the NDA also provides the Company with a working capital facility of £2.5m so that the Company's other liabilities can be met as they fall due.

Royal Bank of Scotland (RBS) provides banking facilities through which the Company manages its working capital and normal treasury activities, and guarantees are in place between RBS, NDA and the Company which support the Company's use of these banking facilities.

## 11 Trade and other payables

	2017 £m	2016 £m
<b>Current liabilities</b>		
Trade payables	58	60
Amounts owed to Parent undertaking (NMP)	–	3
Amounts owed to other related parties (under the PBA)	–	8
Other taxes and social security costs	42	44
Accruals and deferred income (including employee creditors)	312	255
Corporation tax	2	5
NDA beneficial interest in the R&D tax credits	8	4
Finance lease creditor with NDA (see note 16)	1	1
	<b>423</b>	<b>380</b>
	2017 £m	2016 £m
<b>Non-current liabilities</b>		
Finance lease creditor with NDA (see note 16)	23	24
	<b>23</b>	<b>24</b>

Terms and conditions of the above financial liabilities:

- The carrying amount approximates to fair value;
- Trade payables are non-interest bearing and are normally settled on net monthly terms;
- Other payables are non-interest bearing and have an average term of 6 months.

# Notes to the financial statements

continued

## 12 Called up share capital

	2017 £m	2016 £m
<b>Authorised</b>		
43,000,000 Ordinary shares of £1 each	43	43
1 B share of £1	–	–
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1 (2016: 1)	–	–
1 B share of £1 (2016: 1)	–	–

With effect from 12 February 2016, the Company's share capital was increased to one ordinary share of £1, and one B share of £1.

On 12 February 2016 the B share was issued to NMP for a consideration of £1. As stated in the Company's Articles of Association, the B shareholder's rights are limited to matters relating to dividend payments and the repayment of capital.

On 1 April 2016, the ordinary share of £1 was transferred from NMP to the NDA.

## 13 Profit and loss account

	2017 £m	2016 £m
Profit and loss account movements:		
Surplus at 1 April	12	30
Total comprehensive income for the year	–	43
Dividends (Note 14)	(12)	(61)
<b>Closing balance at 31 March</b>	–	12

## 14 Dividends paid and proposed

	2017 £000	2016 £000
Declared and paid during the year:		
Dividends on ordinary share:		
Interim dividends for 2014/15	–	27,500
Final dividend for 2014/15	–	2,413
Interim dividends for 2015/16	–	31,087
Dividends on B share:		
Interim dividends for 2015/16	6,000	–
Final dividend for 2015/16	5,751	–
Final dividend for 2016/17	364	–
	<b>12,115</b>	61,000

During the financial year ended 31 March 2017, all dividends were paid in respect of the B share. For the year ended 31 March 2016, the table above reflects that all dividends were paid in respect of the 1 ordinary share of £1.

## 15 Contingent liabilities

At 31 March 2017, the Company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the Directors, no material losses are expected to arise. Any liabilities that did arise on such guarantees would ultimately be recovered from the NDA.

# Notes to the financial statements

continued

## 16 Obligations under leases

The Company enters into contractual commitments as part of its business of performing decommissioning activities. Amounts incurred under such contracts are recorded as costs under management and are reimbursed by the NDA.

At the end of the financial year there are no commitments for the acquisition of property, plant and equipment by the Company (2016: £nil).

### Operating lease agreements where the Company is lessee

The Company has entered into commercial leases for certain properties and motor vehicles. The leases for motor vehicles have durations up to a period of 4 years (2016: 4 years). The leases for properties have remaining durations of between 1 and 27 years (2016: 1 and 28 years). The property lease agreements contain an option for renewal, with these options being exercisable three months before the expiry of the lease term at rentals based on market prices at the time of the exercise. There are no restrictions placed upon the lessee by entering into these leases. Under the Services Agreement, operating lease rentals are reimbursed by the NDA.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017 £000	2016 £000
Within one year	5,135	5,416
After one year but not more than five years	6,002	6,731
More than five years	4,301	4,216
<b>Total minimum lease payments</b>	<b>15,438</b>	<b>16,363</b>

The Company has sub-let certain properties, held under operating leases, to third parties. The rental income from these operating leases, including the effect of any lease incentives, is recognised on a straight line basis over the lease term. Under the terms of the Services Agreement, rental income received from third parties is transferred to the NDA.

