

# **Sellafield Limited**

## **Directors' report and financial statements (Registered number 1002607) 31 March 2011**

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COMPANIES HOUSE

**DIRECTORS**

Dr G T Wright (Managing Director)  
Mr G D Beveridge  
Mr D Cooper  
Ms K McNeel  
Mr P Foster  
Mr D L Becker  
Lord Clark of Windermere  
Sir Paul Lever  
Rear-Admiral T C Chittenden

**SECRETARY**

Mr C L Fidler

**AUDITORS**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

**BANKERS**

National Westminster Bank plc  
P O Box 305  
Spring Gardens  
Manchester  
M60 2DB

**REGISTERED OFFICE**

Booths Park  
Chelford Road  
Knutsford  
Cheshire  
WA16 8QZ

## Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2011

### Results and dividends

The profit before taxation was £50 million (2010 profit £40 million) In 2011 the Company earned fees totalling £58 million under Management & Operations (M&O) contracts with the Nuclear Decommissioning Authority (NDA) (2010 £47 million) This represented 80% of the available fee pool as a result of the Company's performance against the NDA's performance-based initiatives (PBI's) and efficiency targets (2010 94%)

The profit for the year, after taxation, amounted to £41 million (2010 profit £36 million) An interim dividend of £6 million was declared on 19 May 2011 for the year ended 31 March 2011 and paid to the shareholder on 23 May 2011

Interim dividends totalling £16,000,000 have been paid for the year ending 31 March 2011 as follows

Date declared	Amounts, £	Date paid to shareholder
23 September 2010	5,000,000	24 September 2010
9 December 2010	5,500,000	10 December 2010
10 February 2011	3,500,000	14 February 2011
17 March 2011	2,000,000	21 March 2011

Dividends totalling £17,906,000 have been paid for the year ending 31 March 2010 as follows

Date declared	Amounts, £	Date paid to shareholder
20 May 2010	6,000,000 (interim)	25 May 2010
22 July 2010	10,400,000 (interim)	27 July 2010
23 September 2010	1,506,000 (final)	24 September 2010

### Principal activities, review of the business and future developments

The principal role of the Company is to operate nuclear sites under site licence and operation contracts with the NDA This includes nuclear facility management and operations, and managing the customer interface between the company and utilities, both in the UK and overseas, that send used fuel to Sellafield for recycling

All costs incurred by the Company in the performance of the Management and Operations (M&O) contracts are reimbursed by the NDA, unless they are specifically disallowable under the contract The Company puts in place advance agreements with the NDA to obtain pre-approval of certain items of expenditure, to ensure that the expenditure is allowable under the terms of the M&O contracts

The directors' aim is to operate the nuclear sites safely and earn a significant percentage of the available fee pool from the NDA

### Research and development

All research and development costs, £78 million (2010 £85 million), relate to the Company and are directly recoverable from the NDA, as explained in accounting policy note 2.3f

### 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 94% (2010 95%) of invoices submitted against the standard payment terms of 30 days net monthly were paid on time

## **Directors' report (*continued*)**

### **Directors**

The directors who held office during the year were as follows

Dr G T Wright (appointed as Managing Director on 4 February 2011)

Mr W G Poulson (resigned as a director, and as Managing Director on 4 February 2011)

Mr G D Beveridge

Mr D Cooper (appointed 4 February 2011)

Ms K McNeel (appointed 10 February 2011)

Ms F Williams (resigned 10 February 2011)

Mr P Foster

Mr D L Becker

Lord Clark of Windermere

Sir Paul Lever

Rear Admiral T C Chittenden

### **Secretary**

Mr C L Fidler

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company

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

### **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

### **Directors' Indemnities**

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

### **Political and charitable contributions**

The Company made no political contributions during the year (2010 £nil). Donations to UK charities amounted to £7.3 million (2010 £6.9 million), which includes £6.5 million (2010 £5.7 million) to support West Cumbrian economic regeneration initiatives. Payments of £2.9 million have been made under contract from the NDA (2010 £2.6 million), while the remaining payments of £4.4 million (2010 £4.3 million) are disallowable costs under the M&O contract.

### **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 the 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.

## Directors' report (continued)

### Principal risks and uncertainties

As discussed in notes 2 3m and note 20, 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.

Under the industry model, the Company does not have major working capital requirements because the vast majority of expenditure at the UK sites where the Company is the M&O contractor is funded by the NDA under defined contract terms. The Company's financial performance is driven by the performance against the NDA's performance-based initiatives (PBI's) and efficiency targets, which form the basis of fees earned under the M&O contracts. The Company's working capital requirements are provided by its parent company, Nuclear Management Partners Limited (NMP), and the shareholders of NMP (see note 18).

In the unlikely event that the NDA was no longer able to provide the funding for the Company to continue its waste management and decommissioning activities in compliance with the site licence conditions, the NDA would be required to purchase the Company for a nominal sum, thus reinforcing the NDA's responsibility for the underlying liabilities.

### Going concern

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.

### Events since the balance sheet date

A further interim dividend of £6 million was declared by the Board on 19 May 2011, and paid to the shareholder on 23 May 2011.

### 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 Meetings 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

C L Fidler  
Secretary



Date: 14 June 2011  
Registered Company Number 1002607

Booths Park  
Chelford Road  
Knutsford  
Cheshire  
WA16 8QZ

## Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union

Under Company Law the directors must not approve the company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the company for that period. In preparing the company financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance,
- state that the company has complied with IFRSs, and
- make judgements and estimates that are reasonable and prudent

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 and Article 4 of the IAS Regulations. 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 Directors' Report and the financial statements of Sellafield Limited for the year ended 31 March 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 6 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 Directors' Report and financial statements to identify material inconsistencies with the audited financial statements. 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 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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.



