# Magnox Limited

Annual Report

## For the year ended 31 March 2017

Company Registration number:

2264251

THURSDAY
*A6LQ32JK*
A39 21/12/2017 #93
COMPANIES HOUSE

## Contents

## Directors and advisors

### Current directors

Anthony Wratten
Beverley Grey
Kenneth Douglas
Paul Thomas
Peter Knollmeyer
Peter Webster
Simon Bowen
Susan Jee

### Company secretary

Eleri Joyce

### Registered office

Oldbury Technical Centre
Oldbury Naite
Thornbury
South Gloucestershire
BS35 1RQ

### Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

# Strategic report for the year ended 31 March 2017

The Directors present their Strategic report on Magnox Limited ("the Company") for the year ended 31 March 2017.

## Principal activities

During the year the Company has operated under contract to the Nuclear Decommissioning Authority (NDA) providing services in relation to the defueling and decommissioning of non-generating sites. The Company operates under the Site Licence Company Agreement (SLCA) contract to the NDA and is a wholly owned subsidiary of the Cavendish Fluor Partnership Limited (CFP). The ultimate parent undertakings are Babcock International Group plc and Fluor Inc.

## Business review

The change in organisational structure, from a site focus to a programme delivery focus, was fully implemented from the start of the financial year. This revised structure, together with implementation of CFP delivery strategies, has supported strong progress on decommissioning activities throughout the year.

During the reporting year the Oldbury site was verified as being fuel free, following successful completion of its defueling operations. Significant progress was made in Fuel Element Debris (FED) waste processing at Bradwell, with the site closure (for the care and maintenance phase) now expected to be achieved in the second half of 2018, one year ahead of the agreed lifetime plan. Significant progress in FED waste processing was also made at Berkeley and Trawsfynydd, with commissioning of processing plants at those sites; whilst the process plant for processing intermediate level waste at Hunterston commenced retrievals as part of its commissioning phase. Equipment for the removal of pond wastes at Chapelcross was installed during the year, whilst progress on the clean-up of the Dungeness ponds benefited from deployment of specialist divers. At Harwell significant progress was made on decommissioning the liquid effluent treatment plant facility, whilst construction of the intermediate level waste store commenced. Strong progress was made on the SGHWR reactor at Winfrith, both in terms of the physical work required to access the reactor core, as well as the design works on the jacking system required to remove the reactor core. The high levels of asbestos found in facilities across the Magnox estate are a significant hazard, management of which has been a key focus throughout the year. Despite this effort, Magnox was served with an improvement notice by the Office of Nuclear Regulation at the Wylfa site in relation to the asbestos management arrangements around the site. Work is ongoing to rectify the arrangements outlined in the notice.

In March 2017, it was mutually agreed between the NDA and CFP to bring to an end the Magnox decommissioning contract at the end of August 2019. This followed negotiations to conclude the contract consolidation phase, where it became apparent that the work to be competed at the 12 Magnox sites was materially different in volume from that specified in the NDA's invitation to tender. This put the contract at risk of legal challenge. The NDA has been explicit that the decision was no reflection of the operational performance of CFP during the delivery of the SLCA contract, which has remained strong. The future contracting model beyond August 2019 is to be finalised by the NDA. However, whilst ownership of the Company may change, it is expected that Magnox Limited will endure as the site licence company for the 12 Magnox sites to continue delivery of the remaining decommissioning programme that is planned at the sites.

The Magnox Board together with its employees, trade unions, and contractors, continue to strive to deliver excellent customer service to the NDA whilst ensuring the highest standards of safety, security and environmental performance.

## Future developments

The Company continues to operate in line with the SLCA arrangements. Commercial arrangements to August 2019 following the mutual termination of the Magnox contract are yet to be finalised.

## Strategic report for the year ended 31 March 2017 (continued)

### Financial review

The Company's turnover for the year was £530,977k (£648,175k for the year ended 31 March 2016). Profit on ordinary activities before taxation was £28,481k (£18,270k). The Company's profit for the financial year was £21,899k (£15,204k). The increased profitability has been driven by increased confidence in the likely outturn profitability on the contract.