The future minimum sub-lease payments expected to be received under non-cancellable sub-lease agreements as at 31 March 2017 is £21,219,000 (2016: £22,264,000). The National Nuclear Laboratory (NNL) is the third party in the majority of these agreements.

### Finance lease commitments

In 2014/15 the Company entered into 30 year leases with the NDA in respect of an office development with a rental value of £1,271,000 per annum. The lease liabilities are shown as finance lease creditors because the leases have many of the attributes of finance leases. Under the terms of the Services Agreement, the future lease payments including finance charges will be reimbursed by the NDA, and the NDA bears the ultimate risks and rewards associated with the office development. As a result, instead of disclosing the office development as buildings held under finance leases, the reimbursement of the future lease payments by NDA are included in Other debtors in notes 8 and 9 respectively.

As discussed above, the Company has finance lease contracts for buildings. Future minimum payments under finance leases together with the present value of the net minimum lease payments are, as follows:

	2017 £000	2017 £000	2016 £000	2016 £000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	1,271	1,248	1,271	1,248
After one year but not more than five years	5,084	4,638	5,084	4,638
More than five years	28,598	17,951	29,869	18,461
<b>Total minimum lease payments</b>	<b>34,953</b>	<b>23,837</b>	36,224	24,347
Less amounts representing finance charges	(11,116)	–	(11,877)	–
<b>Present value of minimum lease payments</b>	<b>23,837</b>	<b>23,837</b>	24,347	24,347

# Notes to the financial statements

continued

## 17 Pension schemes

### Schemes accounted for as defined contribution

The Company accounts for two schemes as if they were defined contribution schemes, the Electricity Supply Pension Scheme (ESPS) and the Combined Pension Scheme (CPS).

The Plans, however, are registered defined benefit final salary schemes with benefits payable on retirement based on reckonable service and pensionable final earnings. The Plans are subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Plans are operated under trust and the trustees are responsible for operating the Plans. They have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interest of beneficiaries of the Plans and UK legislation.

### Electricity Supply Pension Scheme (ESPS)

On 31 March 2007, the ESPS was sectionalised into various sections; however the Company remains unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis as required by IAS 19 (R). Consequently, the scheme has been accounted for as if the scheme was a defined contribution scheme. The pension charge for the period represents contributions payable by the Company to the ESPS, which are directly recoverable from the NDA and amounted to £125,382 (2016: £122,965).

At 31 March 2017 the Company had 9 employees (2016: 9) who were active members of the ESPS, which has approximately 1,700 active members. The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2013. The projected unit method was used. The results of the valuation were market value of scheme assets of £2,555M (2010 valuation: £1,959M), which represented a 100% level of funding (2010 valuation: 99%). As a result of the valuation, employer contributions increased from 21.4% to 24% on 1 January 2014.

The latest actuarial valuation has been updated by a qualified independent actuary to 31 March 2017 on a basis consistent with IAS 19 (R). The results of this IAS 19 (R) valuation are a total fair value of scheme assets of £3,148M (2016: £2,695M) and a deficit of £144M (2016: deficit £151M). There were outstanding employer contributions of £nil at 31 March 2017 (2016: £nil).

Detailed disclosures in relation to the ESPS are included in the Magnox Limited statutory accounts for the year ended 31 March 2017, which can be obtained from the registered office, Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RQ.

### Combined Pension Scheme (CPS)

Since 24 November 2008, the future pensionable service of employees who were members of the CPS is met from the Combined Nuclear Pension Plan (CNPP). Pensionable service up to 24 November 2008 will be met from the CPS. The Company has no ongoing obligation to make contributions to the CPS. The CPS is a multi-employer scheme which provides defined benefits to its members. In common with other unfunded public sector schemes the CPS does not have the attributes of typical private sector pension schemes. Any surplus of contributions made in excess of benefits paid out in any year is surrendered to the Consolidated Fund and any liabilities are met from the Consolidated Fund via the annual Parliamentary vote. Her Majesty's Government does not maintain a separate fund.

The CPS is accounted for as a defined contribution scheme. The pension charge for the period represents contributions payable by the Company to the CPS, which are directly recoverable from the NDA and amounted to £nil (2016: £nil). There were outstanding employer contributions of £nil at 31 March 2017 (2016: £nil).

### Schemes accounted for as defined benefit

The Company accounts for two sections of the Combined Nuclear Pension Plan (CNPP) as defined benefit schemes, the Combined Nuclear Pension Plan (CNPP) – Sellafield section, and the Group Pension Scheme (GPS) section of the CNPP.

