Sellafield Ltd

Annual Report and Financial Statements 2019/2020

Company information

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Directors

Mrs L I Baldry
(Chair)
Mr M J Chown
(Chief Executive Officer)
Mr J M Seddon
(Finance Director)
Mr A D Cumming
(Shareholder Representative Director)
Mr N W R Smith
(Non-Executive Director)
Dr D Byrne
(Non-Executive Director)
Mr J Baxter
(Non-Executive Director)
Dr A F J Choho
(Non-Executive Director)
Mr D G Vineall
(appointed 1 July 2019,
Shareholder Representative Director)
Mrs C L Hall
(appointed 9 October 2019,
Non-Executive Director)
Mr J P Simcock
(appointed 9 October 2019,
Non-Executive Director)

Secretary

Mr A M Carr

Auditors

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Strategic report

The directors present their Strategic report for the year ended 31 March 2020.

Principal activities and future developments

These financial statements contain certain forward-looking statements with respect to the financial condition and business of Sellafield Limited (the Company). Statements or forecasts relating to events in the future necessarily involve risk and uncertainty and are made by the Company in good faith based on the information available at the date of signing this report.

The Company undertakes no obligation to update these forward-looking statements. Nothing in these financial statements should be construed as a profit forecast nor should past performances be relied upon as a guide to future performance.

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

The Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA. In accordance with the Energy Act 2004, NDA has tasked the Company with carrying out activities set out in the NDA Designation of Sellafield.

The Company's primary site is the Sellafield nuclear site in West Cumbria. The Company also has an engineering, design and functional support capability at its Risley office, near Warrington, and several offices in the West Cumbrian community. In the year ended 31 March 2020, all costs incurred by the Company in the performance of the Services Agreement are directly recoverable from the NDA (2019: same).

In 2019/20, the directors' aim was to operate the nuclear sites safely and securely, and to meet the targets and milestones set by the NDA. This continues to be the directors' aim in 2020/21. The section on page 13 provides more information on the impact of the Covid-19 pandemic on activities and future developments during 2020/21.

Review of business

During the year the Company incurred operating costs of £2,070 million (2019: £2,035 million). This expenditure is recoverable from the NDA under the Services Agreement and represents the operational costs of the Sellafield site including expenditure on:

- carrying out the environmental clean-up of the UK's most complex and hazardous nuclear site, Sellafield;
- decommissioning nuclear facilities;
- receiving, reprocessing and storing used nuclear fuel;
- managing the UK's special nuclear materials;
- delivering capital projects to support the mission, and asset care and maintenance – some of the facilities at Sellafield are more than 70 years old so significant investment is required to ensure that they remain operational and in a safe state prior to decommissioning; and
- the safe treatment of low level, intermediate level and high-level waste.

During 2019/20 the Company's performance has been good in relation to meeting the targets and milestones set by the NDA, demonstrating progress in all areas of its accountability, including high hazard reduction, nuclear operations and safe secure stewardship. Progress this year includes:

- installing retrievals equipment on the Magnox Swarf Storage Silos;
- completing the transfer of plutonium from Dounreay to Sellafield;
- continuing to dismantle the ventilation stack damaged by the Windscale Fire in 1957, and the First-Generation Reprocessing plant stack;
- completing the defuelling of the Calder Hall reactors;
- continuing to retrieve fuel, waste and sludge from the First Generation Magnox Storage Pond and Pile Fuel Storage Pond; and
- starting the construction of the SPRS Retreatment Plant.

Safety performance

Doing this work safely, whilst maintaining the security of the site and nuclear assets, is our priority. In 2019/20 our safety performance continued to be mixed. We again had no significant nuclear site incident reports, but we did have a number of lost time accidents and environmental conditions that impacted on our overall safety and environmental performance. This resulted in some of the annual metrics performing less favourably compared against the Company's targets. The Company is continuing to focus on improvements in error prevention and creating the right mind-set and environmental awareness.

The Company is committed to safety, and keeping its workforce, supply chain partners, local communities, facilities and environment safe is its overriding priority.

The Company measures its safety performance against industry best practice at a national and international level, aided through its membership of the World Association of Nuclear Operators, and through various Key Performance Indicators (KPIs).

The overall Environment and Safety themes and KPIs for 2019/20 have shown a slight upturn when compared with previous years. The majority of events are associated with routine work rather than large high-risk tasks. In the year ended 31 March 2020 the Company's Lost Time Accidents Rolling 12-month rate was 0.17 (2019: 0.20) and the Total Recordable Injuries Rolling 12-month rate was 0.30 (2019: 0.33).

During 2019/20 the Company was assigned with one Level 2 International Nuclear Events Scale (INES) event (2018/19: nil) and four Level 1 INES events (2018/19: one Level 1 event). A greater understanding of risks at the workforce level is the key driver for delivering improvements.

Strategic report
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Safety performance improvement

The Company has a Safety Performance Improvement (PI) process, which is managed within the Nuclear Safety unit under Site Management. The arrangements demonstrate how Sellafield Limited complies with the requirements of Site Licence Condition 7, and all other statutory legislative reporting requirements covering environmental, industrial, nuclear, material safeguards, radiological, security or transport issues. The integrated approach to PI enables Sellafield Limited to effectively identify gaps, analyse for (and prioritise) resolution and close the gaps. This approach aligns the behaviours inherent to a learning organisation and a healthy nuclear safety culture.

The PI programme comprises three work streams:

- *Corrective action programme* – risk-based approach to progressing condition reports, for the reporting, screening (sentencing), investigating and correcting of issues.
- *Trending programme* – routine trending and analysis of condition report data in order to identify underlying weaknesses and prioritise opportunities to close gaps, make improvements, and establish sustainable solutions for the business.
- *Operating experience (OE) programme* – OE and learning from internal and external issues is shared and used to prevent or minimise similar causes occurring and avoid making similar mistakes.

Key learning opportunities are escalated to the Sellafield Limited Executive, to ensure significant issues impacting safety, reliability and performance across the site are addressed. This involves periodic reviews for the Nuclear Independent Oversight and Nuclear Safety organisations to identify enterprise issues – including significant events, adverse trends, long-standing cross-functional issues, to enable informed executive decisions on prioritised actions and improvement activities required to address key learning opportunities and focus the staff on resolving long-standing enterprise issues.

On 1 October 2019, everyone working on the Sellafield mission – on the site and in our offices – including our own staff and supply chain colleagues, stopped their work to talk about the importance of safety at Sellafield. The 'safety pause' gave everybody an opportunity to reflect on their safety performance and improvements that teams could make.

Changing the way that we work with our supply chain

The Company's work at Sellafield can only be achieved through strong partnership with the supply chain, and the Company relies on its supply chain partners, from the experience and capability of global companies to the innovation and agility of small to medium sized enterprises. Our long-term alliance frameworks are delivering great benefit in decommissioning, design and infrastructure.

The Sellafield Limited Supply Chain Strategy 2019/20, which is published on the Company's website, sets out how the Company works with the supply chain to deliver the Sellafield mission. The Company's Supply Chain Directorate has a team dedicated to interacting, communicating and building relationships with the supply chain.

The Company does not operate a preferred supplier list. Contract opportunities are awarded through open competition in line with the general European Treaty principles of non-discrimination, equal treatment and transparency in order to ensure we provide value for money to government. Opportunities are also available for businesses to work indirectly as a subcontractor through our Tier 2 partners.

In May 2019 the Company extended this approach to project management through a twenty-year contractual arrangement – Programme and Project Partners, which will help the Company deliver mission critical capital projects at Sellafield, with the Company acting both as intelligent client and delivery partner.

We have also introduced LINC, an initiative that simplifies the procurement process and allows small to medium sized enterprises to collaborate and bid directly for defined packages of work.

Sustainability

The Company publishes an annual Sustainability report on its website. The report explains the Company's approach to sustainability, which starts with the goal to do our work at Sellafield safely and to keep the site and its nuclear materials secure – we continue to put safety, security and the environment first. The report explains that the Company measures value in the clean-up of the Sellafield site and delivering that mission in such a way that minimises environmental detriment and maximises value from the resources we have.

One of the ways that we are making Sellafield more safe and secure is by removing nuclear risks and hazards, including those posed by our oldest waste storage facilities. Beyond the site fence, our commitment to sustainability stretches into the communities in which we operate, and the Sustainability report includes a summary of our social impact objectives and the strategic investments that the Company, NDA, local authorities and others have made to help tackle the root cause of some of the issues that people in our communities are facing.

This Sustainability report covers our safety and social impact performance. The report also highlights our intent to take an holistic approach, looking at how we can deliver our work at Sellafield in a sustainable way, but also our ambition to be part of a sustainable local economy and a sustainable nuclear industry, including working with the supply chain and local stakeholders to help create diversification in our local economies and helping to create thriving communities are at the heart of our social impact strategy.

Financial performance

During the year the Company incurred operating costs of £2,070 million (2019: £2,035 million). Under the Services Agreement between the Company and NDA, the Company has to control its expenditure within agreed funding limits and operate the Sellafield site safely and securely whilst meeting targets and milestones agreed with its shareholder, NDA. Management and employee incentivisation schemes are linked to their achievement. In the year the Company spent 98% of the funds available (2019: 100%).

Strategic report
continued

The Company's challenge is to deliver more hazard and risk reduction by becoming more efficient. This means reducing the cost of work at Sellafield, diverting money from overheads to front line decommissioning, retraining and reskilling people into priority work, and working differently with the supply chain.

Under the Services Agreement, revenue represents the reimbursement of operating costs incurred under the Services Agreement in accordance with the principal activity of the Company.

In 2019/20 the operating profit before taxation, depreciation, interest and research and development tax credits was £6 million (2019: £nil).

The result for the year, after interest and taxation, amounted to £nil (2019: £nil).

During the year the Company employed, including Executive Directors, an average of 10,932 employees (2019: 11,029) at a total cost of £778 million (2019: £751 million) after taxes and pension costs. The Company's work on the Sellafield site also supports a significant number of supply chain and agency workers. At 31 March 2020, there were 465 agency staff (31 March 2019: 513).

The Company is tackling unique challenges, in particular, in respect of the safe clean up and decommissioning of the Legacy Ponds and Silos buildings. In the year the Company invested £79 million on research and development (R&D) (2019: £77 million), with the majority of the R&D directly supporting the clean-up of the legacy facilities, reprocessing and fuel fabrication plants, waste management facilities and the infrastructure of the site. R&D costs are directly recoverable from the NDA under the Services Agreement.

In 2019/20 the operating costs of £2,070 million (2019: £2,035 million) includes external spend on donations in relation to socio-economic expenditure of £9.4 million (2019: £9.9 million), of which £9.4 million was paid in 2019/20 (2019: £9.7 million) and £nil is committed and will be paid during 2020/21 (2019: £0.2 million). In 2019/20 under the terms of the Services Agreement this socio-economic expenditure was recoverable from NDA. Under the Services Agreement, the Company agrees in advance the level of socio-economic expenditure with its shareholder, NDA, and all such expenditure is recoverable by the Company.

As a result of the adoption of International Financial Reporting Standard 16 Leases (IFRS 16), operating costs now exclude cash payments in respect of lease agreements. In 2019/20 those payments amounted to a reduction in operating costs of £6 million. Under IFRS 16, those amounts are replaced in the Income statement with depreciation and financing costs totalling £7 million.

The Company adopted IFRS 16 using the modified retrospective method of transition, with the date of initial application of 1 April 2019. As a result of this, prior year comparatives were not restated (note 2.1).

At 31 March 2020, the Company's Statement of financial position includes £520 million (2019: £759 million) in respect of the net deficit on the Sellafield Limited related defined benefit sections of the Combined Nuclear Pension Plan (CNPP). The net deficit has been calculated by the scheme actuary, who has performed actuarial valuations at 31 March 2020 in accordance with International Accounting Standard 19 (R) (IAS 19 (R)). Further disclosures are available in note 16. The NDA is the principal employer of the CNPP and as a result the Statement of financial position includes an NDA debtor for the full value of the net deficit.