### Principal risks and uncertainties

Due to the manner in which the Company operates, substantially all risks and rewards from operating activities, except the fee income, are borne by the NDA. The Company's fee is earned by meeting delivery milestones and performance based incentives (PBIs) as defined and agreed with the NDA under the SLCA contract and its operating performance in comparison to the target cost.

The Company's operational risks primarily include environmental, health and safety, operational plant performance and IT/power failures. Environmental and social effects are always considered. Documented procedures and risk assessments exist to manage risks across the business, including those concerning health and safety. Disaster recovery procedures exist which would be implemented in the event of power and IT outages.

The costs incurred by the Company are reimbursed by the NDA and, therefore, the Company does not have significant exposure to price, credit, liquidity or cash flow risk albeit these will have an impact on the fee earned under the contract. Uncertainty about the future operating model for the company beyond August 2019 is not seen as a significant risk at this time.

### Environment, Health, Safety, Security and Quality (EHSS&Q)

*Overall Performance*

There has been a significant improvement in the Company's personal injury statistics over the past year and the overall EHSS&Q performance remains broadly comparable with other companies in the sector.

*Nuclear Safety*

Magnox have not had any significant nuclear safety incidents. The dose to workers from radiation remains at a low level and the nuclear safety metrics have shown good performance throughout the year. Defueling of the reactors at Wylfa is making satisfactory progress.

*Conventional Safety*

The Total Recordable Injury Rate (TRIR) has reduced to 0.32 (2016: 0.69) and Days Away Case Rate (DACR) stands at 0.19 (2016: 0.34). The focus of the Company's Safety Improvement Plan for 2016/17 was on safety leadership and safety culture and this contributed towards the continually improving industrial safety performance. Major asbestos clean-up projects have commenced at Dungeness, Hinkley and Wylfa and the management of asbestos will continue to be a priority for the Company in 2017/18 and beyond.

*Environmental Management*

The Company has not had any incidents that caused demonstrable environmental harm. Magnox has made good progress in reducing the stock of FED at Bradwell as the site continues to prepare to enter care and maintenance and the volume of legacy wastes held at other sites has continued to reduce.

*Health*

The level of sickness absence is stable and remains low compared to other companies in the sector.

*Security*

There have been no significant security incidents but in line with changing circumstances we have continued to take action to raise the profile of security across the Company.

*Quality*

Magnox has retained certifications with the ISO 9001, ISO 14001 and OSHA 18001 standards.

*Regulatory Interface*

The Company has maintained proactive engagement with our regulators across a wide range of issues.

## Modern Slavery and Human Trafficking Statement

Magnox is committed to integrity in all aspects of its business and operations and provides all its products and services in compliance with legal requirements, and to high standards of corporate responsibility.

The Company works with the supply chain to ensure operation from a shared set of values and develop business relationships based on honesty, fairness and mutual trust.

The Magnox Board recognises modern slavery, servitude, human trafficking and forced labour as both a crime and a violation of fundamental human rights. Magnox is committed to implementing and enforcing effective systems and controls to ensure that these practices are not taking place anywhere in our own business, or in our supply chain.

To this end, during the last financial year the Magnox Executive has:

- Prepared a Modern Slavery and Human Trafficking policy which has been adopted by the Magnox Board.
- Worked with our parent companies to ensure that we have benefitted from their experience in controlling this issue.
- Modified our standard contract conditions to help ensure that our supply chain is clear about our expectations in this area.
- Reviewed our recruitment and employment process to ensure that all staff have a right to work in the UK and are not being forced to work against their will.
- Maintained our whistleblowing policy and process that ensures that staff that have concerns are able to report those concerns without fear of reprisal.
- Ensured that our procurement staff are aware of the need to ensure that our supply chain meet our stringent requirements and employ similar controls and that they have:
    - Taken steps to eradicate modern slavery and human trafficking in their operations
    - Hold their own suppliers to account
    - Pay their employees and contractors at least the national living wage

Over the coming year the Company will measure the effectiveness of processes with the aim of ensuring that there are no substantiated reports of modern slavery or human trafficking in either our business, or the supply chain.