The Plans are registered defined benefit final salary schemes with benefits payable on retirement based on reckonable service and pensionable final earnings. The Plans are subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Plans are operated under trust and the trustees are responsible for operating the Plans. They have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interest of beneficiaries of the Plans and UK legislation.

### Combined Nuclear Pension Plan (CNPP) – Sellafield section

Following the previous transfer of ownership of the Company to NMP on 24 November 2008, the future pensionable service of employees who were active members of the CPS is met from the Sellafield section of the CNPP. That arrangement remains in place following the transfer of the Company to become a wholly owned subsidiary of the NDA on 1 April 2016. The CNPP has separately administered funds and with effect from 24 November 2008 has been funded by contributions partly from employees and partly from the Company. The benefits are identical to the CPS.

The Company contributes to the CNPP at rates recommended by the CNPP's professionally qualified actuary. The employer contribution rate was 22% in the year ended 31 March 2017 (2016: 22%). The principal employer for the CNPP is the NDA.

The CNPP is sectionalised into various sections, and there is a specific section for the Company. These financial statements reflect the Company's share of the IAS 19 (R) assets and liabilities at 31 March 2017 and 31 March 2016 respectively.

# Notes to the financial statements

continued

## 17 Pension schemes continued

### Combined Nuclear Pension Plan (CNPP) – Sellafield section (continued)

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2013. The projected unit method was used. The results of the valuation were market value of scheme assets of £481M (2010 valuation: £146M), which represented a 103% level of funding (2010 valuation: 113%). As a result of the valuation, the employer contribution rate remained at 22%. An IAS 19 (R) actuarial valuation for the Sellafield section was carried out at 31 March 2017 by a qualified independent actuary. There were outstanding employer contributions of £nil at 31 March 2017 (2016: £nil), which are directly recoverable from the NDA.

New employees joining the Company after 24 November 2008 are eligible to join a defined contribution section of the CNPP. This scheme is funded by contributions from both the employees and the Company. The Company contributes at rates ranging from 8% to 13.5% depending on the level of contributions chosen by each individual employee.

At 31 March 2017 the Company had 3,629 employees (2016: 3,304) who were active members of the defined contribution section of the CNPP. The pension charge for the year represents contributions payable by the Company to the CNPP, which are directly recoverable from the NDA and amounted to £18,051,160 (2016: £15,818,646).

### Group Pension Scheme (GPS) section of the CNPP

The Group Pension Scheme (GPS) is a funded scheme. The Company and other participating employers contribute to the GPS at rates recommended by the GPS's professionally qualified actuary. The employer contribution rate was 28.7% in the year ended 31 March 2017 (2016: 28.7%).

On 31 March 2007, the GPS was sectionalised into various sections. Following the sectionalisation, these financial statements reflect the Company's share of the IAS 19 (R) assets and liabilities at 31 March 2017 and 31 March 2016 respectively. Of the active members within the section of the GPS relating to the Site Licence Companies (SLC section), the majority are employed by the Company. Consequently, the entire section has been reflected in these accounts.

Following the previous transfer of ownership of the Company to NMP on 24 November 2008, there was no change to the pension arrangements of those employees who are members of the GPS. That arrangement remains in place following the transfer of the Company to become a wholly owned subsidiary of the NDA on 1 April 2016. The NDA has the role of principal employer in respect of the GPS.

The GPS-SLC section was merged into the CNPP from the GPS Pension Scheme with effect from 1 April 2012, and is a separate section of the CNPP. No changes were made to pension and benefit entitlements when the GPS-SLC section was merged into the CNPP.

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2013. The projected unit method was used. The results of the valuation were market value of scheme assets of £439M (2010 valuation: £338M), which represented a 95% level of funding (2010 valuation: 116%).

As a result of the valuation, the employer contribution rate increased to 28.7% with effect from 1 April 2015. An IAS 19 (R) actuarial valuation for the Sellafield section was carried out at 31 March 2017 by a qualified independent actuary.

There were outstanding employer contributions of £nil at 31 March 2017 (2016: £nil). Contributions are directly recoverable from the NDA.

### Risks associated with the Company's defined benefit schemes

The defined benefit schemes expose the Company to a number of risks, the most significant of which are:

- the risk that movements in the Plan liabilities are not met by corresponding movements in the Plan's assets;
- lower than expected investment returns;
- higher than expected inflation and salary increases; and
- members living longer than expected.