As a further result of the adoption of IFRS 16 Leases (note 15), the Statement of financial position includes right of use assets of £38 million and non-current lease liabilities of £33 million. Lease liabilities due within one year of £6 million are included within current liabilities (note 12). As noted earlier, prior year comparatives were not restated due to the method of transition.

In addition, the Statement of financial position includes Trade and other receivables (note 10) of £381 million at 31 March 2020 (2019: £349 million) which includes monies due from NDA under the terms of the Services Agreement and monies due from HM Revenue & Customs in respect of R&D tax credits. At 31 March 2020 the Company had current liabilities (note 12) of £391 million (2019: £350 million) including lease liabilities, accruals, trade creditors, employee creditors, VAT and payroll taxes, which principally relate to the costs being managed under the Services Agreement and the operation of the Sellafield site.

Section 172 Statement

The Company is licensed under the Nuclear Installations Act 1965 (as amended) and is the holder of the Nuclear Site Licence for the Sellafield site (incorporating the former Windscale site) i.e. the Site Licence Company (SLC). It is the legal entity responsible for this site, which is owned by the NDA. As the SLC, the Company through its Board, is directly accountable to the relevant Regulators for compliance with the conditions of the Nuclear Site Licence, environmental permits for Radioactive Waste Management and with all other applicable Law and Regulatory Requirements, including compliance with the Companies Act 2006.

The Company is responsible for ensuring that the activities on its sites are carried out in the long-term interests of the Company, its employees, the local community and business partners, and for doing so safely, securely and with due regard to the environment.

The Board of directors of Sellafield Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its Shareholder (having regard to the stakeholders and the matters set out in s172(1) a-f of the Act) in the decisions taken in the year ended 31 March 2020.

Our obligations

In addition to fulfilling the standard requirements of a limited company in the United Kingdom, Sellafield Limited is required to fulfil a range of obligations to several government bodies. These exist because of the Company's status as an 'arm's length' body of the UK government, requirements of the nuclear sector (domestic and international), the legacy of past missions on the Sellafield site, and the scale and scope of our current missions.

Our key obligations can be categorised as 'direct', where the Company has a formal relationship with another government body (and is held to account on specific criteria), and broader relationships, such as those where obligations are held by the NDA (as the sole Shareholder), which require significant input and support from Sellafield Limited to discharge them.

Strategic report
continued

'Direct' obligations

NDA: The Company is a wholly owned subsidiary of the NDA and exists, at their discretion, to realise NDA's strategic objectives for the Sellafield site. We are held to account by the NDA for safe and secure management of the Sellafield site, demonstrable progress, and return on investment. Consequently, we work closely with the NDA on matters pertaining to strategy and planning, major investments, commercial contracts, and performance management. We are also obliged to fulfil NDA requests for independent reporting for assurance purposes. A full specification of the Company's obligations to the NDA is set out in the Services Agreement between the NDA and Sellafield Limited, and Inter-NDA Estate Contracts.

Employees: The Company employs more than 10,000 employees. Its primary obligation to those employees is to help them understand the Sellafield mission, our corporate strategy, and their role in delivering that mission safely. As discussed further in the Directors' report on page 15, the Company regularly engages with our employees directly and through their union representatives. Our measures for performance in this area includes regular employee surveys.

Environment Agency (EA): The Company's primary obligation to the EA is to meet environmental regulation for Sellafield Limited, which is primarily focused on site discharges and radioactive waste disposals.

Office for Nuclear Regulation (ONR): The Company's obligations to ONR are focused on ensuring Sellafield Limited can operate as a nuclear Site Licence Company (as described in the ONR's Licence Condition Handbook). ONR has a broad remit, within the framework of the Nuclear Site Licence Conditions (NSLCs), to regulate what is required of Sellafield Limited to preserve safety and security.

Department for Business, Energy and Industrial Strategy (BEIS): Although Sellafield Limited's relationship with BEIS is formally through the NDA, with regards to communications and public affairs events (that are likely to elicit media interest), we are required to provide input and information directly to BEIS (informing the NDA in parallel).

Euratom: The Company has a close working relationship with Euratom and cooperates fully with their safeguards, inspection, and reporting requirements (as set out in the Euratom Treaty and Commission Regulation (Euratom) 302/2005).

International Atomic Energy Association (IAEA): Certain areas of the Sellafield site are also subject to inspections from IAEA and the Company cooperates with these as required.

Planning Authorities: The Company's obligations to our local planning authorities is to bring planning applications forward in line with the requirements of planning regulations.

Local Authorities: The Company has working relationships with the local authorities close to our sites. These relationships are a key component in ensuring our social licence to operate. They also facilitate stakeholder input into our work and our understanding of community needs that help shape our social impact programme.

Finally, the Company holds a number of standards certifications (e.g., ISO 9001) and works with various assurance and certification organisations to maintain these.

Broader relationships

The Company also has key relationships with a broader range of government bodies, primarily associated with governance of business management, and other stakeholders.

Her Majesty's Treasury (HMT): Sellafield Limited is funded by the state, and consequently liaises with HMT with respect to forecast spending requirements (including the liabilities related to the Sellafield site). While this activity is led by the NDA, Sellafield Limited is closely involved.

UK Government Investments (UKGI): As the NDA is responsible for discharging significant amounts of public funds to private sector organisations, it receives broad advisory support, challenge, and validation from UKGI. In particular, UKGI provides advice and challenge with respect to formal governance arrangements. Sellafield Limited provides support in any way required by UKGI to fulfil its governance mandate for arm's-length government bodies.

Independent Projects Authority (IPA): The NDA also has responsibility for the delivery of major projects at Sellafield Limited, which are subject to oversight by the IPA. The NDA is therefore required to engage in project assurance processes with the IPA and can call upon Sellafield Limited resources and expertise to support review processes and action recommendations.

World Association of Nuclear Operators (WANO): Sellafield Limited is a member of WANO, an industry body dedicated to improving the safety and reliability of nuclear operations. The Company participates in peer reviews and other programmes to enhance nuclear safety both at Sellafield Limited and in other nuclear facilities worldwide.

Local Community: Sellafield Limited has a broad range of obligations to the local community, partly stemming from our role as one of the region's largest employers. Through a series of public meetings, we routinely report on work under way at Sellafield and invite questions and dialogue from stakeholders and members of the public.

Supply Chain: Sellafield Limited spends in excess of £1 billion per annum with its suppliers and sections within the Strategic report 'Changing the way that we work with our supply chain' and 'Sustainability' discuss how the Company engages with its suppliers.

Governance

As discussed in more detail in the corporate governance section on page 09, the Company has corporate governance arrangements in place which are aligned with the 2018 UK Corporate Governance Code and fulfils the obligations set by our stakeholders. The structure enables direction and control of Sellafield Limited in a legally compliant, effective, and efficient manner. The key mechanisms which comprise Sellafield Limited's corporate governance are discussed below.

Sellafield Board

The Sellafield Limited Board sets the strategic framework and direction for Sellafield Limited's operations, in alignment with the NDA's strategy for the Sellafield site. Amongst other obligations, it is responsible for agreeing plans by which company performance is measured, holding the Executive team

Strategic report
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to account, setting corporate policies and overarching risk management and controls. The Board delegates day-to-day management of the organisation, and select authorities, to the Sellafield Limited Executive. The Board operates through several sub-committees. The Chairman of the Board is appointed by the NDA.

Sellafield Executive

The Chief Executive Officer (CEO) is accountable to the Sellafield Limited Board for all aspects of operating the Sellafield site and delivers this through delegation of accountabilities to the Executive team. The Executive team is collectively accountable for managing Sellafield Limited, which includes (but is not limited to):

- Maximising value for the Enterprise in a sustainable manner by making trade-offs around resource allocation to balance near-term and longer-term delivery objectives;
- Taking and overseeing the implementation of medium to long-term strategic decisions for the business;
- Providing assurance to the Sellafield Limited Board that the business is being managed in accordance with the Board's requirements and delegations;
- Fostering a positive environmental protection, safety, and security culture across the Enterprise; and
- Creating alignment with our owner on business priorities.

There are several Executive committees which enable the Executive to carry out their activities as a collective and which form part of the Company's governance structure.

Stakeholder engagement activities are then executed through our Corporate Affairs, External Affairs and Human Resources teams. Specific programmes of work are presented to the Executive and Board in line with the Company's governance structure.

Enterprise definition of Value

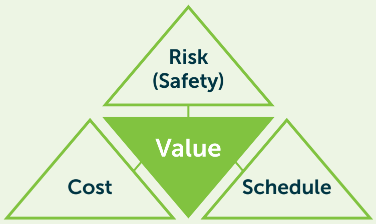
There are three components of 'Value' for Sellafield Limited: 'Strategic', 'Operational', and 'Right to Operate'. All three components are essential for Sellafield Limited, and all staff must be cognisant of them.

Strategic Value

Increasing return on taxpayer investment beyond immediate operational delivery.

Operational Value

...can only be added in the Value Streams, but is enabled by all departments. Each Value Stream focuses on a different balance of **Risk**, **Cost** and **Schedule**.



Operational Value is

Retrievals	Reducing high hazard and risk as soon as reasonably practicable.
Special Nuclear Materials	Retiring risk through managing special nuclear materials.
Spent Fuel Management	Reducing risk through the processing, storage and disposal of spent fuel materials and associated wastes.
Remediation	Cleaning up the Sellafield site and reducing the nuclear liability at best life-cycle cost.

Right to Operate

Fulfilling our statutory and regulatory obligations for the Enterprise to exist and operate as a Site Licence Company.

Strategic report
continued

Behavioural
Sellafield Limited's behavioural frameworks set out the expectations for how our staff and partners should act when working on behalf of the Enterprise. They are fully aligned with UK and international standards, including WANO and IAEA requirements.

The Company has identified a set of Values that characterise the organisation we want to be, and serve as overarching expectations for our staff and people we work with:

- *Safety and security* – safety and security are at the heart of all we do;
- *Ambition* – we work collaboratively and consider how we can improve at every opportunity;
- *Integrity* – we do the right things and are open and honest;
- *Inclusion* – we respect and include the individual and create an environment in which people grow, develop, and perform their best.

These Values are important to us, they factor into decisions around compensation, promotion, and disciplinary action. We will not work with external entities that would prevent us from manifesting these Values.

There are a range of other frameworks and mechanisms we use to communicate and reinforce desired behaviours. These include, for example, the Code of Responsible Business Conduct, which states the minimum standards we expect, and the Nuclear Professionalism and Expectations booklet which sets out behaviours we expect from our staff and contractors regarding nuclear safety and are aligned to WANO's standards

Planning and resources
This section provides a brief overview of how we Plan within our business, i.e. how we set direction and priorities, and also how Resources are allocated, i.e. how we acquire, deploy, and manage capital, capability and assets.

Plan
How we set direction and priorities

Sellafield Limited develops plans and engages and aligns with the NDA on the direction the business is taking, pace of delivery of the core mission, and resource requirements. Plans are developed across the short- (i.e. 1-3 years), medium- (i.e. 10-20 years) and long- (i.e. 100+ years) term.

Corporate strategy
The Corporate Strategy is a high-level document that sets out the corporate ambition, operational targets, and key change activities Sellafield Limited is pursuing over the medium-term. It identifies how key aspects of the NDA Strategy cascade to Sellafield Limited as a corporate entity, and is informed by our Purpose, Mandate, and existing Business Frameworks and Execution Model. It is developed by Sellafield Limited and approved by the Sellafield Limited Executive and Board.

Planning
We set the direction and codify how we will deliver the strategy in Corporate, Operating, and Baseline Plans. These guide our activities and enable monitoring of our performance. The high-level corporate strategy is translated into a delivery plan with key milestones developed by Enterprise Portfolio, and detailed planning work is carried out by the Corporate Planning and Finance departments, with input from the portfolio offices in organisational units across the Enterprise. The plans are developed with key external stakeholder input and are approved by the Sellafield Limited Executive and Board, with endorsement by the NDA where appropriate.