As with safety, good business practice is a fundamental requirement on all employees and suppliers.

Signed on behalf of the Board

K Douglas
Director

28th June 2017

## Directors' report for the year ended 31 March 2017

*The Directors present their report and the audited financial statements of Magnox Limited for the year ended 31 March 2017.*

### Going concern

Due to the manner in which Magnox Limited operates, with assurance provided by the obligations of the NDA under the SLCA contract, the Directors can be confident in the assessment of the Company as a going concern - in particular in the Company's ability to meet all its current liabilities. It should be noted that as a transferable entity, when ownership of the Company changes, it would continue to be the Site Licence Company managing the sites under contract to the NDA.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### Dividends

'A' share dividends of £13,574k (2016: £13,928k) were paid during the financial year.

'B' share dividends of £1,548k (2016: £0k) were made to the prior Parent Body Organisations following close out of the 2014/15 corporation tax position.

### Future developments

Information on future developments can be found in the Strategic report.

#### Political and charitable donations

During the year the Company made charitable donations of £720k (2016: £864k) to local charities and good causes serving the communities in which the Company operates. These were funded by the NDA. The Company made no contributions to political parties (2016: £nil).

### Financial risk management

Owing to the nature of its activities, the Company is not exposed to the same degree of financial risk faced by many other business entities. Financial instruments play a limited role in creating or changing risk and generally financial assets and liabilities are generated from day-to-day operational activities and not held to change the risks facing the Company in undertaking its activities. The Company has access to working capital funding from its immediate parent company to meet any temporary cash flow shortages.

### Corporate governance

The Directors are responsible for the Company's system of internal control and reviewing its effectiveness. The Directors confirm that they have reviewed the effectiveness of controls during the year. However, the system of control is designed to manage, rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

### 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. The Company's main payment terms are net monthly. Suppliers are made aware of the terms of payment and the terms are settled when agreeing the details of each transaction. The number of creditor days outstanding at 31 March 2017 was 21 days (2016: 19 days).

### Employees

The average number of people employed by the Company during the year was 2,574 (2016: 3,089). At 31 March 2017 the total number of people employed by the Company was 2,482 (2016: 2,829).

The Company continues to attach importance to the involvement of its employees in the Company's development and has continued to keep them informed of matters affecting them as employees and also on the performance of the Company.

The Company is committed to a policy of equal opportunities for all employees, ensuring 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 practicable, 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 employees become disabled, every effort is made to ensure their continued employment.

An increased focus on Equality, Diversity and Inclusion (EDI) is planned for 2017/18.

### Retirement benefits

Under the SLCA, the risks and rewards of pension fund performance rests with the NDA, rather than the Company. As a result, the Company accounts for the defined benefit section of both the Electricity Supply Pension Scheme (ESPS) and the Combined Nuclear Pension Plan (CNPP) as though they are defined contribution schemes.

### Directors

The Directors who served during the year, and the period up to signing the financial statements, were as follows:

| | |
|---|---|
| Anthony Wratten | |
| Beverley Grey | |
| Paul Thomas | |
| Kenneth Douglas | |
| Peter Knollmeyer | |
| Peter Webster | (appointed 1 July 2016) |
| Simon Bowen | |
| Stanley Gordelier | (resigned 30 June 2016) |
| Susan Jee | |

### Company secretary

Eleri Joyce

### Directors' and officers' liability insurance

The Company maintains directors' and officers' liability insurance covering 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.

### Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each of the above Directors:

- is not aware of any relevant audit information of which the Company's auditors are unaware; and
- has taken all the steps that ought to be taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

There is an elective regime in place which governs the appointment of the auditors. During 2016/17 PricewaterhouseCoopers LLP continued to provide audit services and will continue until further notice is given.

