

**Sellafield Limited**

**Directors' report and financial statements**

**(Registered number 1002607)**

**31 March 2012**

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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  
Rear-Admiral T C Chittenden  
Mr N W R Smith

**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 2012

### Results and dividends

The profit before taxation was £51 million (2011 profit £50 million). In 2012 the Company earned fees totalling £59 million under the Management & Operations (M&O) contract with the Nuclear Decommissioning Authority (NDA) (2011 £58 million). This represented 80% of the available fee pool as a result of the Company's performance against the NDA's performance-based incentives (PBI's) and efficiency targets (2011: 80%).

The profit for the year, after taxation, amounted to £42 million (2011 profit £41 million)

Dividends totalling £24,820,000 have been paid during the current financial year in relation to the year ending 31 March 2011 as follows:

Date declared	Amounts, £	Date paid to shareholder
19 May 2011	6,000,000 (interim)	23 May 2011
4 August 2011	8,000,000 (interim)	8 August 2011
7 September 2011	10,820,000 (final)	8 September 2011

Interim dividends totalling £19,500,000 have been paid during the current financial year in relation to the year ending 31 March 2012 as follows:

Date declared	Amounts, £	Date paid to shareholder
7 September 2011	2,500,000	8 September 2011
22 September 2011	3,000,000	23 September 2011
8 December 2011	7,000,000	12 December 2011
9 February 2012	5,000,000	13 February 2012
15 March 2012	2,000,000	19 March 2012

A further interim dividend of £5 million was declared on 17 May 2012 for the year ended 31 March 2012 and paid to the shareholder on 21 May 2012

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

The principal role of the Company is to operate nuclear sites under the site licence and operation contract 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) contract 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 contract.

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, £75 million (2011 £78 million), relate to the Company and are directly recoverable from the NDA, as explained in accounting policy note 2.2f.

### 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% (2011 94%) 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

Mr G D Beveridge

Mr D Cooper

Ms K McNeel

Mr P Foster

Mr D L Becker

Lord Clark of Windermere

Sir Paul Lever (resigned 30 March 2012)

Rear Admiral T C Chittenden

Mr N W R Smith (appointed 15 March 2012)

### **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 (2011 £nil). Donations to UK charities amounted to £7.5 million (2011 £7.3 million), which includes £6.6 million (2011 £6.5 million) to support West Cumbrian economic regeneration initiatives. Payments of £3.0 million have been made under contract from the NDA (2011 £2.9 million), while the remaining payments of £4.5 million (2011 £4.4 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 2.2m and note 21, 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 almost all expenditure is 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 contract. The Company's working capital requirements are provided by its parent company, Nuclear Management Partners Limited (NMP), and the shareholders of NMP (see note 19).

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 £5 million was declared by the Board on 17 May 2012, and paid to the shareholder on 21 May 2012.

### **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 2012  
**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 2012 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 21. 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 2012 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.

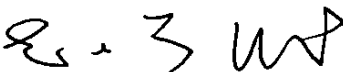
### **Opinion on other matter prescribed by the Companies Act 2006**

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



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

18/6/2012

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 2012

	Notes	2012 £M	2011 £M
Gross revenue including fees and Site Licence Company costs under management		1,621	1,590
Less Site Licence Company costs under management excluding fees	4	(1,562)	(1,532)
<b>Revenue</b>	<b>4</b>	<b>59</b>	<b>58</b>
Operating costs and expenses	4	(8)	(8)
<b>Operating profit from continuing operations</b>		<b>51</b>	<b>50</b>
<b>Profit on continuing activities before taxation</b>		<b>51</b>	<b>50</b>
Tax expense	7	(9)	(9)
<b>Profit for the year</b>	<b>13</b>	<b>42</b>	<b>41</b>
<b>Profit attributable to:</b>			
<b>Equity holders of the company</b>	<b>13</b>	<b>42</b>	<b>41</b>

Continuing operations in 2012 and 2011 include the fees earned from the NDA on the work undertaken by the Company.