Jan Gregory (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP Statutory Auditor  
Manchester

Date 14/6/11

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 2011

	Notes	2011	2010
		£M	£M
Gross revenue including fees and Site Licence Company costs under management	4	1,590	1,473
Less Site Licence Company costs under management excluding fees		(1,532)	(1,426)
<b>Revenue</b>	<b>4</b>	<b>58</b>	<b>47</b>
Operating costs and expenses	4	(8)	(7)
<b>Operating profit from continuing operations</b>		<b>50</b>	<b>40</b>
<b>Profit on continuing activities before taxation</b>		<b>50</b>	<b>40</b>
Tax expense	7	(9)	(4)
<b>Profit for the year</b>	<b>12</b>	<b>41</b>	<b>36</b>
<b>Profit attributable to:</b>			
<b>Equity holders of the company</b>	<b>12</b>	<b>41</b>	<b>36</b>

Continuing operations in 2011 and 2010 include the fees earned from the NDA on the work undertaken by the Company  
 All of the Company's operations in both 2011 and 2010 are continuing



## Statement of comprehensive income

For the 12 months ended 31 March 2011


	Notes	2011 £M	2010 £M
<b>Profit for the year</b>		<b>41</b>	<b>36</b>
<b>Other comprehensive income:</b>			
Actuarial gain recognised on GPS defined benefit pension plan	16	2	18
Actuarial gain/(loss) recognised on CNPP defined benefit pension plan	16	22	(27)
Net actuarial (gain)/loss not recognised due to IFRIC 14	2.3e	(24)	9
		<hr/>	<hr/>
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		<b>41</b>	<b>36</b>
		<hr/>	<hr/>
<b>Total comprehensive income attributable to:</b>			
<b>Equity holders of the company</b>		<b>41</b>	<b>36</b>
		<hr/>	<hr/>

## Statement of financial position

At 31 March 2011

	Notes	31 March 2011	31 March 2010
<b>Assets</b>		<b>£M</b>	<b>£M</b>
<b>Non-current assets</b>			
Deferred tax assets	7	13	22
<b>Total non-current assets</b>		<b>13</b>	<b>22</b>
<b>Current assets</b>			
Trade and other receivables	8	284	254
Cash and cash equivalents	9	8	13
		<b>292</b>	<b>267</b>
<b>Total assets</b>		<b>305</b>	<b>289</b>
<b>Current liabilities</b>			
Trade and other payables	10	(275)	(257)
<b>Non-current liabilities</b>			
Other non-current financial liabilities	10	(5)	(14)
<b>Total liabilities</b>		<b>(280)</b>	<b>(271)</b>
<b>Net assets</b>		<b>25</b>	<b>18</b>
<b>Capital and reserves</b>			
Equity share capital	11	-	-
Retained earning	12	25	18
<b>Total equity</b>		<b>25</b>	<b>18</b>

These financial statements were approved by the board of directors on 14 June 2011 and were signed on its behalf by

  
Dan Becker, Director 14 June 2011

Registered Company Number 1002607

**Statement of changes in equity**  
*for the year ended 31 March 2011*

	<b>Share capital £M</b>	<b>Retained earnings £M</b>	<b>Total equity £M</b>
Shareholders' funds at 1 April 2010	-	18	18
Total comprehensive income for the year	-	41	41
Dividends	-	(34)	(34)
Changes in equity for year ended 31 March 2011	<u>-</u>	<u>7</u>	<u>7</u>
Shareholders' funds at 31 March 2011	<u>-</u>	<u>25</u>	<u>25</u>
	<u><u>-</u></u>	<u><u>25</u></u>	<u><u>25</u></u>

## Statement of cash flows

*for the year ended 31 March 2011*

	<b>2011</b> <b>£M</b>	<b>2010</b> <b>£M</b>
<b>Operating activities</b>		
Profit before tax on continuing activities	<b>50</b>	<b>40</b>
Non-cash adjustment to reconcile profit before tax to net cash flows		
Taxation credit due to NDA	<b>3</b>	<b>3</b>
Working capital adjustments		
(Increase)/decrease in trade and other receivables and prepayments	<b>(30)</b>	<b>(9)</b>
Increase/(decrease) in trade and other payables	<b>17</b>	<b>8</b>
Cash payments to NDA in respect of utilisation of tax losses carried forward	<b>(11)</b>	<b>(8)</b>
<b>Net cash flows from operating activities</b>	<b>29</b>	<b>34</b>
<b>Financing activities</b>		
Dividends paid to equity holders	<b>(34)</b>	<b>(30)</b>
Net (decrease)/increase in cash and cash equivalents	<b>(5)</b>	<b>4</b>
Cash and cash equivalents at 1 April	<b>13</b>	<b>9</b>
<b>Net cash at 31 March</b>	<b>8</b>	<b>13</b>

## **Notes to the financial statements**

### **1 Corporate information**

The financial statements of the Company for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the directors on 14 June 2011. The Company is a limited company incorporated and domiciled in the UK. The registered office is located at Booths Park, Chelford Road, Knutsford, Cheshire in the UK.

The principal activity of the Company is to operate nuclear sites under site licence and operation contracts with the NDA.

### **2.1 Basis of preparation**

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£M) except where otherwise indicated.

### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### **2.2 Changes in accounting policy and disclosures**

The Company's accounting policies were revised with effect from 1 April 2008 to reflect IFRS as adopted by the European Union.