# Notes to the financial statements

continued

## 17 Pension schemes continued

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the Statement of financial position for the respective plans:

### Net benefit expense, 2017

	GPS section of the CNPP £000	CNPP £000	Total £000
<b>Recognised in Income statement within operating costs and expenses</b>			
Current service cost	10,310	112,610	122,920
Interest cost	19,581	36,762	56,343
Interest income on assets	(18,669)	(31,285)	(49,954)
<b>Net benefit expense</b>	<b>11,222</b>	<b>118,087</b>	<b>129,309</b>
Recognised in Statement of comprehensive income			
<b>Net actuarial (losses) recognised in year</b>	<b>(66,904)</b>	<b>(300,716)</b>	<b>(367,620)</b>

### Net benefit expense, 2016

	GPS section of the CNPP £000	CNPP £000	Total £000
<b>Recognised in Income statement within SLC costs under management</b>			
Current service cost	12,514	128,299	140,813
Net interest on the defined benefit liability	1,722	5,750	7,472
<b>Net benefit expense</b>	<b>14,236</b>	<b>134,049</b>	<b>148,285</b>
Recognised in Statement of comprehensive income			
<b>Net actuarial gains recognised in year</b>	<b>33,405</b>	<b>87,190</b>	<b>120,595</b>

### (Liability)/benefit, 2017

	GPS section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation	(736,683)	(1,644,097)	(2,380,780)
Fair value of plan assets	636,592	1,103,714	1,740,306
<b>Liability</b>	<b>(100,091)</b>	<b>(540,383)</b>	<b>(640,474)</b>
<b>Liability recognised in Statement of financial position</b>	<b>(100,091)</b>	<b>(540,383)</b>	<b>(640,474)</b>

### (Liability)/benefit, 2016

	GPS section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation	(564,487)	(1,047,881)	(1,612,368)
Fair value of plan assets	534,383	857,073	1,391,456
<b>Liability</b>	<b>(30,104)</b>	<b>(190,808)</b>	<b>(220,912)</b>
<b>Liability recognised in Statement of financial position</b>	<b>(30,104)</b>	<b>(190,808)</b>	<b>(220,912)</b>

# Notes to the financial statements

continued

## 17 Pension schemes continued

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	GPS section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation at 31 March 2015	590,571	984,070	1,574,641
Interest cost	18,748	31,633	50,381
Current service cost	12,514	128,299	140,813
Benefits paid	(11,146)	(7,798)	(18,944)
Actuarial (gains)	(47,898)	(105,140)	(153,038)
Employee contributions	1,807	16,817	18,624
Transfers (paid)	(109)	–	(109)
<b>Defined benefit obligation at 31 March 2016</b>	<b>564,487</b>	<b>1,047,881</b>	<b>1,612,368</b>
Interest cost	19,582	36,762	56,344
Current service cost	10,310	112,610	122,920
Benefits paid	(11,648)	(11,384)	(23,032)
Actuarial losses	152,412	441,867	594,279
Employee contributions	1,540	16,361	17,901
Transfers (paid)	–	–	–
<b>Defined benefit obligation at 31 March 2017</b>	<b>736,683</b>	<b>1,644,097</b>	<b>2,380,780</b>

Changes in the fair value of plan assets are as follows:

	GPS section of the CNPP £000	CNPP £000	Total £000
Fair value of plan assets at 1 April 2015	532,252	769,194	1,301,446
Expected return on plan assets	17,026	25,883	42,909
Employer contributions	9,046	70,927	79,973
Benefits paid	(11,146)	(7,798)	(18,944)
Actuarial (losses)	(14,493)	(17,950)	(32,443)
Contributions by employees	1,807	16,817	18,624
Transfers (paid)	(109)	–	(109)
<b>Fair value of plan assets at 31 March 2016</b>	<b>534,383</b>	<b>857,073</b>	<b>1,391,456</b>
Expected return on plan assets	18,669	31,285	49,954
Employer contributions	8,140	69,228	77,368
Benefits paid	(11,648)	(11,384)	(23,032)
Actuarial gains	85,508	141,151	226,659
Contributions by employees	1,540	16,361	17,901
Transfers (paid)	–	–	–
<b>Fair value of plan assets at 31 March 2017</b>	<b>636,592</b>	<b>1,103,714</b>	<b>1,740,306</b>

Pension contributions are determined with the advice of independent qualified actuaries on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

Deloitte Total Reward and Benefits Limited is the CNPP actuary.