Signed on behalf of the Board,

K Douglas
Managing Director

28th June 2017

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 financial statements comply with the Companies Act 2006.

The Directors 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 auditors' report to the members of Magnox Limited

## Report on the financial statements

### Our opinion

In our opinion, Magnox Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 March 2017;
- the Profit and loss account and the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

## Independent auditors' report to the members of Magnox Limited (continued)

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 9, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

N A Campbell Lambert

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30th June 2017

## Profit and loss account

*for the year ended 31 March 2017*

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | **£'000** | £'000 |
| Revenue | | **530,977** | 648,175 |
| Cost of sales | | **(502,539)** | (629,872) |
| **Gross profit** | | **28,438** | 18,303 |
| Non SLCA trading | | **-** | (47) |
| **Operating profit** | 4 | **28,438** | 18,256 |
| Income from shares in group undertakings | | **-** | - |
| **Profit on ordinary activities before interest and taxation** | | **28,438** | 18,256 |
| Interest receivable and similar income | 5 | **43** | 14 |
| **Profit on ordinary activities before taxation** | | **28,481** | 18,270 |
| Tax on profit on ordinary activities | 8 | **(6,582)** | (3,066) |
| **Profit for the financial year** | | **21,899** | 15,204 |

## Statement of comprehensive income

*for the year ended 31 March 2017*

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | **£000** | £000 |
| **Profit and total comprehensive income for the financial year** | | **21,899** | 15,204 |

All amounts for the year ended 31 March 2017 and 31 March 2016 relate to continuing activities.

Revenue reduced in 2016/17 as a result of a reduction in the Annual Site Funding Limit (ASFL) agreed with the NDA. The change in funding was consistent with the profile in the decommissioning life time plans.

The notes on pages 15 to 25 are an integral part of these financial statements.

## Magnox Limited

## Balance sheet

*as at 31 March 2017*

| | Note | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Current assets** | | | |
| Debtors: | 9 | | |
| Amounts falling due within one year | | **123,657** | 176,255 |
| Amounts falling due after one year | | **10,239** | 1,592 |
| | | **133,896** | 177,847 |
| Cash at bank and in hand | | **8,142** | 11,772 |
| | | **142,038** | 189,619 |
| **Creditors:** amounts falling due within one year | 10 | **(108,673)** | (126,508) |
| **Total assets less current liabilities** | | **33,365** | 63,111 |
| **Provisions for liabilities and other charges** | 11 | **(21,717)** | (59,696) |
| **Net assets** | | **11,648** | 3,415 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **-** | - |
| Profit and loss account | | **11,648** | 3,415 |
| **Total shareholders' funds** | | **11,648** | 3,415 |

The notes on pages 15 to 25 are an integral part of these financial statements.

The financial statements on pages 12 to 25 were approved by the Board of Directors on 28th of June 2017 and were signed on its behalf by:

K Douglas
Managing Director

28th June 2017

## Statement of changes in equity
*for the year ended 31 March 2017*

| | Note | Called up share capital £'000 | Profit and loss account £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|
| **Balance at 1 April 2015** | | - | 2,232 | 2,232 |
| Profit for the financial year | | - | 15,204 | 15,204 |
| Other comprehensive income | | - | - | - |
| P&L from acquisition of RSRL | | - | 686 | 686 |
| A share dividends paid | | - | (13,928) | (13,928) |
| Reduction in tax charge from 14/15 | | - | (745) | (745) |
| Due to Cavendish Nuclear re 13/14 tax adjustments | | - | (34) | (34) |
| **Balance at 31 March 2016** | | **-** | **3,415** | **3,415** |
| Profit for the financial year | | **-** | **21,899** | **21,899** |
| Other comprehensive income | | **-** | **-** | **-** |
| A share dividends paid | 13 | - | **(13,574)** | **(13,574)** |
| B share dividend paid to Cavendish Nuclear 14/15 R&D | | **-** | **(92)** | **(92)** |
| **Balance at 31 March 2017** | | **-** | **11,648** | **11,648** |

Note: Cavendish Nuclear Limited and EnergySolutions (EU) Limited were the prior Parent Body Organisations for Research Sites Restoration Limited, and Magnox limited, respectively. Dividends were paid to them under the terms of the SLCA as 'B' share dividends. The final £92k of such dividends was paid to Cavendish Nuclear in 2016/17.