All of the Company's operations in both 2012 and 2011 are continuing



## Statement of comprehensive income

For the 12 months ended 31 March 2012

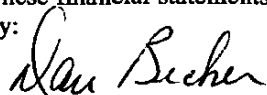
	Notes	2012 £M	2011 £M
<b>Profit for the year</b>		<b>42</b>	<b>41</b>
<b>Other comprehensive income:</b>			
Actuarial (loss)/gain recognised on GPS defined benefit pension plan	17	(24)	2
Actuarial loss/(gain) not recognised on GPS due to IFRIC 14	17	24	(2)
Actuarial (loss)/gain recognised on CNPP defined benefit pension plan	17	(34)	22
Actuarial loss/(gain) not recognised on CNPP due to IFRIC 14	17	16	(22)
Actuarial loss on CNPP to be funded by the NDA	17	18	-
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>42</b>	<b>41</b>
<b>Total comprehensive income attributable to:</b>			
<b>Equity holders of the company</b>		<b>42</b>	<b>41</b>

## Statement of financial position

At 31 March 2012

	Notes	31 March 2012	31 March 2011
<b>Assets</b>		<b>£M</b>	<b>£M</b>
<b>Non-current assets</b>			
Deferred tax assets	7	4	13
NDA receivable in respect of pension liability	17	20	-
Other debtors	8	4	-
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>28</b>	<b>13</b>
<b>Current assets</b>			
Trade and other receivables	9	284	284
Cash and cash equivalents	10	7	8
		<hr/>	<hr/>
		<b>291</b>	<b>292</b>
		<hr/>	<hr/>
<b>Total assets</b>		<b>319</b>	<b>305</b>
<b>Current liabilities</b>			
Trade and other payables	11	(274)	(275)
<b>Non-current liabilities</b>			
Other non-current financial liabilities	11	(2)	(5)
Pension liability	17	(20)	-
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>(296)</b>	<b>(280)</b>
		<hr/>	<hr/>
<b>Net assets</b>		<b>23</b>	<b>25</b>
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Equity share capital	12	-	-
Retained earnings	13	23	25
		<hr/>	<hr/>
<b>Total equity</b>		<b>23</b>	<b>25</b>
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 14 June 2012 and were signed on its behalf by:

  
 Dan Becker, Director

14.6.12

Registered Company Number 1002607

**Statement of changes in equity**  
*for the year ended 31 March 2012*

	<b>Share capital £M</b>	<b>Retained earnings £M</b>	<b>Total equity £M</b>
Shareholders' funds at 1 April 2011	-	25	25
Total comprehensive income for the year	-	42	42
Dividends (note 14)	-	(44)	(44)
Changes in equity for year ended 31 March 2012	-	(2)	(2)
<b>Shareholders' funds at 31 March 2012</b>	<b>-</b>	<b>23</b>	<b>23</b>

## Statement of cash flows

*for the year ended 31 March 2012*

	<b>2012 £M</b>	<b>2011 £M</b>
<b>Operating activities</b>		
Profit before tax on continuing activities	<b>51</b>	50
Non-cash adjustment to reconcile profit before tax to net cash flows		
Taxation credit due to NDA	<b>3</b>	3
Working capital adjustments		
Increase in trade and other receivables and prepayments	-	(30)
Increase in other debtors	<b>(4)</b>	-
Increase in trade and other payables	<b>5</b>	17
Cash payments to NDA in respect of utilisation of tax losses carried forward	<b>(12)</b>	(11)
<b>Net cash flows from operating activities</b>	<b>43</b>	29
<b>Financing activities</b>		
Dividends paid to equity holders	<b>(44)</b>	(34)
Net decrease in cash and cash equivalents	<b>(1)</b>	(5)
Cash and cash equivalents at 1 April	<b>8</b>	13
<b>Net cash at 31 March</b>	<b>7</b>	8

## Notes to the financial statements

### 1 Corporate information

The financial statements of the Company for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the directors on 14 June 2012. 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 the site licence and operation contract with the NDA.

### 2.1 Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including international Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Committee (IFRIC) and applied in accordance with the Companies Act 2006. Practice is continuing to evolve on the application and interpretation of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB), and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC. The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£M) except where otherwise indicated.

### 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 M&O contract 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*)

### 2.2 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 practice 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 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 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.

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

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

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

The NDA is the principal employer of both the GPS and CNPP pension plans. 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.

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*)

### 2.2 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*)

### 2.3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards and interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company

- IAS 24 Related Party Disclosures (Revised)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The principal effects of these changes are as follows:

#### ***IAS 24 Related Party Disclosures (Revised)***

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead alternative disclosures will be included. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

#### ***IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)***

The amendment to IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset permitting an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

#### ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments***

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is immediately recognised in the income statement. The adoption of this amendment did not have any impact on the financial position or performance of the Company as the Company has no such arrangements.