# Notes to the financial statements

continued

## 17 Pension schemes continued

At 31 March 2017 the scheme assets were invested in diversified portfolios that consisted primarily of equity and debt securities. The fair value of the scheme assets as a percentage of total scheme assets are set out below:

	2017 %	2016 %
<b>Group Pension Scheme section of the CNPP</b>		
Equities and Diversified Growth Funds	59	58
Bonds and Gilts	31	30
Properties and other	10	12
<b>Combined Nuclear Pension Plan</b>		
Equities and Diversified Growth Funds	73	70
Bonds and Gilts	14	15
Properties and other	13	15

The pension schemes have not invested in any of the Company's own financial instruments nor in properties or other assets used by the Company. The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

The principal assumptions used in determining pension obligations for the Company's plans are shown below:

	GPS section of the CNPP 2017 %	GPS section of the CNPP 2016 %	CNPP 2017 %	CNPP 2016 %
<b>Main assumptions:</b>				
Future salary increases: year one	3.2	–	3.2	–
Future salary increases: years one to two	–	3.0	–	3.0
Future salary increases: years two to eleven	3.45	–	3.45	–
Future salary increases: years three to twelve	–	3.25	–	3.25
Future salary increases: years twelve and thereafter	3.7	–	3.7	–
Future salary increases: years thirteen and thereafter	–	3.5	–	3.5
Future pension increases in payment or deferment	3.2	3.0	3.2	3.0
Discount rate	2.5	3.5	2.5	3.5
Inflation assumption	3.2	3.0	3.2	3.0
Post-retirement mortality (in years)				
Current pensioners at 65 – male	21.8	22.6	21.8	22.6
Current pensioners at 65 – female	24.2	25.3	24.2	25.3
Future pensioners at 65 (now 45) – male	23.1	23.9	23.1	23.9
Future pensioners at 65 (now 45) – female	25.8	26.8	25.8	26.8

The UK discount rate is based on published indices for 15 year AA bonds. The assumptions for inflation and for increases in pension are based on the yield gap between long-term index-linked and long term fixed interest gilt securities. Mortality rates for both the CNPP and GPS are based on SAPS CMI 2015 projection (1% long term trend rate) (2016: SAPS CMI15 projection (1% long term rate, k=90%)). For both sections, mortality assumptions have been adjusted to allow for expected future improvements in longevity.

The post-retirement mortality assumptions allow for expected increases to longevity. The 'current' disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with 'future' being that relating to an employee retiring in 2032.

# Notes to the financial statements

continued

## 17 Pension schemes continued

### Sensitivity analysis

The impact on defined benefit obligations being:

#### Group Pension Scheme section of the CNPP

	Increase £000	Decrease £000
0.5% change in discount rates: 2017	(72,932)	81,035
0.5% change in discount rates: 2016	(55,884)	62,094
0.5% change in salary increase: 2017	19,154	(19,154)
0.5% change in salary increase: 2016	14,677	(14,677)

#### Combined Nuclear Pension Plan

	Increase £000	Decrease £000
0.5% change in discount rates: 2017	(212,089)	241,682
0.5% change in discount rates: 2016	(135,177)	154,039
0.5% change in salary increase: 2017	113,443	(105,222)
0.5% change in salary increase: 2016	72,304	(67,064)

The most recently completed actuarial valuation of the GPS section was carried out as at 31 March 2013. Following the valuation, the Company's ordinary contribution rate increased to 28.7% of pensionable salaries with effect from 1 April 2015. The next valuation is due to be completed as at 31 March 2016.

During the year ended 31 March 2017, the Company's employer contribution rate for the CNPP scheme was 22% of pensionable salaries (2016: 22%).

The most recently completed actuarial valuation of the CNPP scheme was carried out as at 31 March 2013. Following the valuation, the Company's ordinary contribution rate remained at 22% of pensionable salaries. The next valuation is due to be completed as at 31 March 2016.

The Company will monitor funding levels on an annual basis for both sections of the CNPP.

Employer contributions in the year ended 31 March 2018 are expected to be £7,871,000 (2016/17: £9,196,000) in respect of the GPS section and £67,570,000 (2016/17: £71,070,000) in respect of the CNPP defined benefit pension plan.