The main IFRS's that are applicable to the Company are as follows:

- IFRS 3 Business combinations,
- International Accounting Standard 18 (IAS 18) Revenue recognition,
- IAS 12 Income taxes,
- IAS 19 Employee benefits and International Financial Reporting Interpretations Committee – Interpretation 14 (IFRIC 14) – general requirements concerning the limit on a defined benefit asset,
- IAS 17 Accounting for leases,
- IAS 24 Related party disclosures,
- IAS 32 Financial instruments – presentation, IAS 39 Financial instruments – recognition and measurement, and IFRS 7 Financial instruments – disclosure

## Notes to the financial statements (*continued*)

### 2.2 Changes in accounting policy and disclosures (*continued*)

The accounting policies adopted are consistent with the IFRS accounting policies described above except for the following new and amended standards and interpretations during the year. Adoption of these revised standards and interpretations did not have a material effect on the financial statements of the Company.

- IFRS 1R First time adoption of International Financial Reporting Standards – effective 1 July 2009,
- Amendments to IFRS 1 Additional exemptions for First-time adopters – effective 1 January 2010,
- IFRS 2 Share-based Payment – Amendments to IFRS 2. Group Cash-settled Share-based Payment Transactions including consequential amendments to IFRIC 8 – effective 1 January 2010,
- IFRS 3R Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 including consequential amendments to IFRS 2, IFRS 4, IFRS 5, IFRS 7, IAS 12, IAS 14, IAS 16, IAS 21, IAS 28, IAS 31, IAS 32, IAS 36, IAS 37, IAS 38, IAS 39 and IFRIC 9,
- IFRS 8 Operating Segments – Improvements to IFRS – effective 1 January 2010,
- IAS 1 Presentation of Financial Statements – Amendments to IAS 27, Improvements to IFRS and Amendments to IFRS 1 Additional Exemptions for First-Time Adopters,
- IAS 7 Cash Flow Statements – Improvements to IFRS – effective 1 January 2010,
- IAS 10 Events after the Reporting Period - IFRIC 17 Distributions of Non-cash Assets to Owners – effective 1 July 2009
- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives – effective 30 June 2009,
- IFRIC 11 Group and Treasury Share Transactions,
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation,
- IFRIC 17 Distributions of Non-Cash Assets to Owners, and
- IFRIC 18 Transfer of Assets from Customers

The adoption of the above amendments has not had any impact on the financial position of the Company.

### 2.3 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 Management and Operations (M&O) contracts 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. The following criteria must also be met before revenue is recognised:

##### *Revenue earned on the M&O contract between the Company and the NDA*

Revenue represents the net fees earned on the M&O contract between the Company and NDA. Under the M&O contract, Sellafield Limited can earn fees based on the Company's performance against the NDA's performance-based initiatives (PBI's) and efficiency targets.

## Notes to the financial statements (*continued*)

### 2.3 Summary of significant accounting policies (*continued*)

#### *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 M&O contract. The Company has no assets held under finance leases.

##### *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 M&O contract, rental income received from third parties is transferred to the NDA.

Company policy and practise is to review all new sale and purchase agreements to ensure that they do not include embedded leases.

#### *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 Combined Nuclear Pension Plan (CNPP), Group Pension Scheme (GPS) 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 obligation) 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 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 difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance revenue or cost.

The Company has applied the option in IAS 19 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 Company does not have an unconditional right to actuarial surpluses on either the GPS or CNPP pension plans. As a result, under IFRIC 14, surpluses are not recognised on the balance sheet. Any deficits, on both the GPS and CNPP are recognised in full with a corresponding asset from the NDA for the full value of the deficit.

## Notes to the financial statements (*continued*)

### 2.3 Summary of significant accounting policies (*continued*)

#### *e Post-retirement benefits (continued)*

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 expenditure*

Research and development costs are expensed as incurred and are directly recoverable from the NDA under the M&O contract

#### *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 M&O contract

#### *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.

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.



## Notes to the financial statements (*continued*)

### 2.3 Summary of significant accounting policies (*continued*)

#### *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

Deferred tax is recognised on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and adjustments made to the extent that it is no longer probable that sufficient profits will be available

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*

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

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles

#### *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. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

#### *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

## Notes to the financial statements (*continued*)

### 3 Significant accounting judgments, estimates and assumptions

#### *Judgments*

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.

#### *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 both current and deferred 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 2008 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.

#### *Deferred tax assets*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the deferred tax asset on recognised tax losses at 31 March 2011 is £13 million (2010 £22 million). The Company has no unrecognised tax losses at 31 March 2011 (2010 £nil).

#### *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 16.

## Notes to the financial statements (*continued*)

### 4 Revenue, net operating costs and expenses

During the years ended 31 March 2011 and 2010 the Company managed sites funded by the NDA as a Site Licence Company

	Year ended 31 March 2011	Year Ended 31 March 2010
	£M	£M
<b>Other operating costs</b>		
Disallowable costs	5	4
Taxation credit due to NDA	3	3
	<hr/>	<hr/>
<b>Operating costs and expenses (excluding exceptional items)</b>	<b>8</b>	<b>7</b>
	<hr/>	<hr/>

Revenue represents the fees that are earned by the Company under the M&O contract with the NDA. The Company earned fees of £58 million in the year ended 31 March 2011 (2010: £47 million).

#### Disallowable costs

Disallowable costs represent costs that are not recoverable from the NDA under the terms of the M&O contract, and also include socio-economic costs paid by the Company of £4.4 million (2009: £4.3 million).

#### Geographical Segment Analysis

In both 2011 and 2010, all revenue, other operating costs and income respectively relates to the operation of M&O contracts in the UK.

#### Research and development expenditure

All research and development costs, £78 million (2010: £85 million) are included within Site Licence Company costs under management and relate to the Company and are directly recoverable from the NDA.

#### Auditors' remuneration

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Audit	100	136
Other fees to auditors		
Taxation services	88	79
Other services - fees receivable by the auditors and their associates	-	117
	<hr/>	<hr/>
	<b>188</b>	<b>332</b>
	<hr/>	<hr/>

Under the M&O contracts, the above audit fees have been reimbursed by the NDA.