The *Baseline Plan* is a 100+ year plan setting out the total estimated costs for the Sellafield Limited mission (detailed costs for in-years; modelled for outer years). It is used for performance monitoring and informing the site licence annual site funding limit, as well as the Annual Report and Accounts, and the Site Liability Estimate. The Baseline Plan is subject to additional change controls to reflect the best estimate. The plan is developed by Sellafield Limited in conjunction with the NDA.

The *Corporate Plan* is a 20-year view of the business deliverables and milestones and is effectively an implementation roadmap for our Corporate Strategy. It details the environment in which the business will operate as well as referencing the wider business context. The Corporate Plan identifies key risks, uncertainties and opportunities in the planning period. The document is reviewed and updated every five years. The Corporate Plan is developed by Sellafield Limited with input from the NDA.

The *Operating Plan* is a three-year view of key deliverables and costs from the baseline and in-year targets agreed between the NDA and Sellafield Limited. It sets out how funding will be allocated across different organisational units (and programmes where applicable).

Resources
How we acquire, deploy, and manage capital, capability and assets

This section describes how we acquire, allocate, deploy, and manage resources to drive activity in the Enterprise. By resources we mean capital (i.e. funding), capability (i.e. people), and assets (i.e. land, utilities, plant and equipment).

Portfolio and Programme management
We design and manage Portfolios and Programmes at different levels of the organisation to maximise value.

- *Enterprise Portfolio Management* refers to the prioritisation and balancing of the Enterprise investment mix in terms of macro resource allocation and constraint management; this activity falls under the remit of the Enterprise Portfolio Office (EPO).
- *Portfolio Management* refers to Portfolio hubs within the Value Streams and other departments which are responsible for more detailed resource allocation and performance management across a collection of activities.
- *Programme Management* refers to the coordinated management of a collection of Projects directed at a specific business outcome within a department or Value Steam (e.g., Magnox Reprocessing).

Portfolio Hubs are the primary interface for management information for their respective organisational units and feed in to EPO.

Spatial planning
Sellafield is a heavily congested site and sits within a defined nuclear licensed footprint. The nature of our mission means that we need to build new facilities in order to empty our highest hazard legacy facilities. Our spatial planning team ensures the best use of land for these facilities and their supporting infrastructure.

Strategic report
continued

Enterprise-wide prioritisation
EPO works with the NDA and other HMG stakeholders to agree Sellafield Limited's delivery targets and annual spending requirements. Through this process, EPO establishes the prioritisation and allocation of these and communicates corresponding targets to Portfolio Hubs throughout the organisation.

Within these constraints, Directorates have discretion on the allocation of funding within their Portfolios. A key exception is when proposed investments breach Delegations of Authority, in which case an investment proposal must be submitted to the Investment Review Panel (IRP – which is a cross-organisational committee chaired by the Finance Director) for sanctioning approval.

EPO reviews resource prioritisation on an on-going basis to ensure that it is maximising Value for the Enterprise and recommends in-year adjustments to the Executive as appropriate. This portfolio approach enables the right focus, decision making, and allocation of scarce resources where needed.

Budgeting and cash management
Finance is responsible for collating all inputs relating to budgeting, including funding limits and Enterprise resource requirements, and developing an annual budget for the Enterprise. In accordance with the constraints set by EPO, Finance is responsible for the mobilisation of funding across the Enterprise.

The budget is actively managed at all levels throughout the Enterprise, with Financial Controllers responsible for each key area of the business. As deemed necessary, additional Finance resources are deployed into the business to ensure effective financial governance.

Capability deployment
The specific accountability for capability development and deployment sits within a network of Enterprise Leads and Heads of Profession. They have a formal relationship with Human Resources (HR) to support Enterprise-wide capability planning and development for their area. In cases where, temporarily, Enterprise demand for Profession staff exceeds immediate supply, HR will determine the appropriate allocation.

Corporate governance

It is the Company's stated position that it seeks to apply the underlying principles of the 2018 UK Corporate Governance Code (the Code) to the maximum extent to which it is applicable, without formally adopting the Code. The first two exceptions, detailed below, are features of the BEIS operating model for the NDA and Sellafield Limited, whereby the NDA is the sole shareholder and as such determines the appointment of the Chair.

The Company follows the principles of the Code with the following exceptions:

- The Company is wholly owned by NDA, so principles and provisions related to multiple shareholders are not applicable;
- The Company does not follow all the principles in respect of board appointments. In particular, under the Articles of Association and Services Agreement, Sellafield Limited's Non-Executive Chairman is selected by the NDA, NDA also selects Shareholder Representative Directors, and NDA must approve all appointments to (or removals from) the Sellafield Board. Also due to the long-term nature of the Company's business, Non-Executive Directors are generally appointed for 3-4 years rather than re-elected annually; and
- The Company has an Audit and Risk Assurance Committee (A&RAC) that follows the principles of the Code, but the Company does not present a report on the work of the A&RAC within its financial statements.

The Company has comprehensive risk management and risk reporting processes to manage all nuclear, business, safety, security, operational and financial risks related to the Sellafield site. The Code adopts a principles-based approach to provide guidance on good corporate governance. It places greater emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity.

The Company follows the five principles of board leadership and company purpose, which are:

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society;

B. The Board should establish the Company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture;

C. The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed;

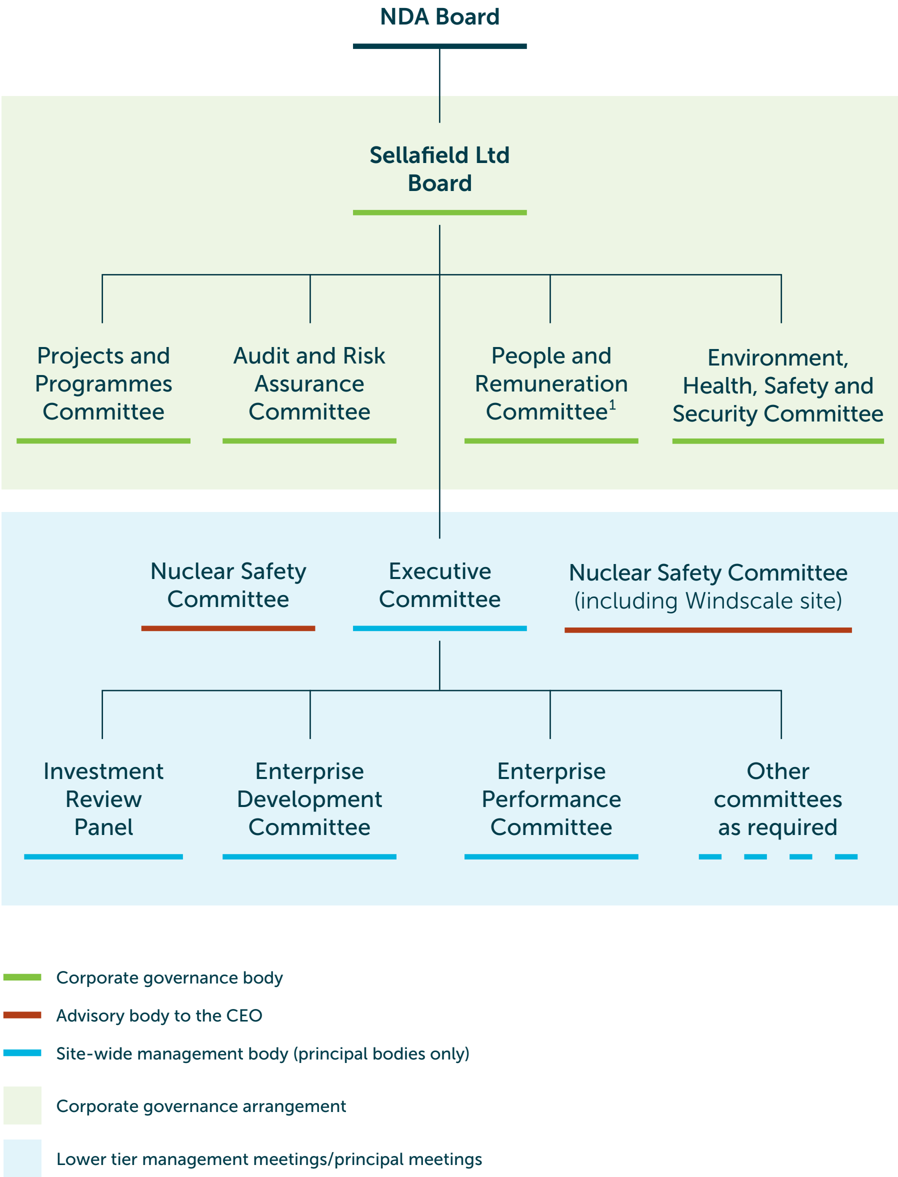
D. In order for the Company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties; and

E. The Board should ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Accountability for the day-to-day management of the business is held by the CEO, supported by the Executive team.

The Directors have considered the disclosures included within the Annual report and financial statements and are satisfied that the Annual report and financial statements as a whole are fair, balanced and understandable, and provide the information necessary for the shareholder to assess the Company's position, performance, business model and strategy.

Strategic report
continued



1 A Nomination Committee will sit on an ad hoc basis as required.

Board and Committee structure

The corporate governance structure for the Company is shown opposite.

As shown opposite, the structure comprises four formally constituted sub-committees of the Company's Board, each of which is central to assisting the Board in maintaining good governance and assurance/oversight.

Although other committees will support the work of these committees, final accountability and responsibility for the operation and management of the Company rests directly with the Board. Decisions may be taken by these committees in line with their delegated authority as set out in their terms of reference (otherwise it is their responsibility to make recommendations to the Board).

The *Board of Directors of the Company*: The Board has the sole decision-making authority, except where the Board delegates its authority to the CEO or to Board Committees, in each case in accordance with the terms of the Corporate Governance Documents and, where appropriate, the Services Agreement. In such instances the Board remains accountable to the Shareholder for those decisions and as such requires oversight and assurance of the systems put in place to deliver day-to-day management of the organisation.

The *Audit and Risk Assurance Committee (A&RAC)*: Its purpose is to ensure effective oversight of the Company's statutory reporting, corporate governance, risk management process and internal control. The committee also has oversight of the Internal Audit function of the Company and the External Auditor on behalf of the Board.

The *Environment, Health, Safety and Security Committee (EHSS)*: Its purpose is to provide the Board with assurance in respect of policy implementation, statutory and regulatory requirements, internal controls (including environmental matters such as discharges and disposals, the Internal Regulator and EHSS Assurance) and risk mitigation.

The *Projects and Programmes Committee (P&PC)*: Its purpose is to update and inform the Board on the activities being undertaken by the company to deliver projects and programmes to schedule and within

Strategic report
continued

sanction, and to advise the Board of any issues or concerns that it has regarding the performance of those projects and programmes, including but not limited to the confidence in meeting the desired outcomes.

The *People and Remuneration Committee (P&RC)*: Its purpose is to consider, oversee, evaluate and provide guidance to the Board on the strategy and implementation plans adopted by the company in relation to its workforce and people. The committee provides the means by which the voice of employees is heard by the Board and the Chair of the Committee ensures that the Board takes into account the interests of employees when making its decisions. The Company regularly consults with the unions (GMB, Prospect and Unite), and consults with employees directly through surveys, discussion forums, and briefs.

Until February 2020 the Company had a *Nominations and Remuneration Committee*, which has largely been replaced by the P&RC. The Nominations and Remuneration Committee (N&RC) was a formally constituted sub-committee of the Sellafield Limited (SL) Board. Its purpose was to make recommendations to the Board on matters of Board membership, leadership and skills, expertise and diversity. The Company also has a Nominations Committee which meets on an ad hoc basis as required.