'A' share dividends are paid to the Cavendish Fluor Partnership, as the current PBO, under the terms of the SLCA.

## 1. Statement of Compliance

Magnox Limited ("the Company") is a limited company incorporated in England and Wales. The address of its registered office is Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RQ. This was changed on 21 September 2016.

The financial statements of Magnox Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

## 2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented

**Basis of preparation**

The financial statements are prepared in sterling and rounded to the nearest £'000.

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The risks and benefits associated with expenditure on intangible and tangible fixed assets by the Company lie with the NDA. In accordance with FRS 5, this expenditure is treated as revenue expenditure in these financial statements. The expenditure is capitalised in the NDA's financial statements.

The Company is a wholly owned subsidiary of Cavendish Fluor Partnership Limited (CFP) whose parent companies are Babcock International Group plc and Fluor Inc. It is included in the consolidated financial statements of CFP which are publicly available. Therefore, the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The Company has taken advantage of the disclosure exemption in FRS 102 from preparing a Cash Flow Statement.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

**Revenue Recognition**

Revenue is recognised as cost incurred plus margin calculated on a long term contract accounting basis. The margin percentage is calculated through an assessment of the likely outturn for phase 1 of the SLCA contract, taking account of anticipated shareline adjustments.

Shareline is the pain/gain mechanism in the Site Licence Company Agreement (SLCA) and applies to under/over spend against the agreed target cost.

It is recognised that certain items of expenditure which are not fully within the control of the Company might affect fee performance. These have been designated special items in the SLCA and are passed through to the customer and not recognised as revenue.

Any expected loss on the contract is recognised immediately in the profit and loss account.

**Interest Income**

This is interest received on the PBO fee account. Interest earned on the payments account is paid to the NDA.

**Taxation**

The taxation expense for the period comprises current and deferred tax recognised in the reporting period.

Current or deferred taxation assets and liabilities are not discounted.

a) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been exacted or substantively enacted by the period end.

b) Deferred Tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**Dividends**

Dividends are paid quarterly in line with the policy agreed with the NDA. All dividends are approved by the Board.

**Foreign currencies**

Transactions in foreign currencies are translated to the functional currency of the Company using the exchange rates at the date of the transactions.

**Pensions**

The Company provides pension arrangements for the benefit of the majority of its employees. The schemes are funded by contributions partly from the employees and partly from the Company. The primary schemes are:

| Pension scheme | Pension type |
|---|---|
| Electricity Supply Pension Scheme (ESPS) | Defined Benefit closed to new entrants 31 August 2007 |
| Combined Nuclear Pension Plan (CNPP) | Defined Benefit closed to new entrants 31 August 2007 |
| Combined Nuclear Pension Plan (CNPP) | Defined Contribution opened to new entrants 1 September 2007 onwards |

The Group Pension Scheme (GPS) has been removed as a separate scheme and amalgamated into the CNPP scheme. The individuals who were in the GPS have had their benefits ring-fenced so they are not penalised by moving to the CNPP scheme.

The schemes are administered by separate Trustee companies. For the defined benefit schemes independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules.

Under the SLCA between the NDA and the Company, in the normal course of activity, the Company bears no commercial risk for the performance of the defined benefit schemes with any surplus or deficit ultimately falling to the NDA. During the life of the SLCA any changes to employer contributions would be treated as Special Items and these changes would be reflected in an adjustment to the target cost. As a result, the Company does not believe the accounting treatment for a defined benefit scheme is appropriate for these schemes and is, therefore, accounting for the schemes as defined contribution schemes. The cost of the employer contributions charged to the profit and loss account is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The accounting treatment was implemented in the financial year to 31 March 2015.