## Notes to the financial statements *(continued)*

### 5 Remuneration of directors

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Directors' emoluments including payments to NMP for directors' services	4,082	3,379
	<u>4,082</u>	<u>3,379</u>

Messrs Wright, Poulson, Beveridge, Cooper, Foster, Becker, Ms McNeel and Ms Williams are seconded to the Company from its parent company, Nuclear Management Partners Limited (NMP). They are employees of the shareholding companies of NMP (see note 18), and seconded to NMP. The Company receives a charge from its parent for their services as directors, and also accrues for estimated charges, which in 2010/11 totalled £3,959,000 (2009/10 £3,289,000). This amount is included in the analysis above, and includes an uplift to cover detached duties to the UK, tax equalisation and exchange rate fluctuations.

Under the M&O contracts the above directors' costs and the costs of directors seconded from NMP are reimbursed by the NDA as allowable costs, and are not included within the net operating costs and expenses within note 4.

In 2011 the highest paid director was seconded to the Company from NMP as discussed above. The Company paid £1,120,000 to NMP for their services as a director, which includes an uplift to cover detached duties to the UK, tax equalisation and exchange rate fluctuations (2010 £1,054,000).

In 2011 all the Executive directors are seconded to the Company from NMP, and none of the directors are active members of the Company pension plans discussed in note 16 (2010 nil).

## Notes to the financial statements (*continued*)

### 6 Employee benefits expense

The average number of persons employed by the Company during the year was as follows

	Year Ended 31 March 2011	Year Ended 31 March 2010
Average number of employees	<u>9,653</u>	<u>9,865</u>

The aggregate employee benefits expense of these persons was as follows

	Year ended 31 March 2011 £M	Year ended 31 March 2010 £M
Wages and salaries	430	426
Social security costs	38	36
Pension costs	82	85
	<u>550</u>	<u>547</u>

Pension costs disclosed above include IAS 19 current and past service costs (note 16) charged to the income statement together with contributions paid to defined contribution schemes. All contributions paid are included in site licence costs under management and are recovered from the NDA on a paid basis. Amounts relating to IAS 19 charges are included in the income statement 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.

Under the M&O contracts the above employee costs are reimbursed by the NDA, and are not included within the net operating costs and expenses within note 4.

## Notes to the financial statements (*continued*)

### 7 Income tax

The major components of income tax expense for the years ended 31 March 2011 and 2010 are

#### Income statement

	Year Ended 31 March 2011	Year Ended 31 March 2010
	£M	£M
UK corporation tax		
<i>Current income tax</i>		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year	-	-
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences deferred taxation in respect of taxable losses carried forward and other timing differences for the period	8	4
Adjustments in respect of deferred income tax of previous year	1	-
	<u>9</u>	<u>4</u>
<b>Income tax charge reported in the Income Statement</b>	<b>9</b>	<b>4</b>

A 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 2011 and 2010 is as follows

	Year Ended 31 March 2011	Year Ended 31 March 2010
	£M	£M
Profit from continuing operations before taxation	50	40
Accounting profit multiplied by the UK rate of corporation tax of 28% (2010 28%)	14	11
<i>Effects of</i>		
Permanent differences	(6)	(7)
Adjustments relating to deferred tax rate change	1	-
	<u>9</u>	<u>4</u>
<b>Total income tax charge</b>	<b>9</b>	<b>4</b>

## Notes to the financial statements (*continued*)

### 7 Income tax (*continued*)

#### Deferred tax

Deferred tax relates to the following

	Statement of financial position		Income statement	
	2011 £M	2010 £M	2011 £M	2010 £M
Corporation tax losses carried forward for offset against future taxable income	13	22	9	1
Other timing differences in respect of pensions	-	-	-	3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Deferred tax expense			9	4
Deferred tax asset	13	22	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>		
<b>Reconciliation of deferred tax asset</b>				
	2011 £M	2010 £M		
Opening balance at 1 April	22	26		
Tax expense during the year recognised in income statement	(9)	(4)		
	<u>          </u>	<u>          </u>		
Closing balance at 31 March	13	22		
	<u>          </u>	<u>          </u>		

The Company continues to account for deferred taxation on a basis consistent with prior periods

At 31 March 2011 the Company has gross Corporation tax losses carried forward of £48 million (2010 £78 million), which at a tax rate of 26% (2010 28%) equates to a deferred tax asset of £13 million (2010 £22 million). The movements in the year give rise to a deferred tax charge in the Income Statement of £9 million (2010 £4 million).

The tax losses are available indefinitely for offset against future taxable profits of the Company. The deferred tax asset of £13 million arises wholly in the UK, and is recognised on the basis that the Company expects there to be future taxable profits from which the taxable losses and reversal of timing differences can be deducted. The Company has no unrecognised deferred taxation assets or liabilities at 31 March 2011 (31 March 2010 £nil).

## Notes to the financial statements (*continued*)

### 7 Income tax (*continued*)

#### Factors affecting the future tax charge

Under the M&O contract, deferred tax assets that arose prior to the acquisition of the company by NMP on 24 November 2008 are to the benefit of the NDA, and the NDA will also benefit from some timing differences that arise in periods after 24 November 2008. As a result, the accounts include a creditor that reflects the NDA's interest in the Company's deferred tax assets.

The tax losses and other timing differences that give rise to the deferred tax asset that is attributable to the NDA, together with other tax losses arising after 24 November 2008, will be available indefinitely for offset against future taxable profits thereby resulting in a lower overall current tax charge in future years. Their utilisation will result in amounts payable to the NDA, calculated under the terms of the M&O contract, thereby reducing the creditor to them.

There are no tax consequences attaching to the payment of dividends by the Company to its shareholder (see note 13).