Advisory bodies:

The *Nuclear Safety Committee*: Whilst each director and Executive Committee member has responsibility for nuclear safety, there is also a Nuclear Safety Committee constituted in accordance with the Nuclear Site Licence requirements. The committee includes the Company Chief Nuclear Officer as well as members external to the Company. It reports directly to the CEO and through him provides advice to the Licensee ensuring that matters of nuclear safety are given the highest visibility across the business.

The *Nuclear Security Committee*: Whilst each director and Executive Committee member has responsibility for nuclear security, there is also a Nuclear Security Committee. The committee includes the Company Chief Nuclear Officer as well as members external to the Company. It reports directly to the CEO and through him provides advice to the Licensee ensuring that matters of nuclear security are given the highest visibility across the business.

Supporting Management Committees:

The Management Committees are not decision-making bodies, they are the committees called by the accountable Executive or senior manager to support them in the delivery of their personal accountability or in their duty to advise and inform the Governance Committees.

The *Executive Committee*: The CEO is accountable to the Board for all aspects of running the business. The CEO delegates certain of these controls and responsibilities to the members of the Executive Committee. The CEO as Executive Director with delegated authority to manage the business leads the Executive Committee which is the principal management committee for the Company and, through the accountability of its members, frames the strategic recommendations to the Board, oversees the implementation and delivery of short to medium-term strategic decisions for the business and reviews corporate risk. The Executive Committee focus is on decision making which directly impacts the business direction based upon recommendation(s) that have been tested through the appropriate sub-committee(s).

The study of proposals supported by subject matter experts is conducted within the remit of supporting committees enabling the Executive Committee to consider the strategic and business impacts without having to re-evaluate the principles and options. The work of the sub-committees is guided by the Executive Committee framing the business requirements and direction.

The CEO provides assurance to the Board that the business is being managed in accordance with the Board's requirements and authorities. The Executive Committee provides a forum for Executives to give advice as a collective to the CEO in support of the CEO delivering the accountabilities to the Enterprise and its Board and Shareholder.

Executive Committee membership comprises the Executive Directors and the Company General Counsel. Each member is authorised by the CEO to undertake activities and manage their accountabilities within their respective areas of accountability. They are individually accountable for delivery of the Corporate Plan and the safe, secure execution of the Operating Plan, including consideration of nuclear safety, security and the environment in all their activities, as well as achieving work and efficiency targets.

The *Investment Review Panel (IRP)*: The Chair of this panel exercises the delegated authority of the CEO to oversee the financial investment decisions of the Company acting directly on behalf of the CEO. The IRP takes formal decisions regarding the merits of investment, value for money, acquisition strategy and the financial case for placing of and/or amending significant contracts, including justification for increased sanction. The IRP is also the primary body tasked with considering the procurement risks associated with an acquisition strategy or contract variation and for sole source awards and high value agreements, for onward submission to NDA/HM Government (HMG).

Where a matter is outside of the authority delegated to the panel Chair, the Chair provides advice and/or recommendations to the CEO. It reports on its business through the Executive Committee and upwards to the Board. Some significant investment decisions may, at the request of the CEO or IRP Chair, be taken by the Executive Committee itself. Where matters are being presented to NDA for approval, the Board will receive a summary of the sanction position as approved by the IRP/Executive Committee but, to the extent delegated, will not reconsider the merits or specifics of recommendations.

The IRP is supported in its work by the Enterprise Development Committee which will evaluate and determine the strategic case for investment.

Strategic report
continued

The *Enterprise Development Committee* chair provides advice to the CEO and Executive in support of Enterprise strategic decisions and takes such decisions where so authorised within the delegated authority. The remit of the Committee is to ensure the effective development and implementation of the Site Strategic Specification, both in the operational area ('technical') strategies and the enabling functional ('enterprise') strategies. It acts as the key conduit for strategic information between the NDA and the Company and between the Corporate Centre and the Value Streams/Functions. It supports the Enterprise Portfolio Office in developing the Corporate Plan and Decision Calendar and is the forum for senior level discussion on the development of such plans. This Committee also serves as the primary Governance Committee for the development and oversight of transformation and social impact activities and is the route for recommendations to the Board and Executive in these areas.

The *Enterprise Performance Committee* is the principal meeting to enable senior level oversight and assurance of, including reporting on, the performance outcomes of the business. This includes the delivery of operational performance requirements in accordance with the Operating Plan. It is the opportunity to challenge, support and create meaningful debate on site performance, holding the responsible Executive and/or Value Stream leads to account for performance in their area. Attendance may include individuals from the NDA Owners Representative team by invitation, and therefore in addition it may provide a forum for NDA and the Company Executives jointly to discuss and challenge delivery outcomes.

All other committees, whether formally appointed or not, are advisory unless either the Board or the Executive Committee elects to further delegate any of its decision-making authority.

The work of the Executive, Enterprise Development and Enterprise Performance Committees is supported by the work of an Enterprise Portfolio Office (EPO). The EPO operates under Executive management with responsibility for prioritising the allocation of resources (finance, labour, facilities) to maximise benefits in alignment with the strategy.

Under the overall control of the Enterprise Director the Corporate Centre maintains a suite of tools to manage the business, including strategic decision calendars.

We comply with the 2018 Code by means of an annual self-assessment of the Board and Board Committees (facilitated by an independent party such as Internal Audit) and a three-yearly independent external review of effectiveness.

Role of the Company Board

The Board provides leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. It is accountable to the Shareholder and Regulators for compliance with the conditions of the Nuclear Site Licence, environmental permits and other applicable Law and Regulatory Requirements. Its authority is derived from the Articles of Association and the Scheme of Delegations and is subject to the conditions within the Remuneration Framework.

The Board meets at least six times each calendar year.

The Companies Act 2006

The Companies Act 2006 sets out the duties of a director as follows:

- a duty to act in accordance with the Company's constitution and only exercise powers for the purposes for which they are conferred;
- a duty to act in the way the director considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard to various matters:

  a) the likely consequences of the decision in the long-term;

  b) the interests of the Company's employees;

  c) the need to foster the Company's business relationships with suppliers, customers and others;

  d) the impact of the Company's operations on the community and the environment;

  e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

  f) the need to act fairly as between members of the Company, although this is not relevant as the Company only has one shareholder, being NDA.

- a duty to exercise independent judgement;
- a duty to exercise reasonable care, skill and diligence;
- a duty to avoid a situation in which the director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company;
- a duty to not accept a benefit from a third party conferred by reason of the director being a director, or their doing (or not doing) anything as director; and
- a duty for the director to declare if they are in any way, directly or indirectly, interested in a proposed transaction or arrangement with the company, and the nature and extent of that interest, to the other directors.

The role of a director is separate and distinct from the role of an Executive or Senior Manager, even if (as is the case of certain directors who are also members of the Executive Committee) the roles are held by the same person.

Each Executive Director's role is to put aside the interests they may have in an executive capacity and act in a way which meets the duties of a director.

Non-Executive Directors are recognised as playing a key part in good governance in terms of independent oversight of Board decision making.

Non-Executive Directors' roles are developed to ensure that they provide the appropriate level of oversight and challenge to the decisions of the Board and they are provided with suitable and sufficient information and briefings to enable them to fulfil this role in full. In line with UK best practice, the overall effectiveness of the Board is reviewed on an annual basis or other such period as determined by the Board.

It is for these reasons that Sellafield Limited requires its directors to undertake formal training with regards to the role of a director, either through the Institute of Directors or other equivalent body.

Strategic report
continued

Roles of the Board members

The Board membership is comprised of:

- Non-Executive Chair, selected by NDA;
- Chief Executive Officer (Executive Director);
- Up to three other Executive Directors (including the Finance Director or equivalent);
- Up to two Shareholder Representative Directors; and
- Up to six independent Non-Executive Directors.

Covid-19

In March 2020 the Company performed a successful controlled shutdown of operations at the Sellafield site due to the onset of the Covid-19 pandemic, pausing reprocessing work and construction work on major projects to focus on the key services needed to keep the site safe and secure. The controlled shutdown demonstrated the professionalism of the Sellafield teams and staff involved in the process, and the resilience of the site from a nuclear, conventional, environmental and security perspective. During the pandemic the Company has kept in close contact with NDA, BEIS and other stakeholders.

The Company's aim is to maintain a business capable of delivering our environmental remediation mission through timely, informed decision making, balancing the impact of Covid-19, nuclear safety and security, and sustainability; mindful of our impact on the local community, supply chain, stakeholders and the wellbeing of our workforce.

In response to Covid-19 the Company has developed an overall environmental, safety and security case for the site to ensure that risks are managed when balancing Covid-19 related risk factors against the high hazard risk reduction work on site. The plan to enact it has four phases;

- Phase 1 – Controlled shut down of operations that are long or complex to stop (noting that these operations could have been adversely impacted in the very near term by resourcing constraints due to Covid-19);
- Phase 2 – Reinforcement activities to avoid breaching legal obligations and to maintain essential site services over an extended duration;
- Phase 3 – Operational activities supporting strategic priorities that can be completed promptly (operating within constraints of UK Government Covid-19 guidelines). These strategic priorities are linked to high hazard risk reduction activities with extended delays impacting adversely on the environmental, safety and security case;
- Phase 4 – Full operations within the 'new normal'.

The site is now in Phase 3, with the first wave of priority tasks restarted. Further priority activities will progressively be introduced at the appropriate time.

To optimise progress, different parts of the business may be at a different operational status at any given time, all of which being carefully managed to balance the ongoing risk from Covid-19 against the extant risks to environment, safety and security on the site.

In recognition of the uncertainty the Company is managing the situation dynamically with a governance structure established to consider the practical challenges to be managed against the strategic decision to proceed for each proposed activity. The business recognises the need to maintain safety, security, protect the workforce, environment, host communities, and deliver progress on high hazard risk reduction at Sellafield.

Since the Covid-19 pandemic escalated, the number of people working on the Sellafield site has been significantly less than under 'normal' operations. During Phase 3 we are adopting a cautious, limited, phased approach to the restart of work using 'lead and learn' principles on specific work packages to build understanding on helping people safely return to work.

Throughout the pandemic, the Company has maximised the contribution from staff who have been advised to work from home, by increasing the number who have remote access to secure company systems, increasing remote usage significantly, and developing other methods of working remotely. Since the start of the pandemic, approximately 60% of staff have been provided with an IT solution to support working from home.

The Sellafield mission is complex with multiple interdependencies and, as a result, any delays in tasks and project delivery can compound to create multiple programme issues and have the potential to break strategic tolerances relating to the longer-term high hazard risk reduction programme. As the impact of the pandemic evolves the Company will work with the NDA and other stakeholders to understand the possible longer-term consequences and will develop options to support decision making through existing strategic governance routes.

The Company's duty is to maintain nuclear safety, deliver high hazard risk reduction, support generation of nuclear power, and meet MOD requirements. The environmental, safety and security case considers each of these drivers and the balance of risk between pausing activities and making progress during the pandemic. Sellafield has intolerable legacy facilities and is recognised as critical national infrastructure and so the urgent need to maintain progress is understood. The resulting plan drives as much progress as is practicable whilst maintaining the safety envelope.

The Company has also communicated to the supply chain that it is adopting Cabinet Office Procurement Policy Notes (PPN) 02/20 'Supplier relief due to Covid-19' and PPN 04/20 'Recovery and transition from Covid-19', which state that the Company will make appropriate cash payments to suppliers to provide support during the Covid-19 pandemic. Prior to the pandemic the major infrastructure supply chain was already constrained (particularly given the consolidation in the nuclear supply chain). It is therefore essential to protect the Company's critical suppliers because rebuilding specialist capacity would prove expensive and time consuming on schedule driven activities.

Strategic report
continued

The costs associated with the ramp down and subsequent restart of work are not yet fully understood, and expenditure for the 2020/21 financial year may be less than the approved funding limit from the NDA, which is £2,150 million. We are incurring the full cost of staff and supplier support payments but expect a lower outturn that reflects the period when operations on the site were largely shut down and the nature of our restart of operations.