The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit schemes. The Company estimates the present value of the duration of UK scheme liabilities on average to fall due over 20-25 years.

The NDA is the principal employer of the CNPP. The Company does not have an unconditional right to actuarial surpluses on either section of the CNPP. As a result, under IFRIC 14, surpluses are not recognised on the balance sheet. The deficits on both sections of the CNPP are recognised in full with a corresponding asset from the NDA for the full value of the deficit.

### History of the net surplus/(deficit) of the schemes

Amounts for the current and previous four periods are as follows:

#### GPS section of the CNPP

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation	(737)	(564)	(590)	(471)	(470)
Plan assets	637	534	532	456	439
(Deficit)	(100)	(30)	(58)	(15)	(31)

# Notes to the financial statements

continued

## 17 Pension schemes continued

### Combined Nuclear Pension Plan

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation	(1,644)	(1,048)	(984)	(637)	(587)
Plan assets	1,104	857	769	585	462
(Deficit)	(540)	(191)	(215)	(52)	(125)

### History of experience of gains and losses

#### Group Pension Scheme section of the CNPP

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Experience gains/(losses) on scheme assets: Amount	85,508	(14,493)	57,797	(1,962)	33,041
Experience gains on scheme liabilities: Amount	3,139	5,368	2,772	4,186	1,362

#### Combined Nuclear Pension Plan

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Experience gains/(losses) on scheme assets: Amount	141,151	(17,950)	75,596	19,481	12,121
Experience gains/(losses) on scheme liabilities: Amount	726	1,074	616	(3,178)	(6)

## 18 Ultimate parent company and parent undertaking of larger group of which the Company is a member

From 24 November 2008 until 1 April 2016, the ordinary share of the Company was owned by Nuclear Management Partners Limited (NMP), a company registered and incorporated in England and Wales, which is itself owned by URS International Holding (UK) Limited (44%), AMEC Foster Wheeler Nuclear Holdings Limited (36%) and Areva-NC (20%). The financial statements of NMP are available to the public and may be obtained from Booths Park, Knutsford, Cheshire WA16 8QZ.

Since 24 November 2008 and in the year ended 31 March 2016, NMP was considered to exert significant influence over the financial and operating policies of Sellafield Limited. The management team of Sellafield Limited retained "controlling mind" responsibilities for safety, security and environmental issues related to the nuclear licensed sites operated by the Company. During this period, under the terms of the M&O contract between the Company and the NDA, the NDA had certain rights of approval over the financial and operating policies of Sellafield Limited.

The commercial model at Sellafield changed with effect from 1 April 2016. Until 31 March 2016, the commercial model involved a Parent Body Agreement (PBA) between Nuclear Management Partners Limited (NMP), NDA and the Company, and a management and operations contract (M&O) between NDA and the Company. On 26 March 2015, the NDA implemented the termination for convenience clause in the PBA and NDA and NMP agreed a commercial agreement associated with the termination of the PBA in June 2015.

The PBA terminated on 31 March 2016 and on 1 April 2016 the ordinary share of £1 was transferred from NMP to NDA for a consideration of £1. As a result, the Company became a wholly owned subsidiary of the NDA on 1 April 2016. The M&O contract between the Company and NDA was also terminated on 31 March 2016. Under the new commercial model, with effect from 1 April 2016, the Company operates nuclear sites under the site licence and a Services Agreement between itself and NDA. Under the Services Agreement, the Board and management team of the Company are unambiguously in control of operational matters on a day to day basis to perform the site mission of Sellafield Limited and to ensure compliance with all regulatory and site licence requirements.

The Company's shareholder, NDA, is a Non Departmental Public Body sponsored by the Department for Business, Energy and Industrial Strategy. As a result, in the Directors' opinion, the Company's ultimate controlling party is Her Majesty's Government.

## 19 Post Balance Sheet Events

On 15 May 2017 the Company sold its 20% interest in Gen 2 Engineering and Technology Training Limited (Gen 2) to City & Guilds Group for £1.5m. Gen 2 is a company limited by guarantee and was established in 2000 as a joint venture by the Company and four other major employers with locally based operations in West Cumbria. Gen 2 provides apprentice training and other training services for the engineering, advanced manufacturing, energy and technology sectors. Under the terms of the Services Agreement between the Company and NDA, the Company's interest in Gen 2 was effectively held for the benefit of NDA. Proceeds from the sale of Gen 2 have been paid to NDA during the year ending 31 March 2018.



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