In the budgets of 20 June 2010 and 23 March 2011 changes were announced which, if enacted in the proposed manner, may significantly impact on the company's future tax position.

The budgets proposed a decrease in the rate of UK corporation tax to be enacted annually from April 2011, from 28% to 23%, by 2% in the first year and 1% thereafter for three years. The effect in the reduction in the tax rate to 23% on the company's recognised deferred tax asset would be to reduce it by approximately £1 million. The rate change will also impact the amount of future cash tax payment to be made by the Company.

As at 31 March 2011, only the first reduction in the rate of corporation tax as announced in the budget of 20 June 2010 and 23 March 2011 has been substantively enacted, with the rate falling from 28% to 26% from 1 April 2011. The Treasury have confirmed that the staggered reduction will be enacted in each period rather than in a single Finance Act (which would have given different implications for tax reporting purposes) and as such recognised deferred tax at 31 March 2011 should be provided at a rate of 26% where the asset is expected to reverse on or after 1 April 2011. This is in accordance with accounting standards.

The effect on the company of the proposed future changes to the UK tax system will be reflected in the company's financial statements in future years, as appropriate, once proposals have been substantially enacted.



## Notes to the financial statements (*continued*)

### 8 Trade and other receivables

	2011 £M	2010 £M
Company's fees and working capital recoverable from the NDA	284	254
	<u>284</u>	<u>254</u>

At 31 March 2011, the ageing analysis of the Company's fees and working capital recoverable from the NDA is as follows

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
	£M	£M	£M	£M	£M	£M	£M
2011	284	280	4	-	-	-	-
2010	254	250	1	1	2	-	-

For terms and conditions relating to related party receivables, refer to note 17. Fees and working capital recoverable from the NDA are non-interest bearing and are on terms set out in the M&O contract. There are no provisions for impairment of trade and other receivables at 31 March 2011 (31 March 2010: £nil). All trade and other receivables are denominated in Sterling.

### 9 Cash and cash equivalents

	2011 £M	2010 £M
Cash at bank and in hand	8	13
	<u>8</u>	<u>13</u>

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 2011 is £8 million (31 March 2010: £13 million). The Company only deposits cash surpluses with major banks of high quality credit standing.

The Company's working capital requirements are provided by its parent company, NMP, and the three shareholders of NMP (see note 18). Under the terms of the M&O contract, NMP is required to make available working capital facilities of £20 million to the Company. At 31 March 2011 the Company had undrawn working capital facilities of £20 million (2010: £20 million). These facilities are available for the duration of the M&O contract, which is until 31 March 2013, with options to extend.

## Notes to the financial statements (*continued*)

### 10 Trade and other payables

Current liabilities	2011	2010
	£M	£M
Trade payables	38	37
Amounts owed to Parent undertaking	3	3
Amounts owed to other related parties (see note 17)	17	12
Other taxes and social security costs	23	24
Accruals and deferred income (including employee creditors)	182	170
Other creditors	12	11
	<u>275</u>	<u>257</u>
<b>Non-current liabilities</b>		
Other creditors	5	14
	<u>5</u>	<u>14</u>

Other creditors include the NDA's beneficial interest in the deferred tax asset

Terms and conditions of the above financial liabilities

- 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,
- For terms and conditions relating to related parties, refer to Note 17,
- For explanations on the Company's credit risk management processes, refer to Note 20

### 11 Called up share capital

	2011	2010
	£M	£M
<b>Authorised</b>		
43,000,000 Ordinary shares of £1 each	43	43
<b>Allotted, called up and fully paid</b>		
1 Ordinary share of £1 each (2010 1)	-	-

On 6 April 2009 the Company reduced its issued share capital from 32,668,244 ordinary shares to 1 ordinary share of £1

## Notes to the financial statements (*continued*)

### 12 Profit and loss account

	2011 £M	2010 £M
Profit and loss account movements		
Surplus/(deficit) at 1 April	18	(21)
Capital reduction	-	33
Profit for the financial year	41	36
Dividends (note 13)	(34)	(30)
	<u>25</u>	<u>18</u>
At 31 March		

On 6 April 2009 the Company reduced its issued share capital from 32,668,244 ordinary shares to 1 ordinary share of £1

### 13 Dividends paid and proposed

	2011 £000	2010 £000
Declared and paid during the year		
Dividends on ordinary share		
Interim dividends for 2008/09	-	11,476
Final dividend for 2008/09	-	1,159
Interim dividends for 2009/10	16,400	17,400
Final dividend for 2009/10	1,506	-
Interim dividends for 2010/11	16,000	-
	<u>33,906</u>	<u>30,035</u>

### 14 Contingent liabilities

At 31 March 2011, 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 be recovered from the NDA under the M&O contracts.

## Notes to the financial statements (*continued*)

### 15 Obligations under leases

There are no capital commitments at the end of the financial year (2010 £nil)

#### *Operating lease agreements where the Company is lessee*

The Company has entered into commercial leases for certain properties and motor vehicles. The duration of leases for motor vehicles is 3 years. The leases for properties have durations of between 1 and 32 years. Only 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.

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

	2011 £000	2010 £000
Not later than one year	3,417	3,388
After one year but not more than five years	5,618	6,574
After five years	1,733	625
	<u>10,768</u>	<u>10,587</u>

Under the M&O contracts, operating lease rentals are reimbursed by the NDA.

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 M&O contract, 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 2011 is £1,366,000 (2010 £2,521,000).

## Notes to the financial statements (*continued*)

### 16 Pension schemes

#### *Schemes accounted for as defined contribution*

##### **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. 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 £92,793 (2010 £105,848).