Principal risks and uncertainties

As previously stated, the Company operates the Sellafield nuclear site under the site licence and a Services Agreement between itself and the NDA, and this includes managing some of the most significant nuclear risks in Europe. As discussed above, the Company follows the Financial Reporting Council's 2018 UK Corporate Governance Code. The Company has comprehensive risk management and risk reporting processes to manage all nuclear, business, safety, security, operational and financial risks related to the Sellafield site.

As discussed in note 2.2m, if required the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. During the year the Company did not engage in such activities (2019: same). The Company does not engage in speculative treasury arrangements, and all of its activities are designed to support underlying business activities. All treasury activities are carried out under policies approved by the Board.

The Company's maximum exposure to credit risk is the carrying value of the Company's financial assets as reported in the Statement of financial position. Trade and other receivables principally include Company operating costs recoverable from the NDA, which as discussed in note 10 are considered to be contract assets under IFRS 15 and recoverable under the terms of the Services Agreement. Therefore, the directors consider the risk of financial loss to be remote.

The Company's liquidity risk is managed via the working capital arrangements described in note 11. Exposure to price and cash flow risks are not significant to the results and affairs of the Company.

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

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

The Company does not have significant supplier or credit risks (2019: same).

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

By order of the Board

A M Carr
Secretary

Date: 18 June 2020
Registered Company Number: 01002607

Hinton House
Risley
Warrington
Cheshire
WA3 6GR

Directors' report

The directors present their Directors' report for the year ended 31 March 2020.

Directors

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

Mrs L I Baldry
(Chair)
Mr P Foster
(Chief Executive Officer, resigned 31 January 2020)
Mr M J Chown
(appointed Chief Executive Officer 1 February 2020)
Mr J M Seddon
(Finance Director)
Mr A D Cumming
(Shareholder Representative Director)
Mr N W R Smith
(Non-Executive Director)
Dr D Byrne
(Non-Executive Director)
Mr J Baxter
(Non-Executive Director)
Dr A F J Choho
(Non-Executive Director)
Mr D G Vineall
(appointed 1 July 2019, Shareholder Representative Director)
Mrs C L Hall
(appointed 9 October 2019, Non-Executive Director)
Mr J P Simcock
(appointed 9 October 2019, Non-Executive Director)

Secretary

Mr A M Carr

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company (2019: same). According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year (2019: same).

Directors' and officers' liability insurance

Directors' and officers' liability insurance is provided, covering inter alia the defence costs of civil legal proceedings and the damages resulting from the unsuccessful defence of such proceedings except, in each case, to the extent that a director or officer acted fraudulently or dishonestly (2019: same).

Directors' indemnities

As at the date of this report, the Company entered Deeds of Indemnity with certain of the directors (2019: same). These indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006 (UK).

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 96% (2019: 95%) of invoices submitted against the standard payment terms were paid on time.

Employees and employee engagement

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

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

As discussed in the Strategic report within the section on corporate governance, the Sellafield Board has a People and Remuneration Sub-Committee (P&RC) whose purpose is to consider, oversee, evaluate and provide guidance to the Board on the strategy and implementation plans adopted by the company in relation to its workforce and people. The committee provides the means by which the voice of employees is heard by the Board and the Chair of the Committee ensures that the Board takes into account the interests of employees when making its decisions. The Company regularly consults with the unions (GMB, Prospect and Unite), and consults with employees directly through surveys, discussion forums, and briefs.

Customer and supplier engagement and interests

In the Strategic report the Section 172 Statement discusses how the Company works with the NDA, which is its customer and shareholder, and other stakeholders. The Strategic report also discusses how the Company works with its suppliers, principally within the sections 'Changing the way that we work with our supply chain' and 'Sustainability'.

Also, within the Strategic report, the 'Covid-19' section explains that the Company is working with its suppliers during the pandemic and has adopted Cabinet Office Procurement Policy Notes (PPN) 02/20 'Supplier relief due to Covid-19' and PPN 04/20 'Recovery and transition from Covid-19'. Under these PPNs the Company will make appropriate cash payments to suppliers to provide support during the Covid-19 pandemic. Prior to the pandemic the major infrastructure supply chain was already constrained (particularly given the consolidation in the nuclear supply chain). It is therefore essential to protect the Company's critical suppliers because rebuilding specialist capacity would prove expensive and time consuming on schedule driven activities.

Directors' report

continued

Going concern

As discussed in the Strategic report on page 14, under the Energy Act 2004, the NDA has a statutory obligation to provide adequate funding to enable the Company to manage risks and keep the Sellafield site safe and secure.

Under the Services Agreement between the Company and the NDA, the Company's working capital requirements are provided by NDA.

In particular the majority of the Company's payments to suppliers, employees and third parties are funded through a cash drawdown agreement with the NDA, and the NDA also provides the Company with a working capital facility of £2.5 million so that the Company's other liabilities can be met as they fall due.

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

Streamlined energy and carbon reporting

Greenhouse gas (GHG) emissions and energy usage data for the period 1 April 2019 to 31 March 2020 is as follows;

	Information	Quantity (litres or kilogrammes)	Kilowatt-hours (kWh)	Total gross emissions (tCO_2e)
Scope 1[1]	Total energy consumption (kWh) and emissions (tCO_2e) for Scope 1 relating to electricity, gas and heat	N/A	743,367,132	251,376
Scope 1	Total consumption (litres and kWh) and emissions (tCO_2e) for transport fuel in Scope 1	315,427 litres	3,384,538	826
Scope 1	Total consumption (litres, kg and kWh) and emissions (tCO_2e) from other energy sources in Scope 1	838,529 litres and 2,000 kg	9,026,118	2,279
Scope 2	Total consumption (kWh) and emissions (tCO_2e) from electricity in Scope 2	N/A	78,150,709	19,992
Scope 3	Total emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel (litres) in Scope 3	342,117 litres	3,476,276	996
Scopes 1,2 and 3	**Overall total consumption used to calculate emissions (kWh) and total emissions (tCO_2e) in Scopes 1, 2 and 3**	**(as noted above)**	**837,404,773**	**275,469**

Total gross emissions are noted in 'tonnes of carbon dioxide equivalent' (tCO_2e).

The following supplementary information is relevant to Scope 1[1];

- Combined emissions of 251,211 tCO_2e are included in respect of electricity (site demand, parasitic supply and exported), from heat (steam) and from methane (unburnt) and nitrous oxide, as they relate to the emissions from the gas burnt to produce electricity and steam.

The Company has a calculated intensity ratio in the year of 133 tCO_2e per £1 million revenue, representing total gross emissions in the year as a ratio against revenue as per the Income statement.

Methodologies used in the calculation of GHG emissions and energy usage data

Scope 1: Total energy consumption (kWh) and emissions (tCO_2e) for Scope 1 relating to electricity, gas and heat.

The Sellafield site includes Fellside Combined Heat and Power Plants, including boilers which provide process steam and electricity to Sellafield and exports electricity to the National Grid.

- Gas (Fellside) – Metered (fiscal) usage by the National Grid (supplier) as part of the Company's Greenhouse Emissions Trading Permit (EUETS) process. The kWh of gas utilised at Fellside has not been added to the total energy consumption for Scope 1 or the overall total energy consumption as this is included within the kWh for Scope 1 on electricity and heat.
- Gas (off-site properties) – Where the Company pays directly for gas usage the usage is metered (fiscal) by the supplier and recorded on utility bills. Where the Company does not pay for the gas directly, the quantity has been calculated from meter readings supplied by the building management company. The consumption has then been apportioned based on building occupancy.
- CO_2e is calculated using the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019).

Directors' report
continued

- Electricity – Site demand metered (fiscal) by the Company, usage logged by the Company and provided to the supplier. Parasitic supply metered locally. Emissions are calculated under the EUETS process. CO_2 emissions are calculated based on gas flow to Fellside and an Emissions Factor (derived from Gas Chemistry). The split of emissions between heat and electricity has been done by using the CHPQA Methodology for the overall installation, and fuel use apportioned between the boilers and gas turbines (CHP). Further, for the Gas Turbines (CHP) CO_2 has been assigned between heat and electricity using the equation in the SECR Guidance, Appendix D.
- Nitrous Oxide – Additional CO_2e figures are included for the burning of natural gas and gas oil at Fellside. Emissions are calculated using emission factors for nitrous oxide, from the National Atmospheric Emissions Inventory. For natural gas this is per Mth of fuel consumed, and for gas oil per Mt of fuel consumed. The resultant mass of nitrous oxide has then been multiplied by the CO_2e emissions factor for nitrous oxide, from the Greenhouse Gas Reporting: conversion factors. The figures also include the quantity of nitrous oxide for exported electricity. These figures are not included in total energy consumption as this would be double counting, as the kWh are reflected in emissions for electricity and heat produced at Fellside.
- Methane – Additional CO_2e figures are included for the burning of natural gas at Fellside. Emissions are calculated using emission factors for methane, from the National Atmospheric Emissions Inventory for gas turbines and for boilers. The resultant mass of methane has then been multiplied by the CO_2e emissions factor for methane, from the Greenhouse Gas Reporting: conversion factors. The figures also include the quantity of methane for exported electricity. These figures are not included in total energy consumption as this would be double counting as the kWh are reflected in emissions for electricity and heat produced at Fellside.
- Exported electricity is measured by fiscal meter. Emissions are calculated under the Company's Greenhouse Emissions Trading Permit (EUETS). CO_2 emissions are calculated based on gas flow to Fellside and an Emissions Factor (derived from Gas Chemistry).
- Heat (steam) – Low pressure and high-pressure steam measured by local metering. Emissions are calculated under the Company's Greenhouse Emissions Trading Permit (EUETS). CO_2 emissions are calculated based on gas flow to Fellside and an emissions factor (derived from Gas Chemistry). The split of emissions between heat and electricity has been done by using the CHPQA Methodology for the overall installation, and fuel use apportioned between the boilers and gas turbines (CHP).
- Standby electricity generation is tested periodically, electricity generated is measured by local meters. The gas oil used is included in 'Other Energy Sources' Gas Oil Invoiced (Utilities).

Scope 1: Total consumption (litres and kWh) and emissions (tCO_2e) for transport fuel in Scope 1.

- Fuel keys are used to account for fuel use between transport and other uses. The litres of fuel used are multiplied by the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019).
- Gas oil is purchased for works vehicles used in operations, invoiced fuel is summated in litres and multiplied by the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019). It is assumed that all fuel purchased in the year is utilised within the same period.
- Metered fuel usage on dive boats is logged and multiplied by the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019).

Scope 1: Total consumption (litres, kg and kWh) and emissions (tCO_2e) from other energy sources in Scope 1.

- Propane – Kilogrammes used are converted into CO_2 using constants from the Digest of UK Energy Statistics (DUKES) and Carbon Emissions Factors and Calorific Values as used in the Greenhouse Gas National Inventory Report published in 2019. Part of EUETS Conservative Estimate.
- Butane – Litres used are converted into CO_2 using constants from the Digest of UK Energy Statistics (DUKES) and Carbon Emissions Factors and Calorific Values as used in the Greenhouse Gas National Inventory Report published in 2019. Part of EUETS Conservative Estimate.
- Gas oil use (Fellside) is metered by local meters, and the litres of fuel are converted into CO_2 using constants from the Digest of UK Energy Statistics (DUKES) and Carbon Emissions Factors and Calorific Values as used in the Greenhouse Gas National Inventory Report published in 2019. Part of EUETS process.
- Gas oil (invoiced by utilities) is purchased for emergency standby generation (and other uses), invoiced fuel is summated in litres and converted into CO_2 using constants from the Digest of UK Energy Statistics (DUKES) and Carbon Emissions Factors and Calorific Values as used in the Greenhouse Gas National Inventory Report published in 2019. Using the Company's EUETS Methodology, end of year tank dips confirm quantity used compared to those purchased.
- Gas oil (non-transport) is purchased for operations, invoiced fuel is summated in litres and multiplied by the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019). It is assumed that all fuel purchased in the year is utilised within the same period.