#### ***New standards and interpretations not yet applied:***

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. Where applicable, the Company intends to adopt these standards when they become effective.

#### ***IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income(OCI)***

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to the income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

#### ***IAS 12 Income Taxes – Recovery of Underlying Assets***

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

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

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

#### ***IAS 19 Employee Benefits (Amendment)***

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### ***IAS 27 Separate Financial Statements (as revised in 2011)***

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### ***IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)***

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### ***IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements***

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

#### ***IFRS 9 Financial Instruments: Classification and Measurement***

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected during 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### ***IFRS 10 Consolidated Financial Statements***

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### ***IFRS 11 Joint Arrangements***

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### ***IFRS 12 Disclosure of Involvement with Other Entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

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

#### ***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the Company's financial statements in the period of initial application.

### **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.

#### ***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 2009 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.

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

Management estimates are required to determine the net fees earned on the M&O contract between the Company and the NDA, in particular the fees earned based on the Company's performance against the NDA's performance based incentives (PBI's) and efficiency targets.

#### ***Site Licence Company (SLC) costs under management***

The SLC costs under management, which are recoverable from the NDA under the M&O contract, include management estimates for any known risks such as sub-contractor and supplier claims.

#### ***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 2012 is £4 million (2011: £13 million). The Company has no unrecognised tax losses at 31 March 2012 (2011: £nil).

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

### 3 Significant accounting judgments, estimates and assumptions (*continued*)

#### *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, net operating costs and expenses

During the years ended 31 March 2012 and 2011 the Company managed sites funded by the NDA as a Site Licence Company. Revenue represents the fees that are earned by the Company under the M&O contract with the NDA. During the year the Company earned fees of £59 million on the M&O contract with the NDA (2011: £58 million) and incurred costs of £1,562 million (2011: £1,532 million).

	Year ended 31 March 2012 £M	Year ended 31 March 2011 £M
<b>Other operating costs</b>		
Disallowable costs	5	5
Taxation credit due to NDA	3	3
<b>Operating costs and expenses (excluding exceptional items)</b>	<b>8</b>	<b>8</b>

#### **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 £4.5 million (2011: £4.4 million).

#### **Geographical Segment Analysis**

In both 2012 and 2011, all revenue, other operating costs and income respectively relates to the operation of the M&O contract in the UK.

#### **Research and development expenditure**

All research and development costs, £75 million (2011: £78 million) are included within Site Licence Company costs under management and relate to the Company and are directly recoverable from the NDA.

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

### 4 Revenue, net operating costs and expenses (*continued*)

#### Auditors' remuneration

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Audit	98	100
Other fees to auditors		
Taxation services	94	88
Other services - fees receivable by the auditors and their associates	4	-
	<u>196</u>	<u>188</u>

Under the M&O contract, the above fees have been reimbursed by the NDA

### 5 Remuneration of directors

	Charged in year ended 31 March 2012 £000	Charged in year ended 31 March 2011 £000	Total £000
Directors' emoluments in respect of 2011-12 (including payments to NMP for directors' services)	4,652	-	4,652
Directors' emoluments in respect of 2010-11 and previous periods (including payments to NMP for directors' services)	532	4,082	4,614
<b>Total directors' remuneration</b>	<u>5,184</u>	<u>4,082</u>	

Messrs Wright, Beveridge, Cooper, Foster, Becker and Ms McNeel 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 19), 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 2011/12 totalled £5,049,000 (2010/11: £3,959,000). 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. The charge from NMP for 2011/12 includes taxes, tax equalisation costs and other costs of £532,000 in respect of 2010/11 and previous periods (2010/11: £nil).

After taking account of the costs of £532,000 charged in 2011/12 that relate to 2010/11 and previous periods, directors' emoluments in respect of 2011/12 are £4,652,000 (2010/11: £4,614,000).

Under the M&O contract 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 2011/12 the highest paid director was seconded to the Company from NMP as discussed above. The Company paid £1,439,000 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 (2010/11: £1,120,000). The charge from NMP for the highest paid director for 2011/12 includes taxes, tax equalisation and other costs of £197,000 in respect of 2010/11 and previous years (2010/11: £nil).

In 2011/12 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 17 (2010/11: nil).

Total directors' remuneration in the table above also includes fees paid to non-executive directors.