The ESPS is a funded, defined benefit scheme. At 31 March 2011 the Company had 10 employees (2010 11) who were active members of the ESPS, which has approximately 3,500 active members. The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2010. The projected unit method was used. The results of the valuation were market value of scheme assets of £1,959M, which represented a 99% level of funding. As a result of the valuation, employer contributions will be unchanged at 21.4%.

The latest actuarial valuation has been updated by a qualified independent actuary to 31 March 2011 on a basis consistent with IAS 19. The results of this IAS 19 valuation are a total fair value of scheme assets of £2,092M (2010 £1,953M) and a surplus of £103M (2010 deficit £128M). There were outstanding employer contributions of £nil at 31 March 2011 (2010 £nil).

Detailed disclosures in relation to the ESPS are included in the Magnox North Limited statutory accounts for the year ended 31 March 2011, which can be obtained from the registered office, Berkeley Centre, Berkeley, Gloucestershire, GL13 9PB.

##### **Combined Pension Scheme (CPS)**

Following the transfer of ownership of the Company to NMP on 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 (2010 £1,850). There were outstanding employer contributions of £nil at 31 March 2011 (2010 £nil).

## Notes to the financial statements (*continued*)

### 16 Pension schemes (*continued*)

#### *Schemes accounted for as defined benefit*

The Company accounts for two pension schemes as final salary defined benefit pension schemes

##### **Group Pension Scheme (GPS)**

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 20% in the year ended 31 March 2011 (2010: 20%).

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 assets and liabilities at 31 March 2011 and 31 March 2010 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 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. The NDA has the role of principal employer in respect of the GPS.

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2010. The projected unit method was used. The results of the valuation were market value of scheme assets of £338M, which represented a 116% level of funding. As a result of the valuation, the employer contribution rate will remain at 20%. An IAS 19 actuarial valuation for the Sellafield section was carried out at 31 March 2011 by a qualified independent actuary.

There were outstanding employer contributions of £511,429 at 31 March 2011 (2010: £547,357), which are directly recoverable from the NDA.

##### **Combined Nuclear Pension Plan (CNPP)**

Following the 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 will be met from the Combined Nuclear Pension Plan (CNPP).

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 2011 (2010: 23.2%). 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 assets and liabilities at 31 March 2011 and 31 March 2010 respectively.

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2010. The projected unit method was used. The results of the valuation were market value of scheme assets of £146M, which represented a 113% level of funding. As a result of the valuation, the employer contribution rate will remain at 22%. An IAS 19 actuarial valuation for the Sellafield section was carried out at 31 March 2011 by a qualified independent actuary. There were outstanding employer contributions of £nil at 31 March 2011 (2010: £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 2011 the Company had 652 employees (2010: 492) 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 £1,678,000 (2010: £872,000).

## Notes to the financial statements (continued)

### 16 Pension schemes (continued)

The following tables summarises 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

<b>Net benefit expense, 2010</b>			
	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
<i>Recognised in Income Statement within Site Licence Company costs under management</i>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current service cost	6,752	49,848	56,600
Interest cost on scheme liabilities	15,753	3,675	19,428
Expected return on scheme assets	(14,772)	(4,788)	(19,560)
Past service cost	181	-	181
Curtailments	-	1,485	1,485
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net benefit expense</b>	<b>7,914</b>	<b>50,220</b>	<b>58,134</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<i>Recognised in Statement of comprehensive income</i>			
Net actuarial gain/(loss) recognised in year	18,457	(27,179)	(8,722)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net benefit expense, 2011</b>			
	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
<i>Recognised in Income Statement within Site Licence Company costs under management</i>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current service cost	8,630	84,330	92,960
Interest cost on scheme liabilities	18,000	10,355	28,355
Expected return on scheme assets	(21,815)	(12,289)	(34,104)
Past service cost	-	-	-
Curtailments	733	111	844
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net benefit expense</b>	<b>5,548</b>	<b>82,507</b>	<b>88,055</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<i>Recognised in Statement of comprehensive income</i>			
Net actuarial gain recognised in year	2,116	21,621	23,737
	<u>          </u>	<u>          </u>	<u>          </u>

Notes to the financial statements (*continued*)

16 Pension schemes (*continued*)

<b>Benefit asset, 2010</b>	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Defined benefit obligation	(313,109)	(139,592)	(452,701)
Fair value of plan assets	338,944	146,078	485,022
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Benefit asset</b>	<b>25,835</b>	<b>6,486</b>	<b>32,321</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Benefit asset, 2011</b>	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Defined benefit obligation	(334,756)	(232,133)	(566,889)
Fair value of plan assets	364,770	248,529	613,299
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Benefit asset</b>	<b>30,014</b>	<b>16,396</b>	<b>46,410</b>
	<u>          </u>	<u>          </u>	<u>          </u>



## Notes to the financial statements (*continued*)

### 16 Pension schemes (*continued*)

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

	GPS	CNPP	Total
	£000	£000	£000
Defined benefit obligation at 1 April 2009	232,653	23,842	256,495
Interest cost	15,753	3,675	19,428
Current service cost	6,752	49,848	56,600
Benefits paid	(4,864)	(878)	(5,742)
Actuarial (gains) and losses on obligation	45,415	44,707	90,122
Past service cost	181	-	181
Employee contributions	1,781	16,913	18,694
Curtailments	-	1,485	1,485
Business combinations	15,438	-	15,438
<b>Defined benefit obligation at 31 March 2010</b>	<b>313,109</b>	<b>139,592</b>	<b>452,701</b>
Interest cost	18,000	10,355	28,355
Current service cost	8,630	84,330	92,960
Benefits paid	(6,109)	(1,889)	(7,998)
Actuarial (gain)/losses	(718)	(17,474)	(18,192)
Past service cost	-	-	-
Employee contributions	1,840	17,108	18,948
Curtailments	733	111	844
Business combinations	(729)	-	(729)
<b>Defined benefit obligation at 31 March 2011</b>	<b>334,756</b>	<b>232,133</b>	<b>566,889</b>