**Operating leases**

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense over the term of the lease.

**Research expenditure**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss account when incurred.

***Termination benefits***

Termination benefits, including payment in lieu of notice and outplacement training costs, are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination costs are reimbursed through the contract by the NDA and are only recognised where agreement to incur the costs has been received from the NDA.

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand.

**Provisions**

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

## 3. Critical accounting judgements

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following estimates have had the most significant effect on amounts recognised in the financial statements.

The severance provision was built up on an individual basis, using an estimate of expected severance cost based on individuals' terms and conditions and employment details.

The calculation of operating profit (primarily management fee) was derived from a long term accounting assessment of the outturn expected from Phase 1 of the SLCA contract, taking into account negotiations with the NDA about the future contract model following the agreement to mutually terminate the contract.

## 4. Operating profit

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Management fees payable from the NDA | **26,557** | 16,216 |
| Non SLCA trading | **-** | (47) |
| R&D tax credit | **3,291** | 3,652 |
| 50% R&D tax benefit share payable to NDA | **(1,316)** | (1,461) |
| Disallowable costs | **(94)** | (104) |
| | **28,438** | 18,256 |

The increase in management fees payable from the NDA in 2016/17 was driven by increased margin recognition versus the prior years of the contract. This method of profit recognition remained a long term accounting assessment of the likely outturn for the SLCA contract, which took into account the now shortened duration of the contract.

The R&D tax credit for 2016/17 has been calculated based on estimated qualifying expenditure during the year, with the estimate built up on a project by project basis.

Operating profit has been arrived at after charging:

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Charitable donations | **720** | 864 |
| Audit fees payable to the Company's auditors | **70** | 66 |
| Taxation advisory services | **177** | 119 |
| Internal audit services | **183** | 131 |

## 5. Interest receivable and similar income

| | **2017** | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Interest receivable and similar income: | | |
| Bank interest | **43** | 14 |
| | **43** | 14 |

## 6. Employee information

| By Activity: | **2017 Numbers** | 2016 Numbers |
|---|---|---|
| Delivery | **1,362** | 1,712 |
| Specialist | **587** | 657 |
| Lead | **501** | 539 |
| Other | **124** | 181 |
| | **2,574** | 3,089 |

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Wages and salaries | **141,240** | 169,432 |
| Social security costs | **16,132** | 16,485 |
| Pension costs | **24,875** | 29,996 |
| Other costs | **2,156** | 70,636 |
| | **184,403** | 286,549 |

The decrease in other costs is mainly due to reduced severance costs versus the prior year.

The average number of employees during the year was 2,574 (2016: 3,089). The reduction in staff numbers is mainly due to redundancies arising from the re-organisation announced in 2015/16.

## 7. Directors' emoluments

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Aggregate emoluments | **126** | 127 |

Retirement benefits are accruing for nil (2016: nil) directors under a defined benefit scheme

| Aggregate emoluments for the highest paid director: | | |
|---|---|---|
| Non-executive emoluments | **25** | 25 |
| Chair of the Pension Trustees | **50** | 35 |

The directors are not in any of the pension schemes provided by Magnox Limited.

The emoluments detailed only include remuneration for those directors whose emoluments were borne through Magnox Limited.

The Chair of the Pension Trustee is also a Director. The emoluments include those for the trustee role which was only assumed part way through 2015/16.

# 8. Tax on profit on ordinary activities

## (a) Analysis of tax charge in year:

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Corporation tax | | |
| Current tax on income for the year | **6,582** | 3,066 |
| Tax on profit on ordinary activities | **6,582** | 3,066 |

## (b) Factors affecting tax charge for year

The tax assessed on the profit on ordinary activities for the year is the standard rate of Corporation tax in the UK of 20% (2016: 20%).