## 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 2012 Number	Year ended 31 March 2011 Number
Average number of employees	<b>9,318</b>	9,653

The aggregate employee benefits expense of these persons was as follows

	Year ended 31 March 2012 £M	Year ended 31 March 2011 £M
Wages and salaries	<b>430</b>	430
Social security costs	<b>40</b>	38
Pension costs	<b>81</b>	82
	<b>551</b>	550

Pension costs disclosed above include IAS 19 current and past service costs (note 17) 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 contract 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 2012 and 2011 are

#### Income statement

	Year Ended 31 March 2012 £M	Year Ended 31 March 2011 £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	8
Adjustments in respect of deferred income tax of previous year	1	1
<b>Income tax expense reported in the Income Statement</b>	<b>9</b>	<b>9</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 2012 and 2011 is as follows.

	Year Ended 31 March 2012 £M	Year Ended 31 March 2011 £M
Profit from continuing operations before taxation	51	50
Accounting profit multiplied by the UK rate of corporation tax of 26% (2011 28%)	13	14
<i>Effects of</i>		
Permanent differences	(4)	(6)
Adjustments relating to deferred tax rate change	-	1
<b>Total income tax charge</b>	<b>9</b>	<b>9</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	
	2012 £M	2011 £M	2012 £M	2011 £M
Corporation tax losses carried forward for offset against future taxable income	4	13	9	9
Deferred tax expense			9	9
Deferred tax asset	4	13		

#### Reconciliation of deferred tax asset

	2012 £M	2011 £M
Opening balance at 1 April	13	22
Tax expense during the year recognised in income statement	(9)	(9)
Closing balance at 31 March	4	13

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

At 31 March 2012 the Company has gross Corporation tax losses carried forward of £15 million (2011: £48 million), which at a tax rate of 24% (2011: 26%) equates to a deferred tax asset of £4 million (2011: £13 million). The movements in the year give rise to a deferred tax charge in the Income Statement of £9 million (2011: £9 million).

The tax losses are available indefinitely for offset against future taxable profits of the Company. The Company anticipates these tax losses will be utilised during the forthcoming 24 months. The deferred tax asset of £4 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 2012 (2011: £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 were to the benefit of the NDA, and the NDA also benefits 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 (note 11).

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 (note 14)

In the budget of 21 March 2012, the Chancellor of the Exchequer announced certain tax changes which will have an effect on the Company's future tax position. The main rate of corporation tax reduced from 26% to 24% from 1 April 2012 and is then set to reduce to 23% from 1 April 2013 and 22% from 1 April 2014.

As at 31 March 2012, only the reduction in the tax rate to 24% has been 'substantively enacted' and this has been reflected in the Company's financial statements as at 31 March 2012.

The effect of the reduction of the UK corporation tax rate to 23% on the Company's deferred tax asset, as at 31 March 2012, would be to reduce the recognised deferred tax asset by approximately £0.2 million.

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

### 8 Other debtors

	2012 £M	2011 £M
Other debtors	4	-
	<u>4</u>	<u>-</u>

The other debtors of £4 million (2011: £nil) represent costs that will be recognised in the income statement in future periods. It is anticipated that these costs will ultimately be recovered from the NDA under the M&O contract.

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

### 9 Trade and other receivables

	2012 £M	2011 £M
Company's fees and working capital recoverable from the NDA	284	284
	<u>284</u>	<u>284</u>

At 31 March 2012, 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
2012	284	284	-	-	-	-	-
2011	284	280	4	-	-	-	-

For terms and conditions relating to related party receivables, refer to note 18. 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 2012 (31 March 2011 £nil). All trade and other receivables are denominated in Sterling.

### 10 Cash and cash equivalents

	2012 £M	2011 £M
Cash at bank and in hand	7	8
	<u>7</u>	<u>8</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 2012 is £7 million (31 March 2011 £8 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 19). 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 2012 the Company had undrawn working capital facilities of £20 million (2011 £20 million). These facilities are available for the duration of the M&O contract, which is until 31 March 2014, with options to extend.

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

### 11 Trade and other payables

<b>Current liabilities</b>	<b>2012 £M</b>	<b>2011 £M</b>
Trade payables	48	38
Amounts owed to Parent undertaking	6	3
Amounts owed to other related parties (see note 18)	12	17
Other taxes and social security costs	25	23
Accruals and deferred income (including employee creditors)	177	182
Other creditors	6	12
	<b>274</b>	<b>275</b>
<b>Non-current liabilities</b>		
Other creditors	2	5
	<b>2</b>	<b>5</b>

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 18,
- For explanations on the Company's credit risk management processes, refer to Note 21.