Directors' report

continued

- Gas oil (handpump CHP) use is metered by local meters, and the litres of fuel are converted into CO_2 using constants from the Digest of UK Energy Statistics (DUKES) and Carbon Emissions Factors and Calorific Values as used in the Greenhouse Gas National Inventory Report published in 2019. Part of EUETS conservative estimate.

Scope 2: Total consumption (kWh) and emissions (tCO2e) from electricity in Scope 2.

- Imported electricity – When site consumption exceeds generation at Fellside, the balance of supply comes from the National Grid as part of a balance and settlement agreement. The quantity is measured by fiscal meter. CO_2e is calculated using the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – UK electricity (2019).
- Purchased electricity – Where the Company pays directly for electricity usage the usage is metered (fiscal) by the supplier and recorded on utility bills. Where the Company does not pay for the electricity directly, the quantity has either been calculated from meter readings supplied by the building management company or based on the associated service charge as part of the lease. Where there are no dedicated meters for the tenant – kWh have been apportioned based on building occupancy.
- CO_2e is calculated using the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – UK electricity (2019).

Scope 3: Total emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel (litres) in Scope 3.

- Rentals cars – Derived from contractor hire car data reports where the mileage driven per vehicle journey is converted to kilometres (km). This is then multiplied by the CO_2e rate for the vehicle used which gives CO_2e for each journey – which can then be summed to give total CO_2e over the financial year. CO_2e is calculated using the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Business travel land (2019). Rental Cars (km) equates to 3,365,423km.
- Personal mileage – Derived from mileage claims based on cost claimed, converted into km. CO_2e is calculated using the relevant emission factor given in the UK Government GHG Conversion Factors for Company Reporting – Business Travel Land – Unknown Vehicle (2019). Personal mileage (km) equates to 2,094,585km.
- For both Rental cars and Personal mileage, to convert to kWh – total km have been divided by two assuming half the mileage is from petrol and half from diesel and then multiplied by average litres/km for petrol and diesel, to derive litres; these have then been multiplied by the average GCV for petrol and diesel; and then converted into kWh.
- Fuel cards – Fuel use for some Company Cars is accounted for through fuel cards. These are recorded as litres used but do not specify the fuel type. Litres of fuel have been estimated by using the average cost of unleaded, super unleaded and diesel fuels using the BEIS Table 4.1.1 Typical retail prices of petroleum products and crude oil price index (1). The resultant litres have then been multiplied by the average of the emission factors for petrol and diesel, from the UK Government GHG Conversion Factors for Company Reporting – Fuels (2019). Further business mileage is taken to be 30% of the fuel purchased on the fuel cards. (Estimate – non material re overall emissions.).

Summary of performance in the reporting period

The electricity consumption for the Sellafield site has reduced during the reporting period, with steam use remaining approximately constant.

With the complexity and variety of the operations at Sellafield, it can be challenging to determine a coherent picture of the breadth and scope of energy efficiency activity across the business. This challenge has been recognised, with energy and water improvements being developed, driven and coordinated centrally to help ensure that all areas of the business contribute to minimising energy and water consumption in order to reduce carbon impacts.

In some cases, the energy efficiency savings within specific areas of the business may be negligible, however it is important to maintain momentum within the business, so energy efficiency measures are established and embedded now so that the benefits are realised as an intrinsic part of future operations. In addition, the increased profile of the Sellafield Carbon Footprint reduction commitment within the year, and the requirement to consider energy efficiency measures to reduce it, has further helped to elicit behavioural change with respect to resource use.

Some of the in-year reduction is attributed to changes to site operation as Sellafield moves from reprocessing to remediation, for example with the Thermal Oxide Reprocessing Plant (THORP) ceasing operations towards the end of the previous financial year and has transitioned to Post-Operational Clean Out (POCO) for 2019/20. However, a proportion of the reduction in the Company's electricity use will be due to the energy efficiency measures established by the business and being progressed across the organisation.

Steps have been made in the year to raise awareness of energy efficiency to help influence behavioural change. A specific training module on environmental awareness, including energy efficiency, was launched at the end of the previous financial year and has been completed during 2019/20. To date over 80% of the workforce, approximately 9,300 employees, have completed the training.

Directors' report
continued

Several new facilities are currently in the design phase on Sellafield site, and are being actively supported by subject matter experts including environmental specialists and advisors to ensure energy efficient measures are integrated into their development. This extends to considering environmental factors as part of the construction process, resulting in other energy efficiency benefits.

For example, for the new Silos Maintenance Facility, operational since January 2019, energy efficient measures have been integrated into the design, these include:

- Optimisation of the ventilation system, which incorporated a heat recovery system, reducing the cooling requirement and saving 50-60kW of total energy usage;
- LEDs and automatic lighting where possible integrated into the build to reduce energy use from lighting.

Recovery and reuse of spoil under the Contaminated Land: Applications in Real Environments (CL:AIRE) process plus variations to the site environmental permits to facilitate onsite disposal of demolition waste, has led to the 'avoidance' of significant offsite transportation, thus reducing fuel consumption and associated carbon dioxide (equivalent) CO_2e emissions.

There are also examples of energy efficiency measures being addressed within existing facilities. These have focused on upgrading some of the ageing buildings with more modern, efficient technologies. This has included:

- Replacement of fluorescent strip lighting with LEDs on Passive Infra-red (PIR) sensors in several facilities. For example, in one area, emergency lighting fluorescent tubes (16W) replaced with LEDs (8W);
- Removal of redundant assets due to process improvements, including an ageing filtration plant and compressor house resulting in reduction in electricity use;
- Replacement of the uninterrupted power supply (UPS) system and battery in one facility to a modern, more efficient alternative;
- Asset refurbishment programmes, including compressed air and steam, in facilities preparing for retrievals;
- The vent system changeover in the Magnox Swarf Storage Silo (MSSS) facility to support retrievals, has resulted in the use of a ventilation system with smaller motors, which uses less power.

Energy efficiencies have also been gained from looking at how we operate and identify improvements within some of our procedures, such as by rationalising a maintenance instruction within the electrical distribution network team. Savings of 3,500 litres of diesel per annum has been achieved to date. Progressively updating Technical Basis of Maintenance (TBoMs) ensures this learning can be applied to other areas of the business.

As part of POCO and decommissioning, ventilation has been considered in two areas. Decontamination has allowed ventilation to be shut down in one building, related to asset care, and reduced by 20% in another. This constitutes the 'avoidance' of emissions and sets a precedent for further consideration within other facilities.

The Sellafield estate includes Fellside Combined Heat and Power Plants, including boilers which provide process steam and electricity to Sellafield and exports electricity to the National Grid. Specific examples of energy efficiency and reduced CO_2e emissions at Fellside in this period include:

- Installation of dry, low NOx burners on Gas Turbine 1, has significantly reduced discharges of NOx, a secondary Greenhouse Gas (GHG);
- The final commissioning and acceptance into service of Fellside Boiler Park has also delivered a reduction in both NOx and CO_2e emissions. Use of the boilers has displaced the requirement to operate additional gas turbines for steam generation and with their significantly higher thermal efficiency this has delivered a reduction in emissions.

Finally, there are several areas of the organisation's infrastructure that is actively being looked at by the organisation:

- Specific work on the site utilities network has included the identification and repair of leaks in the steam supply network. Within 2019/20, the repairs have resulted in a saving of over 25,000 tonnes of steam to date;
- A successful trial was completed within 2019/20 to determine the most efficient model of streetlighting that would be suitable for replacing existing lighting across the two square miles of Sellafield site. Negligible efficiency gains were made directly from this pilot; however, ca 2,000 lights are now scheduled for replacement;
- Increasing sustainable transport and travel options has continued during the financial year. The main benefits to-date have been reduced vehicles entering site through a programme of behavioural change and through the expansion of a park and ride capability. Initiatives have been established in this period that have laid the ground work for increased energy efficiency in the future:
  - Two locomotives have been procured to replace ageing, energy intensive stock, ensuring that energy efficiency was embedded as a key element in the procurement process.
  - Work is starting to expand the charging infrastructure on the Sellafield site to support transition of the site fleet to electric vehicles.
  - Engagement with external stakeholders is also continuing to support sustainable travel and transport options e.g. working with third parties to use rail for shipments of bulk materials onto the site for projects.

In support of the activities outlined above, a review of energy and water efficiency activity within the Company, in-line with the requirements outlined within the Sellafield Installation Permit was carried out in the year. Actions generated by this review have been initiated and will support the continual improvement of energy efficiency activities across the business.

Directors' report
continued

This activity also contributes towards Sellafield's ISO 14001 accreditation.

Research and development (R&D) expenditure

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

Political and charitable donations

The Company has made no political contributions during the year (2019: £nil). The Company's charitable donations are discussed in the Strategic report on page 05.

Financial instruments

The Company finances its activities through the working capital facilities described in note 11. Use of derivatives and other financial instruments and the Company's exposure to price, credit, and liquidity and cash flow risks is described in the Strategic report.

Events since the balance sheet date

As described in note 13, on 27 April 2020 the B share of £1 was transferred from Nuclear Management Partners Limited (NMP) to NDA.

Directors' statement regarding information to the auditors

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

Annual General Meeting and auditors

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

By order of the Board

A M Carr
Secretary

Date: 18 June 2020
Registered Company Number: 01002607

Hinton House
Risley
Warrington
Cheshire
WA3 6GR

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Sellafield Limited

Opinion

We have audited the financial statements of Sellafield Limited (the 'Company') for the year ended 31 March 2020 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its result 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Independent auditor's report

to the members of Sellafield Limited – continued

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.

Date: 19 June 2020

Neil Lawrinson

(Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

Income statement

For the 12 months ended 31 March 2020

	Note	2020 £m	2019 £m
Revenue	4	2,076	2,035
Operating costs	5	(2,070)	(2,035)
Operating profit from continuing operations before depreciation and research and development (R&D) tax credits		6	–
Depreciation on right-of-use assets	15	(6)	–
R&D tax credits		10	9
NDA share of R&D tax credits		(8)	(7)
Operating profit from continuing operations		2	2
Profit on continuing activities before interest and taxation		2	2
Interest expense on the lease liability	15	(1)	–
NDA credit in respect of IFRS 16	15	1	–
Tax expense	9	(2)	(2)
Profit for the year		–	–

Profit attributable to:		
Equity holders of the Company	–	–

All of the Company's operations in both 2020 and 2019 are continuing.

The notes on pages 28 to 50 form part of these financial statements.

Statement of comprehensive income

For the 12 months ended 31 March 2020

	Note	2020 £m	2019 £m
Profit for the year		–	–
Other comprehensive income items that will not be reclassified to profit or loss :			
Actuarial gains and losses on the GPS and Sellafield sections of the CNPP defined benefit pension plan, offset by movements in the fair value of the corresponding NDA asset	16	–	–
Total other comprehensive income items that will not be reclassified to profit or loss for the year, net of tax		–	–
Total comprehensive income for the year		–	–
Total comprehensive income attributable to:			
Equity holders of the Company		–	–

The notes on pages 28 to 50 form part of these financial statements.

Statement of financial position

At 31 March 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Right-of-use assets	15	**38**	–
NDA receivable in respect of lease liabilities	15	**1**	–
NDA receivable in respect of pension liability	16	**520**	759
Total non-current assets		**559**	759
Current assets			
Trade and other receivables	10	**381**	349
Cash and cash equivalents	11	**4**	1
Total current assets		**385**	350
Total assets		**944**	1,109
Current liabilities			
Trade and other payables	12	**(391)**	(350)
Non-current liabilities			
Lease liabilities	15	**(33)**	–
Pension liability	16	**(520)**	(759)
Total liabilities		**(944)**	(1,109)
Net assets		**–**	–
Capital and reserves			
Equity share capital	13	**–**	–
Retained earnings		**–**	–
Total equity		**–**	–

These financial statements were approved by the Board of directors on 18 June 2020 and were signed on its behalf on 18 June 2020 by:

Jon Seddon
Finance Director

Registered Company Number: 01002607

The notes on pages 28 to 50 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2020

	Share capital £m	Retained earnings £m	Total equity £m
Shareholder's funds at 1 April 2018	–	–	–
Total comprehensive income for the year	–	–	–
Changes in equity for year ended 31 March 2019	–	–	–
Shareholder's funds at 31 March 2019	**–**	**–**	**–**
Total comprehensive income for the year	–	–	–
Changes in equity for year ended 31 March 2020	–	–	–
At 31 March 2020	**–**	**–**	**–**

The notes on pages 28 to 50 form part of these financial statements.