## Notes to the financial statements (continued)

### 16 Pension schemes (continued)

Changes in the fair value of plan assets are as follows

	GPS	CNPP	Total
	£000	£000	£000
Fair value of plan assets at 1 April 2009	237,686	32,255	269,941
Expected return on plan assets	14,772	4,788	19,560
Employer contributions	7,858	75,472	83,330
Benefits paid	(4,864)	(878)	(5,742)
Actuarial gains	63,872	17,528	81,400
Contributions by employees	1,781	16,913	18,694
Business combinations	17,839	-	17,839
<b>Fair value of plan assets at 31 March 2010</b>	<b>338,944</b>	<b>146,078</b>	<b>485,022</b>
Expected return on plan assets	21,815	12,289	34,104
Employer contributions	7,563	70,796	78,359
Benefits paid	(6,109)	(1,889)	(7,998)
Actuarial gains	1,398	4,147	5,545
Contributions by employees	1,840	17,108	18,948
Business combinations	(681)	-	(681)
<b>Fair value of plan assets at 31 March 2011</b>	<b>364,770</b>	<b>248,529</b>	<b>613,299</b>

During the year ended 31 March 2010 the Project Services Limited, and British Nuclear Fuels Limited and British Nuclear Group Limited sections of the GPS were transferred into the SLC section. The effect of the transfer is shown in the above tables as 'business combination' entries. On 1 April 2010, Springfield Fuels members were transferred from the SLC section to the WEC/UAM section of the GPS.

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.

Mercer is the actuary of the GPS, and Deloitte Total Reward and Benefits Limited is the CNPP actuary.

## Notes to the financial statements (*continued*)

### 16 Pension schemes (*continued*)

At 31 March 2011 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

Group Pension Scheme	2011	2010
Equities	54%	54%
Bonds	19%	19%
Gilts	27%	27%
<b>Combined Nuclear Pension Plan</b>		
Equities	60%	60%
Bonds & Gilts	30%	30%
Properties and other	10%	10%

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	GPS	CNPP	CNPP
<i>Main assumptions:</i>	2011	2010	2011	2010
	%	%	%	%
Future salary increases	4.9	4.6	4.9	4.1
Future pension increases	3.4	3.6	3.4	3.6
Discount rate	5.5	5.7	5.5	5.5
Expected rates of return on scheme assets				
Equities	7.3	7.6	7.3	7.4
Bonds	5.5	5.7	5.5	-
Gilts	4.4	4.6	4.4	4.8
Properties	-	-	6.8	6.4
Other (including Cash)	2.0	-	2.0	2.0
Inflation assumption	3.4	3.6	3.4	3.6
Post-retirement mortality (in years)				
Current pensioners at 65 - male	22.6	21.8	22.9	21.0
Current pensioners at 65 - female	24.3	24.2	25.2	23.3
Future pensioners at 65 - male	25.4	23.6	24.3	22.2
Future pensioners at 65 - female	26.2	26.1	26.7	24.3

## Notes to the financial statements (continued)

### 16 Pension schemes (continued)

The UK discount rate is based on published indices for 15 year AA bonds. The expected rates of return on equities add a premium of between 2% and 4% to longer term government bond rates in each jurisdiction. The expected rate of return on bonds is a weighted average reflecting the mix of government, index-linked and corporate bonds held by the pension funds. Property returns are based on published indices and reflect longer term performance. 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 the GPS are based on S1NA light year of birth tables (plus 1 year age rating for males) (2010 S1NA light year of birth tables (plus 1 year age rating for males)). As at 31 March 2011, mortality rates for the CNPP are based on SAPS CMI projection (1% long term rate, k=90%) mortality tables (2010 PCMA/PCFA00 mc (Year of birth)). For both schemes, mortality assumptions have been adjusted to reflect recent experience in the schemes, and projected improvements in life expectancy assumed to continue until 2020 with minimum improvement thereafter.

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 2025.

A one percentage point change in the assumed discount rate would have the following effects

Group Pension Scheme	Increase	Decrease
	£000	£000
<b>2011</b>		
Effect on the aggregate current service cost and interest cost	(3,028)	3,234
Effect on the defined benefit obligation	(65,502)	75,330
<b>2010</b>		
Effect on the aggregate current service cost and interest cost	(2,434)	2,800
Effect on the defined benefit obligation	(62,622)	75,146

Combined Nuclear Pension Plan	Increase	Decrease
	£000	£000
<b>2011</b>		
Effect on the aggregate current service cost and interest cost	(22,517)	30,336
Effect on the defined benefit obligation	(56,331)	74,381
<b>2010</b>		
Effect on the aggregate current service cost and interest cost	(14,438)	18,691
Effect on the defined benefit obligation	(31,633)	40,901

The most recently completed actuarial valuation of the GPS scheme was carried out as at 31 March 2010. Following the valuation, the Company's ordinary contribution rate will remain at 20% of pensionable salaries. The next valuation is due to be completed as at 31 March 2013.

## Notes to the financial statements (continued)

### 16 Pension schemes (continued)

During the year ended 31 March 2011, the Company's employer contribution rate for the CNPP scheme was 22% of pensionable salaries (2010 23.2%)

The most recently completed actuarial valuation of the CNPP scheme was carried out as at 31 March 2010. Following the valuation, the Company's ordinary contribution rate will remain at 22% of pensionable salaries. The next valuation is due to be completed as at 31 March 2013.

The Company will monitor funding levels on an annual basis for both the GPS and CNPP.

Employer contributions in the year ended 31 March 2012 are expected to be £7,500,000 (2011 £7,000,000) in respect of the GPS scheme and £71,000,000 (2011 £70,000,000) 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.