### 12 Called up share capital

	<b>2012 £M</b>	<b>2011 £M</b>
<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 (2011: 1)	-	-

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

### 13 Profit and loss account

	2012 £M	2011 £M
Profit and loss account movements		
Surplus at 1 April	25	18
Total comprehensive income for the year	42	41
Dividends (note 14)	(44)	(34)
<b>Closing balance at 31 March</b>	<b>23</b>	<b>25</b>

### 14 Dividends paid and proposed

	2012 £000	2011 £000
Declared and paid during the year		
Dividends on ordinary share.		
Interim dividends for 2009/10	-	16,400
Final dividend for 2009/10	-	1,506
Interim dividends for 2010/11	14,000	16,000
Final dividend for 2010/11	10,820	-
Interim dividends for 2011/12	19,500	-
	<b>44,320</b>	<b>33,906</b>

### 15 Contingent liabilities

At 31 March 2012, 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 contract.

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

### 16 Obligations under leases

There are no capital commitments at the end of the financial year (2011: £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 of between 3 and 4 years. The leases for properties have durations of between 1 and 31 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:

	2012 £000	2011 £000
Not later than one year	3,354	3,417
After one year but not more than five years	4,091	5,618
After five years	1,478	1,733
	<hr/>	<hr/>
	8,923	10,768
	<hr/>	<hr/>

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

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

Following the renewal of a long-term agreement with a third party, the future minimum sub-lease payments expected to be received under non-cancellable sub-lease agreements as at 31 March 2012 is £25,333,000 (2011: £1,366,000).

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

### 17 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 £109,225 (2011: £92,793).

The ESPS is a funded, defined benefit scheme. At 31 March 2012 the Company had 10 employees (2011: 10) who were active members of the ESPS, which has approximately 3,000 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 2012 on a basis consistent with IAS 19. The results of this IAS 19 valuation are a total fair value of scheme assets of £2,318M (2011: £2,092M) and a surplus of £74M (2011: surplus £103M). There were outstanding employer contributions of £nil at 31 March 2012 (2011: £nil).

Detailed disclosures in relation to the ESPS are included in the Magnox Limited statutory accounts for the year ended 31 March 2012, 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 (2011: £nil). There were outstanding employer contributions of £nil at 31 March 2012 (2011: £nil).

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

### 17 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 2012 (2011: 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 2012 and 31 March 2011 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 remained at 20%. An IAS 19 actuarial valuation for the Sellafield section was carried out at 31 March 2012 by a qualified independent actuary.

There were outstanding employer contributions of £507,085 at 31 March 2012 (2011: £511,429), 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 2012 (2011: 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 assets and liabilities at 31 March 2012 and 31 March 2011 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 remained at 22%. An IAS 19 actuarial valuation for the Sellafield section was carried out at 31 March 2012 by a qualified independent actuary. There were outstanding employer contributions of £nil at 31 March 2012 (2011: £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 2012 the Company had 799 employees (2011: 652) 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 £2,176,176 (2011: £1,678,000).

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

### 17 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, 2012</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	9,642	75,940	85,582
Interest cost on scheme liabilities	18,619	15,177	33,796
Expected return on scheme assets	(22,575)	(18,788)	(41,363)
Past service cost	-	-	-
Curtailments	585	-	585
<b>Net benefit expense</b>	<b>6,271</b>	<b>72,329</b>	<b>78,600</b>
<i>Recognised in Statement of comprehensive income</i>			
<b>Net actuarial loss recognised in year</b>	<b>(24,541)</b>	<b>(33,595)</b>	<b>(58,136)</b>
<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
<b>Net benefit expense</b>	<b>5,548</b>	<b>82,507</b>	<b>88,055</b>
<i>Recognised in Statement of comprehensive income</i>			
<b>Net actuarial gain recognised in year</b>	<b>2,116</b>	<b>21,621</b>	<b>23,737</b>



Notes to the financial statements (*continued*)