Notes to the financial statements

1 Corporate information

The financial statements of the Company for the year ended 31 March 2020 were authorised for issue in accordance with a resolution of the directors on 18 June 2020. The Company is a limited company incorporated and domiciled in England. The registered office is located at Hinton House, Risley, Warrington, Cheshire WA3 6GR in the UK.

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

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

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

The Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA. In accordance with the Energy Act 2004, NDA has tasked the Company with carrying out activities set out in the NDA Designation of Sellafield including the receipt and treatment of spent fuel, the storage of hazardous materials, the decommissioning and clean-up of installations and the maintenance of laboratory and other facilities.

Under the Services Agreement between the Company and NDA, the Company has to control its expenditure within agreed funding limits and operate the Sellafield site safely and securely whilst meeting targets and milestones agreed with its shareholder, NDA. Management and employee incentivisation schemes are linked to their achievement.

Revenue represents the reimbursement of costs incurred under the Services Agreement in accordance with the principal activity of the Company. The reimbursement of costs is not limited to those contained within the agreed funding limits. Under the Services Agreement, all costs incurred by the Company are reimbursed by the NDA..

2.1 Basis of preparation and statement of compliance

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101 '*Reduced disclosure Framework*' (FRS 101). The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2020.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which a party to the transaction is wholly owned by such a member;
- the requirements of IAS 24 *Related Party Disclosures* to disclose the costs of the Key Management Personnel of the Company;
- the requirements of IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors* to disclose details of new IFRS's which have been issued but are not yet effective or have not yet been applied;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*; and
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.

Equivalent disclosures are given in the group accounts of the NDA, which are available to the public and can be obtained as set out above. The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) except where otherwise indicated.

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

Notes to the financial statements
continued

2.1 Basis of preparation and statement of compliance (continued)

New standards and interpretations mandatorily applicable for financial periods beginning on 1 April 2019

The Company has applied IFRS 16 – Leases. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Impact of the new definition of a lease

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of financial position.

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value; having a remaining lease term of less than 12 months from the date of initial application; or being deemed to not be a lease under IFRS 16 definitions.

Impact on lessee accounting

The Company adopted IFRS 16 using the modified retrospective method of transition, with the date of initial application of 1 April 2019. Prior year figures were not adjusted. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 at the date of initial application.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 April 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The lease term determined by the Company comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

At transition the Company has elected to use the recognition exemption as per IFRS 16, for lease contracts that at the transition date, 1 April 2019, have a lease term of 12 months or less remaining.

On an ongoing basis, the Company has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less remaining and for leases of low-value assets. Such leases will be recognised on a straight-line basis through the Income statement.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition, the incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 1.99%. As the Company is unable to borrow funds from outside of the exchequer the HM Treasury discount rate promulgated in the PES papers is adopted.

Impact on lessor accounting

The Company's application of IFRS 16 has not substantially changed its lessor accounting. As a lessor, the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and is classified as an operating lease if it does not.

Financial Impact of the initial application of IFRS 16

The impact on the Company's financial statements as a result of IFRS 16 is detailed in note 15.

Notes to the financial statements
continued

2.2 Summary of significant accounting policies

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

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

c Revenue recognition
The Company operates under the Services Agreement between the Company and NDA, as a wholly owned subsidiary of NDA.

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

The Company only has one contract with the NDA, which is its only customer. Under the Services Agreement, the costs incurred by the Company are reimbursed by the NDA as incurred, on an accrual basis. NDA reimburses the Company in line with an agreed cash drawdown process and working capital arrangement.

There is no concept of disallowable costs under the Services Agreement and cost reimbursement by the NDA is not linked to the delivery of specific services or milestones, or the achievement of targets and success criteria, although the Company's management and employee incentivisation schemes are linked to their achievement.

Management consider that in respect of IFRS 15, there is only one performance obligation within the Services Agreement between the Company and NDA, and that this obligation is delivered over time as the Company is reimbursed for costs incurred, and control is passed over time to its customer, the NDA.

IFRS 15 states that an entity recognises revenue over time if one of the following criteria is met:

- The customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
- The entity's performance creates or enhances an asset that the customer controls as the asset is created; or
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for the performance completed to date.

In the case of the Services Agreement, all three of the criteria above apply.

Revenue represents the reimbursement of operating costs incurred by the Company under the Services Agreement in accordance with the principal activity of the Company. Revenue is shown net of VAT.

In 2019/20, the Company received miscellaneous revenue (Category 2 income) of £7 million (2018/19: £8 million) in respect of rental income and services provided to NDA affiliates and other third parties who are resident on the Sellafield site, and sales of NDA assets. Under the terms of the Services Agreement, income received by the Company is transferred to the NDA, with NDA bearing any credit risks.

As a result, the Company considers that it is acting as the agent of NDA in respect of Category 2 income, rather than the principal, and the revenue shown in the Income statement excludes Category 2 income.

Notes to the financial statements
continued

2.2 Summary of significant accounting policies (continued)

d Leased assets

Company as a lessee

For any new contracts entered into on or after 1 April 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time, in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified asset throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the Statement of financial position.

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate as dictated by HM Treasury.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Company as a lessor

The Company's policy for lessor accounting under IFRS 16 has not substantially changed from the comparative period. As a lessor, the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and is classified as an operating lease if it does not.

Where the Company enters into a sublease arrangement and becomes the intermediate lessor, an assessment of the right of use asset rather than the underlying asset is made when determining whether a finance or operating lease exists.

e Post-retirement benefits

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

The NDA is the principal employer of the CNPP and is ultimately responsible for funding any pension fund deficits for the defined benefit sections of the CNPP. The level of employer contributions paid by the Company is determined by the CNPP Trustees based on the latest triennial actuarial valuations. Under the Services Agreement between the Company and NDA, the employer contributions paid by the Company are included in operating costs shown in the Income Statement and are reimbursed by the NDA.

Notes to the financial statements
continued

2.2 Summary of significant accounting policies (continued)

e Post-retirement benefits (continued)

Amounts relating to the current and past service costs and net interest on the net defined benefit liability are shown in note 16 but are not shown in the Income statement. This reflects the fact that any overall pension surplus or deficit is for the benefit of, or to be funded by, the NDA, and therefore there are offsetting amounts to or from the NDA, which the Company has disaggregated under paragraph 116 of IAS 19.

Paragraph 116 of IAS 19, states that when it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets. The components of defined benefit cost recognised in accordance with paragraph 120 of IAS 19 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

As stated, the NDA is the principal employer of the CNPP and ultimately responsible for funding any deficit. As a result, the net deficit of both defined benefit sections of the CNPP is recognised in full in the Company's Statement of financial position with a corresponding asset from NDA for the full value of the net deficit, which represents the fair value of the asset.

In accordance with paragraphs 116 and 120 of IAS 19, re-measurements of the defined benefit liabilities and assets are recognised in the Statement of comprehensive income, offset by movements in the fair value of the corresponding asset from the NDA. As a result, the Company has disaggregated these offsetting movements in the Statement of comprehensive income.

The defined benefit pension asset or liability comprises the total for each plan of the present value of the defined benefit obligations (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 Company is unable to identify its share of the underlying assets and liabilities included in The Magnox Electric Group of the ESPS (MEG 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 and government credits

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

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

g Inventories

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

h Provisions

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

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

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.

Notes to the financial statements
continued

2.2 Summary of significant accounting policies (continued)

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
Other receivables principally comprise Company operating costs recoverable from NDA, which are considered to be contract assets under IFRS 15 under the terms set out in note 10 and recoverable under the terms of the Services Agreement. Company operating costs recoverable from NDA generally have 30-90-day terms, and the directors consider the risk of financial loss to be remote.

Other debtors are initially recognised at fair value, which in most cases approximates to the nominal value. They are subsequently re-measured at amortised cost using the effective interest rate method. They are reviewed for impairment by applying the expected credit loss model, in accordance with IFRS 9. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

In 2019/20, the Company received miscellaneous revenue (Category 2 income) of £7 million (2018/19: £8 million) in respect of rental income and services provided to NDA affiliates and other third parties who are resident on the Sellafield site, and sales of NDA assets. Under the terms of the Services Agreement, income received by the Company is transferred to the NDA, with NDA bearing any credit risks. As a result, the Company considers that it is acting as the agent of NDA in respect of Category 2 income, rather than the principal, and Trade and other receivables excludes any amounts due in respect of Category 2 income.

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

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

m Derivatives and commodity contracts
All treasury activities are carried out under policies approved by the Board. If required the Company uses forward foreign currency contracts and currency options to reduce foreign exchange rate exposure on certain assets, liabilities and firm commitments. Derivative financial instruments are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any gains and losses arising from changes in the fair value of derivative contracts are taken to the Income statement. During the year the Company did not engage in such activities (2019: same). Company policy and practice is to review all new sales and purchase agreements to ensure that they do not include embedded leases.

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

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

Notes to the financial statements
continued

2.2 Summary of significant accounting policies (continued)

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

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

r Operating profit
Operating profit is stated before research and development tax credits, depreciation, interest and taxation.

3 Significant accounting judgements, estimates and assumptions

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

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

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

Leases
Determining whether a lease exists

The Company has exercised judgement when reviewing agreements to determine whether or not a lease exists. The Company has considered whether an agreement, in substance, grants the Company the right to direct the use of the asset and allows the Company to receive substantially all of the economic benefit of the asset.

Determining the lease term of contracts with renewal and termination options – the Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease, or any periods covered by an option to terminate the lease. When the Company has the option to extend or terminate a lease, the Company uses its judgement to determine whether or not an option would be reasonably certain to be exercised. The Company considers all facts and circumstances including their past practice.

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.

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

Pension benefits
The cost of defined benefit pension plans and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Notes to the financial statements
continued

3 Significant accounting judgements, estimates and assumptions (continued)

Pension benefits (continued)
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 pension benefit assumptions used are given in note 16.

Leases

Estimating the incremental borrowing rate
Where the Company cannot readily determine the discount rate implicit in the lease, the incremental borrowing rate has been used to measure lease liabilities. The Company is unable to borrow outside of the exchequer and therefore the incremental borrowing rate is set by HM Treasury and cascaded via the NDA.

4 Revenue

Geographical segment analysis
In both 2020 and 2019, all revenue relates to the operation of the Services Agreement in the UK.

5 Operating profit
This is stated after charging/(crediting):

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Research and development costs	79,352	77,275
Gain recognised in respect of Gen 2 sale	(40)	(1)
Proceeds paid to NDA in respect of Gen 2 sale	32	1
Net gain recognised in respect of Gen 2 sale	(8)	–
Payments in respect of:		
Land and buildings	2,887	4,570
Motor vehicles	–	670
Others – photocopiers	–	2,588
Total payments	2,887	7,828

In 2018/19 the above table includes operating lease payments. In 2019/20, following the adoption of IFRS 16, the above table includes payments related to agreements assessed as not containing a lease under IFRS 16. This is discussed in note 15.

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

Notes to the financial statements
continued

6 Auditor's remuneration

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Audit fees	**99**	97
	99	97

7 Remuneration of directors

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Directors' emoluments	**1,357**	1,288
Aggregate amounts receivable under long-term incentive plans	**69**	37
Post-retirement benefit costs	**31**	69
Total directors' remuneration	**1,457**	1,394

The Executive Directors are employees of the Company, and the directors' remuneration in the table above includes the cost of their qualifying service as directors, including the fees paid to Non-Executive Directors.