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| Profit on ordinary activities before taxation | **28,481** | 18,270 |
| Add: | | |
| Transfer pricing adjustment | **-** | - |
| Less: | | |
| Group relief | **-** | - |
| Total taxable profits | **28,481** | 18,270 |
| Tax on profits at 20% (2016: 20%) | **5,696** | 3,654 |
| Prior Year adjustment | **886** | (588) |
| Current tax charge for the year | **6,582** | 3,066 |

The R&D tax credit is presented per the Research and Development Expenditure Credit (RDEC) method for the current financial year, in line with the method used in the prior financial year.

| | 2017 | 2016 |
|---|---|---|
| | **£'000** | £'000 |
| R&D Tax Credit | **3,291** | 3,652 |
| 50% payable to NDA | **(1,316)** | (1,461) |
| | **1,975** | 2,191 |
| Tax payable on R&D tax credit (included in tax charge above). | **395** | 438 |

R&D Tax Credit for 2016/17 has been calculated based on an estimated qualifying expenditure during the year.

There is no unprovided deferred tax.

## (c) Factors affecting future tax charge

In the 2015 Budget, it was announced that the UK corporation tax rate will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be reduced to 18% from April 2020. Deferred tax will be calculated at the rate applicable in the year of reversal.

## 9. Debtors

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Tax debtor | | |
| Corporation tax | **(2,221)** | (3,575) |
| R&D | **3,291** | 7,439 |
| Net tax debtor | **1,070** | 3,864 |
| Working capital recoverable from the NDA: | | |
| Invoice and accruals | **100,975** | 95,667 |
| Severance (due within one year) | **9,781** | 70,892 |
| Management fee income | **9,673** | 4,944 |
| Deferred tax (short term timing differences – see note 12) | **1,681** | 809 |
| Other debtors | **477** | 79 |
| | **123,657** | 176,255 |

The corporation tax position includes the effect of the R&D credit due from HMRC.

The R&D value for 2016 figure includes the true up for 2015 and an estimate for 2016. The 2017 figure includes the true up for 2016 and an estimate for 2017.

The movement in the severance balance versus the prior year, reflects the conclusion of the re-organisation announced in 2015/16 during the year.

The increase in management fees payable from the NDA in 2016/17 was driven by increased margin recognition versus the prior years of the contract, as outlined in the critical accounting judgements.

**Amounts falling due after more than one year**

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Working capital recoverable from the NDA (Severance) | **10,239** | 1,592 |
| | **10,239** | 1,592 |

The balance relates to severance costs recoverable from the NDA. The corresponding creditor balance is included within Provisions for liabilities (see note 11).

## 10. Creditors: amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Trade creditors | **65,673** | 68,319 |
| Taxation and social security costs | **11,679** | 23,867 |
| Accruals and deferred income | **31,321** | 34,322 |
| | **108,673** | 126,508 |

The reduction in taxation and social security costs relates to VAT on the cost base invoice to the NDA. The March 2016 invoice was significantly higher (than March 2017) due to the level of severance provision in that month.

## 11. Provisions for liabilities and other charges

| | Other £'000 |
|---|---|
| At 1 April 2016 | 59,696 |
| Increase in the year | - |
| Release in the year | (1,947) |
| Unwinding of prior year discounting | 24 |
| Discounting for amounts more than one year | (269) |
| Paid in the year | (35,787) |
| **At 31 March 2017** | **21,717** |

The provision relates to voluntary severances, the majority of which will be paid in the next 24 months.

## 12. Deferred taxation

The major components of the deferred tax asset recorded are as follows:

| | **2017** | 2016 |
|---|---|---|
| | **£000** | £000 |
| Accelerated capital allowances | - | - |
| Other short term timing differences | 1,681 | 809 |
| **Total deferred tax** | **1,681** | **809** |

The movement on the deferred tax asset is as follows:

| | **£'000** |
|---|---|
| At 1 April 2016 | 809 |
| Release in 2016/17 | (809) |
| Timing differences in 2016/17 – relating to the 2015/16 tax computation | 1,681 |
| **At 31 March 2017** | **1,681** |

The deferred tax timing differences primarily relate to severance costs.