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

Amounts for the current and previous four periods are as follows

Group Pension Scheme	2011	2010	2009	2008	2007
	£M	£M	£M	£M	£M
Defined benefit obligation	(335)	(313)	(233)	(249)	(243)
Plan assets	365	339	238	261	218
	=====	=====	=====	=====	=====
Surplus/(deficit)	30	26	5	12	(25)
	=====	=====	=====	=====	=====

Combined Nuclear Pension Plan	2011	2010	2009	2008	2007
	£M	£M	£M	£M	£M
Defined benefit obligation	(232)	(140)	(24)	-	-
Plan assets	248	146	32	-	-
	=====	=====	=====	=====	=====
Surplus/(deficit)	16	6	8	-	-
	=====	=====	=====	=====	=====

## Notes to the financial statements (continued)

### 16 Pension schemes (continued)

#### History of experience of gains and losses

Group Pension Scheme	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Experience gains/(losses) on scheme assets Amount	1,398	63,872	(45,326)	(9,427)	-
Experience gains/(losses) on scheme liabilities Amount	19,467	-	-	58	-

Combined Nuclear Pension Plan	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Experience gains/(losses) on scheme assets Amount	4,147	17,528	(949)	-	-
Experience gains/(losses) on scheme liabilities Amount	(2,210)	2,395	-	-	-

### 17 Related party disclosures

During the year the Company incurred costs of £9,068,000 from its parent company in respect of the cost of directors and senior managers seconded from NMP to the Company (2010 £8,463,000) The amount owed to NMP at 31 March 2011 was £3,281,000 (2010 £2,662,000)

There were no other transactions with NMP except for dividends

URS International Holdings (UK) Limited, AMEC Nuclear Holdings Limited and Areva-NC, and other entities within their groups, are considered to be related parties of the Company During the year ended 31 March 2011 the Company entered into transactions in the ordinary course of business with these related parties resulting in purchases of £72,241,000 (2010 £44,182,000) At 31 March 2011 the Company owed £17,429,000 (2010 £11,918,000) in respect of these transactions

Sales and purchases between related parties are made on arms length terms Outstanding balances with entities are unsecured, interest free and the standard payment terms of 30 days net monthly apply During the year ended 31 March 2011 the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2010 £nil)

NDA is also considered to be a related party of the Company During the year the Company earned fees of £58 million on M&O contracts with the NDA (2010 £47 million) and incurred costs of £1,532 million (2010 £1,426 million) These costs were reimbursed by the NDA under the terms of the M&O contracts At 31 March 2011 the Company had debtors of £284 million with the NDA in respect of fees and working capital recoverable under the M&O contracts (2010 £254 million)

## Notes to the financial statements (*continued*)

### 17 Related party disclosures (*continued*)

#### Compensation of key management of the Company

Under the terms of IAS 24 'Related Party disclosures', the key management personnel are those persons who have the authority and responsibility for 'planning, directing and controlling the activities of the entity'. The directors consider that the key management personnel of the Company are the directors and other senior managers seconded from NMP and its shareholders. The costs associated with the key management personnel are set out in the table below, and where appropriate include an uplift to cover detached duties in the UK, tax equalisation and exchange rate fluctuations.

NMP secondees	Year ended 31 March 2011	Year ended 31 March 2010
	£000	£000
Short-term employee benefits	9,127	8,463
Post-employment pension and medical benefits	0	0
	<b>9,127</b>	<b>8,463</b>

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

On 24 November 2008, 100% of the shares of the Company were transferred to 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 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, NMP is considered to exert significant influence over the financial and operating policies of Sellafield Limited. The management team of Sellafield Limited retains "controlling mind" responsibilities for safety, security and environmental issues related to the nuclear licensed sites operated by the company. Under the terms of the contract between the Company and the NDA, the NDA has certain rights of approval over the financial and operating policies of Sellafield Limited.

### 19 Post Balance Sheet Events

An interim dividend of £6 million was declared by the Board on 19 May 2011 and paid to the shareholder on 23 May 2011.

## Notes to the financial statements (*continued*)

### 20 Derivatives and other financial instruments

As explained in note 2 3m, the Company has used derivatives and other financial instruments in managing the risk associated with its business. 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 following numerical analysis gives an indication of the significance of these instruments to the Company.

#### Fair value of derivatives and other financial instruments

Set out below are the fair values of the Company's derivatives and other financial instruments (excluding short-term debtors and creditors). Fair values have been based on published market prices (for listed instruments) or estimates made from discounted cash flow analysis (for unlisted instruments).

#### Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 quoted (unadjusted) prices in active markets for identical assets and liabilities,

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2011 £M	Fair values 2010 £M
<b>Assets measured at fair value</b>		
Financial assets at fair value through the income statement		
Foreign exchange forward contracts - Level 2	6	15
	<u>6</u>	<u>15</u>
	2011 £M	Fair values 2010 £M
<b>Liabilities measured at fair value</b>		
Financial assets at fair value through the income statement		
Foreign exchange forward contracts - Level 2	-	-
	<u>-</u>	<u>-</u>

#### Working capital

Under the industry model, the Company does not have major working capital requirements because the vast majority of expenditure at the UK sites where the Company is the M&O contractor is funded by the NDA under defined contract terms. The Company's working capital requirements are provided by its parent company, NMP, and the shareholders of NMP (see note 18), through an approved working capital facility of £20 million. The facility entitles the Company to withdraw funds of up to £20 million to allow the Company to fulfil its obligations under the M&O contract. The Company made regular use of the facility during the financial year, however at 31 March 2011 and 31 March 2010, the Company had repaid all funds drawn-down from the facility and had a £nil balance owing to NMP.

#### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury function in accordance with Company policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counter-party.