17 Pension schemes (*continued*)

<b>Benefit asset/(liability), 2012</b>	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Defined benefit obligation	(380,993)	(369,200)	(750,193)
Fair value of plan assets	387,171	348,710	735,881
<b>Benefit asset/(liability)</b>	<b>6,178</b>	<b>(20,490)</b>	<b>(14,312)</b>
<b>Benefit liability recognised in statement of financial position</b>	<b>-</b>	<b>(20,490)</b>	<b>(20,490)</b>
<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
<b>Benefit asset</b>	<b>30,014</b>	<b>16,396</b>	<b>46,410</b>
<b>Benefit asset recognised in statement of financial position</b>	<b>-</b>	<b>-</b>	<b>-</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	CNPP	Total
	£000	£000	£000
Defined benefit obligation at 1 April 2010	313,109	139,592	452,701
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 gains	(718)	(17,474)	(18,192)
Past service cost	-	-	-
Employee contributions	1,840	17,108	18,948
Curtailments	733	111	844
Business combinations	(729)	-	(729)
Defined benefit obligation at 31 March 2011	334,756	232,133	566,889
Interest cost	18,619	15,177	33,796
Current service cost	9,642	75,940	85,582
Benefits paid	(6,221)	(2,803)	(9,024)
Actuarial losses	21,884	32,184	54,068
Past service cost	-	-	-
Employee contributions	1,728	16,569	18,297
Curtailments	585	-	585
Defined benefit obligation at 31 March 2012	380,993	369,200	750,193

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

### 17 Pension schemes (*continued*)

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

	<b>GPS</b>	<b>CNPP</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fair value of plan assets at 1 April 2010	338,944	146,078	485,022
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)
	<hr/>	<hr/>	<hr/>
<b>Fair value of plan assets at 31 March 2011</b>	<b>364,770</b>	<b>248,529</b>	<b>613,299</b>
Expected return on plan assets	22,575	18,788	41,363
Employer contributions	6,976	69,038	76,014
Benefits paid	(6,221)	(2,803)	(9,024)
Actuarial losses	(2,657)	(1,411)	(4,068)
Contributions by employees	1,728	16,569	18,297
	<hr/>	<hr/>	<hr/>
<b>Fair value of plan assets at 31 March 2012</b>	<b>387,171</b>	<b>348,710</b>	<b>735,881</b>
	<hr/>	<hr/>	<hr/>

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)

### 17 Pension schemes (continued)

At 31 March 2012 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	2012	2011
Equities & Diversified Growth Funds	58%	54%
Bonds & Gilts	33%	46%
Properties & Other	9%	-
<b>Combined Nuclear Pension Plan</b>		
Equities & Diversified Growth Funds	64%	60%
Bonds & Gilts	26%	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>	2012	2011	2012	2011
	%	%	%	%
Future salary increases	4.7	4.9	4.7	4.9
Future pension increases	3.2	3.4	3.2	3.4
Discount rate	5.0	5.5	5.0	5.5
Expected rates of return on scheme assets				
Equities	6.8	7.3	6.8	7.3
Bonds	4.9	5.5	4.9	5.5
Gilts	3.3	4.4	3.3	4.4
Properties	6.6	-	6.6	6.8
Diversified Growth	6.8	-	6.8	-
Other (including Cash)	2.0	2.0	2.0	2.0
Inflation assumption	3.2	3.4	3.2	3.4
Post-retirement mortality (in years)				
Current pensioners at 65 - male	22.4	22.6	22.8	22.9
Current pensioners at 65 - female	24.8	24.3	25.2	25.2
Future pensioners at 65 - male	24.6	25.4	24.3	24.3
Future pensioners at 65 - female	27.1	26.2	26.7	26.7

## Notes to the financial statements (continued)

### 17 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) (2011: S1NA light year of birth tables (plus 1 year age rating for males)). As at 31 March 2012, mortality rates for the CNPP are based on SAPS CMI11 projection (1% long term rate, k=90%) mortality tables (2011 SAPS CMI09 projection (1% long term rate, k=90%)). 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>2012</b>		
Effect on the aggregate current service cost and interest cost	(2,842)	2,988
Effect on the defined benefit obligation	(75,762)	87,324
<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

Combined Nuclear Pension Plan	Increase	Decrease
	£000	£000
<b>2012</b>		
Effect on the aggregate current service cost and interest cost	(19,477)	26,602
Effect on the defined benefit obligation	(89,593)	118,301
<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

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 remained at 20% of pensionable salaries. The next valuation is due to be completed as at 31 March 2013.