## 13. Dividends

'A' share dividends of £13,574,000 (£13,928,000 for year ended March 2016) were paid to CFP in the year ended 31 March 2017.

'B' share dividends were made to the prior Parent Body Organisations following close out of the 2014/15 corporation tax position (no 'B' share dividends were paid for year ended March 2016). A 'B' share dividend of £1,421,648.62 was paid to Energy Solutions (EU) Limited, and £126,000.24 to Cavendish Nuclear Limited. Such dividends were accounted for in 2015/16, except for an additional £92k identified as being due to Cavendish Nuclear. This is reflected in the statement of changes in equity.

## 14. Guarantees and financial commitments

a) Contingent liabilities

At the year end the Company had no contingent liabilities. (2016: £nil).

b) Operating lease commitments

At the year end the Company had no non-cancellable operating leases. (2016: £nil).

c) Capital commitments

At 31 March 2016 the Company had capital commitments of £nil (2016: £nil).

## 15. Retirements benefits

### (a) Defined benefit schemes:

**CNPP DB**

The Combined Nuclear Pension Plan Defined Benefit (CNPP DB) Scheme is a multi–employer scheme which provides defined benefits to its members.

The CNPP DB is a defined benefit plan but is accounted for as a defined contribution scheme. This change in accounting policy was implemented in 2014/2015 and continues under the same principles in 2016/17.

The employer contribution rate to the CNPP for the Company during the reporting year was set at 23.5% of pensionable earnings. Following the triennial valuation, the employer contribution rate is not expected to increase until the financial year commencing 1st April 2018.

The scheme was closed to new entrants on 31 August 2007. New recruits to the Company after 1 September 2007 are eligible to join the defined contribution structure of the CNPP.

**ESPS DB**

The Electricity Supply Pension Scheme (ESPS) is a funded scheme. The SLC Section within the Magnox Group Section of this scheme covers Magnox Limited employees. The ESPS DB is a defined benefit plan but is accounted for as a defined contribution scheme. This change in accounting policy was implemented in 2014/2015 and continues under the same principles in 2016/17.

The employer contribution rate to the ESPS for the Company during the reporting year was set at 24.0% of pensionable earnings.

The scheme was closed to new entrants on 31 August 2007. New recruits to the Company after 1 September 2007 are eligible to join the defined contribution structure of the CNPP.

The triannual valuation of this scheme has taken place and there will be an increase in the employers' contributions from April 2017 from 24.0% to 33.6%.

### (b) Defined contribution schemes:

**CNPP DC**

The CNPP Defined Contribution (DC) Scheme is administered on behalf of the Company by Aon Hewitt. The funds are managed by BlackRock Investment Management (UK) Ltd. Employees are automatically enrolled in the DC Plan unless they choose to opt out. If they wish to remain a member they choose the level of contribution they wish to make, from a minimum of 3% of salary. The Company contribution is on a sliding scale, dependent upon the employee contribution rate, from a minimum of 8% up to a maximum of 13.5%.

## 16. Called up share capital

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| Allotted and fully paid: | | |
| 2 ordinary shares of £1 each fully paid (2016: 2) | **2** | 2 |
| | **2** | 2 |

## 17. Related party transactions

As the Company is a wholly owned subsidiary of Cavendish Fluor Partnership Limited, the Company has taken advantage of the exemption contained in FRS 102 and has, therefore, not disclosed transactions or balances with entities which form part of the group.

## 18. Ultimate parent undertaking

The immediate parent undertaking is Cavendish Fluor Partnership Limited.

The ultimate parents are Babcock International Group plc (a company incorporated in England) and Fluor Inc. (a company incorporated in the United States of America).

These financial statements will be consolidated as part of Cavendish Fluor Partnership Limited.