## Notes to the financial statements (continued)

### 17 Pension schemes (continued)

During the year ended 31 March 2012, the Company's employer contribution rate for the CNPP scheme was 22% of pensionable salaries (2011. 22%)

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 remained 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 2013 are expected to be £6,500,000 (2012 £7,500,000) in respect of the GPS scheme and £70,000,000 (2012 £71,000,000) 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.

The NDA is the principal employer of both the GPS and CNPP pension plans. 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.

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

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

Group Pension Scheme	2012	2011	2010	2009	2008
	£M	£M	£M	£M	£M
Defined benefit obligation	(381)	(335)	(313)	(233)	(249)
Plan assets	387	365	339	238	261
	=====	=====	=====	=====	=====
Surplus	6	30	26	5	12
	=====	=====	=====	=====	=====

Combined Nuclear Pension Plan	2012	2011	2010	2009	2008
	£M	£M	£M	£M	£M
Defined benefit obligation	(369)	(232)	(140)	(24)	-
Plan assets	349	248	146	32	-
	=====	=====	=====	=====	=====
(Deficit)/surplus	(20)	16	6	8	-
	=====	=====	=====	=====	=====

## Notes to the financial statements (continued)

### 17 Pension schemes (continued)

#### History of experience of gains and losses

Group Pension Scheme	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Experience (losses)/gains on scheme assets: Amount	(2,657)	1,398	63,872	(45,326)	(9,427)
Experience gains on scheme liabilities: Amount	-	19,467	-	-	58

Combined Nuclear Pension Plan	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Experience (losses)/gains on scheme assets: Amount	(1,434)	4,147	17,528	(949)	-
Experience gains/(losses) on scheme liabilities: Amount	88	(2,210)	2,395	-	-

### 18 Related party disclosures

During the year the Company incurred costs of £11,066,000 from its parent company in respect of the cost of directors and senior managers seconded from NMP to the Company (2011: £9,068,000). The amount owed to NMP at 31 March 2012 was £6,426,000 (2011: £3,281,000).

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 2012 the Company entered into transactions in the ordinary course of business with these related parties resulting in purchases of £54,409,000 (2011: £72,241,000). At 31 March 2012 the Company owed £11,899,000 (2011: £17,429,000) 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 2012 the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2011: £nil)

NDA is also considered to be a related party of the Company. During the year the Company earned fees of £59 million on the M&O contract with the NDA (2011: £58 million) and incurred costs of £1,562 million (2011: £1,532 million). These costs were reimbursed by the NDA under the terms of the M&O contract. At 31 March 2012 the Company had debtors of £284 million with the NDA in respect of fees and working capital recoverable under the M&O contract (2011: £284 million) and £20 million in respect of the pension deficit receivable (2011: £nil)

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

### 18 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	Charged in year ended 31 March 2012	Charged in year ended 31 March 2011	Total
	£000	£000	£000
Short-term employee benefits in respect of 2011-12	10,107	-	10,107
Short-term employee benefits in respect of 2010-11 and previous periods	1,000	9,127	10,127
<b>Total key management personnel costs</b>	<b>11,107</b>	<b>9,127</b>	

The key management personnel costs for the year ended 31 March 2012 include taxes, tax equalisation costs and other costs of £1,000,000 in respect of 2010/11 and previous periods (2011 nil)

After taking account of the costs of £1,000,000 charged in 2011/12 that relate to 2010/11 and previous periods, short term employee benefits in respect of 2011/12 are £10,107,000 (2010/11 £10,127,000)

The post employment pension and medical benefits costs for key management personnel for the year ended 31 March 2012 were £nil (2011 £nil)

### 19 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.

### 20 Post Balance Sheet Events

An interim dividend of £5 million was declared by the Board on 17 May 2012 and paid to the shareholder on 21 May 2012.



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

### 21 Derivatives and other financial instruments

As explained in note 2.2m, 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.

	2012 £M	Fair values 2011 £M
<b>Assets measured at fair value</b>		
Financial assets at fair value through the income statement		
Foreign exchange forward contracts - Level 2	-	6
	<hr/>	<hr/>
	2012 £M	Fair values 2011 £M
<b>Liabilities measured at fair value</b>		
Financial assets at fair value through the income statement		
Foreign exchange forward contracts - Level 2	-	-
	<hr/>	<hr/>

#### Working capital

Under the industry model, the Company does not have major working capital requirements because almost all expenditure is 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 19), 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 2012 and 31 March 2011, 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.