In 2019/20 the highest paid director was employed by the Company and their aggregate emoluments were £380,987 (2018/19 £498,610) which includes employers pension contributions of £0 (2018/19: £40,500), benefits in kind and estimated bonus payments.

In 2019/20 none of the directors were active members of the Company's defined benefit pension plans discussed in note 16 (2018/19: nil). During 2019/20 one of the directors was an active member of the defined contribution section of the Combined Nuclear Pension Plan discussed in note 16 (2018/19: two).

In 2019/20 two of the directors were deferred members of the Combined Pension Scheme (2018/19: two). The scheme is discussed in note 16.

The Company's Executive Directors participate in Long Term Incentive Plans which allow the participants to receive bonuses based on the performance of the Company over three-year periods. The payment for scheme A was made in 2019/20 and is included in the emoluments above.

8 Employee benefits expense

The average monthly number of persons employed by the Company, including Executive Directors, during the year was made up as follows:

	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
Staff in support functions	**2,208**	2,105
Staff engaged in projects and site operations	**8,724**	8,924
	10,932	11,029

Notes to the financial statements
continued

8 Employee benefits expense (continued)

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

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wages and salaries	**604**	579
Social security costs	**69**	66
Pension costs	**105**	106
	778	751

Pension costs disclosed above represent employer contributions paid in respect of defined benefit schemes £80 million (2019: £82 million), defined contribution schemes £24 million (2019: £22 million) and other pension costs £1 million (2019: £2 million). All contributions paid and other pension costs incurred are included in operating costs and under the Services Agreement are recovered from the NDA on a paid basis. Amounts relating to the net benefit expense under IAS 19 (R) for the two defined benefit pension schemes are £181 million (2019: £180 million) before reimbursement rights, as shown in note 16.

The NDA is the principal employer of the CNPP, and the NDA is ultimately responsible for funding any pension fund deficits for the defined benefit sections of the CNPP. The level of employer contributions paid by the Company is determined by the CNPP Trustees based on the latest triennial actuarial valuations. Under the Services Agreement between the Company and NDA, the employer contributions paid by the Company are included in operating costs shown in the Income statement and are reimbursed by the NDA.

Amounts relating to the current and past service costs and net interest on the net defined benefit liability are shown in note 16 but are not shown in the table above or on the face of the Income statement. This reflects the fact that any overall pension surplus or deficit is for the benefit of, or to be funded by, the NDA, and therefore there are offsetting amounts to or from the NDA, which the Company has disaggregated under paragraph 116 of IAS 19.

Paragraph 116 of IAS 19, states that when it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets. The components of defined benefit cost recognised in accordance with paragraph 120 of IAS 19 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

9 Income tax

The major components of income tax expense for the years ended 31 March 2020 and 2019 are:

Income statement

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Current income tax:		
UK corporation tax	**2**	2
Income tax expense reported in the Income statement	**2**	2

Notes to the financial statements
continued

9 Income tax (continued)

The reconciliation between the tax charge and the product of the accounting profit multiplied by the UK's domestic corporation tax rate for the years ended 31 March 2020 and 2019 is as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Profit from continuing operations before taxation	2	2
Accounting profit multiplied by the UK rate of corporation tax of 19% *(2019: 19%)*	–	–
Effects of:		
Permanent differences	2	2
Total income tax charge	2	2

Factors affecting the future tax charge

Under the Services Agreement, R&D tax credits that arise are wholly to the benefit of the NDA. As a result, the accounts include a creditor that reflects the NDA's interest in the Company's R&D tax credits (note 12).

At Budget 2020, the government announced that the corporation tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

10 Trade and other receivables

	2020 £m	2019 £m
Trade receivables (see note 2.2k)	–	–
Company operating costs recoverable from the NDA	352	330
R&D tax credit	29	19
	381	349

Company operating costs recoverable from the NDA of £352 million (2019: £330 million) are non-interest bearing and are on terms set out in the Services Agreement. Receivables represent monies due from the NDA under the Services Agreement. The NDA reimburse the Company in line with an agreed cash drawdown process and working capital arrangement. The reimbursement of costs by the NDA is not linked to the delivery of milestones and targets.

There are no provisions for impairment of trade and other receivables at 31 March 2020 (31 March 2019: £nil). All trade and other receivables are denominated in Sterling and the carrying value approximates to fair value.

11 Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	4	1
	4	1

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 2020 is £4 million (31 March 2019: £1 million). The Company only deposits cash surpluses with major banks of high-quality credit standing.

Notes to the financial statements
continued

11 Cash and cash equivalents (continued)

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

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

12 Trade and other payables

Current liabilities

	2020 £m	2019 £m
Trade payables	**71**	70
Other taxes and social security costs	**46**	45
Accruals and deferred income (including employee creditors)	**239**	216
Corporation tax	**6**	4
NDA beneficial interest in the R&D tax credits	**23**	15
Lease liabilities	**6**	–
	391	350

Trade payables includes contract retention creditors of £21 million (2019: £15 million) which includes amounts expected to be payable after more than one year but within five years of £19 million (2019: £14 million).

Terms and conditions of the above financial liabilities:

- The carrying amount approximates to fair value;
- Trade payables are non-interest bearing and are predominantly settled on either net monthly terms, within 30 days from invoice validation or within 21 days of the supplier invoice date, depending on the commercial contract in place;
- Other payables are non-interest bearing and have an average term of six months.

13 Called up share capital

	2020 £m	2019 £m
Authorised		
43,000,000 ordinary shares of £1 each	**43**	43
1 B share of £1	**–**	–
Allotted, called up and fully paid		
1 ordinary share of £1 (2019: 1)	**–**	–
1 B share of £1 (2019: 1)	**–**	–

As stated in the Company's Articles of Association, the B shareholder's rights are limited to matters relating to dividend payments and the repayment of capital. At 31 March 2020, the ordinary share of £1 was held by the NDA and the B share of £1 was held by NMP (31 March 2019: same).

On 27 April 2020 the B share of £1 was transferred from NMP to NDA.

Notes to the financial statements
continued

14 Contingent liabilities

At 31 March 2020, 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 matters would ultimately be recovered from the NDA.

15 Lease arrangements

The Company has applied IFRS 16 and adopted the standard using the modified retrospective method of transition, with the date of initial application of 1 April 2019. Prior year figures were not adjusted.

The Company is unable to enter into new leases for land and buildings without the approval of the NDA, who in turn are subject to restrictions imposed by BEIS.

The Company has entered into commercial leases for land and buildings, motor vehicles, and plant and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the Statement of financial position as both a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the assets and lease liability.

The leases for land and buildings have remaining durations of between 1 and 25 years (2019: 1 and 25 years). The leases for motor vehicles have durations up to a period of 3 years (2019: 4 years) and for plant and equipment of 2 years (2019: 3 years). Lease payments for each lease are fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a termination fee. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Furthermore, the Company must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The Company has leases of equipment and vehicles with lease terms of 12 months or less and leases of office equipment of low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases as permitted by IFRS 16.

The following is a reconciliation of the Company's total operating lease commitments at 31 March 2019 to the lease liabilities recognised at 1 April 2019:

	£000
Total operating lease commitment at 31 March 2019	22,468
Further lease commitment identified	30,219
Restated operating lease commitment at 1 April 2019	**52,687**
Exclude:	
Short-term leases (<12 months remaining)[1]	(5)
Low-value leases[1]	(647)
Agreements assessed as not containing a lease under IFRS 16[1]	(6,157)
Operating lease commitment to be treated under IFRS 16	**45,878**
Less:	
Effect of discounting	(8,190)
IFRS 16 lease liability recognised 1 April 2019	**37,688**

1 These costs are still incurred by the business but not included within the IFRS 16 calculation and treated in the same manner as operating leases previously.

Notes to the financial statements
continued

15 Lease arrangements (continued)

The following tables detail the right-of-use asset and lease liability as noted in the Statement of financial position:

Right-of-use assets

	Land and buildings £000	Vehicles £000	Other £000	Total £000
As at 1 April 2019[1]	29,617	1,562	6,509	37,688
Additions	5,685	388	–	6,073
Depreciation	(2,597)	(838)	(2,170)	(5,605)
Impairment	–	–	–	–
As at 31 March 2020	**32,705**	**1,112**	**4,339**	**38,156**

1 As referenced earlier in both note 15 and note 2.1, prior year comparatives were not restated due to the Company's chosen method of transition to IFRS 16.

The right-of-use assets are included as a separate line item to where the corresponding underlying asset would be presented.

Lease liabilities

	Land and buildings £000	Vehicles £000	Other £000	Total £000
As at 1 April 2019[1]	29,617	1,562	6,509	37,688
Additions	5,685	388	–	6,073
Finance charge	652	28	111	791
Payments	(2,875)	(858)	(2,238)	(5,971)
As at 31 March 2020	**33,079**	**1,120**	**4,382**	**38,581**

1 As referenced earlier in both note 15 and note 2.1, prior year comparatives were not restated due to the Company's chosen method of transition to IFRS 16.

The lease liabilities are presented in the Statement of financial position as follows:

	31 March 2020 £000	1 April 2019[1] £000
Current liabilities (note 12)	**5,913**	5,971
Non-current liabilities	**32,668**	31,717
Total lease liability	**38,581**	37,688

1 As referenced earlier in both note 15 and note 2.1, prior year comparatives were not restated due to the Company's chosen method of transition to IFRS 16.

The Company does not have any leases which have not yet commenced but have been committed to at 31 March 2020.

A small difference arises between total amounts charged to the Income statement under IFRS 16 and the sum of accrued lease payments for the year. Under the terms of the Services Agreement, the future lease payments including finance charges will be reimbursed by the NDA. Included within revenue is an amount equivalent to the accrued lease payments, consistent with prior periods prior to adoption of IFRS 16. A credit for the small difference is recognised as a finance credit, effectively recognising the reimbursable finance charges with the associated asset included as a non-current receivable from the NDA.

Notes to the financial statements
continued

15 Lease arrangements (continued)

The undiscounted maturity analysis of lease liabilities as at 31 March 2020, with 1 April 2019 comparatives, is as follows:

	31 March 2020 £000	1 April 2019[1] £000
Due within one year	**5,913**	5,739
Due within one to five years	**11,179**	13,429
Due in more than five years	**29,185**	26,710
Total	**46,277**	45,878

1 As referenced earlier in both note 15 and note 2.1, prior year comparatives were not restated due to the Company's chosen method of transition to IFRS 16.

In 2014/15 the Company entered into two 30-year leases with the NDA in respect of an office development with a rental value of £1,271,000 per annum. Under the terms of the Services Agreement between NDA and the Company, the lease payments made by the Company including finance charges are included in operating costs shown in the Income statement and are reimbursed by the NDA.

In the 2018/19 financial year, these properties were classified by the directors as licences to occupy rather than finance leases and as such, the finance lease creditor and corresponding NDA debtor were removed from the accounts.

With the introduction of IFRS 16, these leases have been re-classified as leases which fall within the scope of IFRS 16 and as such have been included in the IFRS 16 calculations.

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expenses relating to payments not included in the measurement of the lease liability are as follows:

	£000
Expenses relating to short-term leases	5
Expenses relating to leases of low-value assets	647
Variable lease payments *(if applicable)*	–
Total	**652**

Agreements assessed as not containing a lease under IFRS 16

The Company has entered into commercial leases for certain properties which do not fall within the scope of IFRS 16. The leases for properties have remaining durations of between 1 and 24 years (2019: 1 and 25 years). The property lease agreements contain an option for renewal, with these options being exercisable three months before the expiry of the lease term at rentals based on market prices at the time of the exercise.

There are no restrictions placed upon the lessee by entering into these leases. Under the Services Agreement, operating lease rentals are reimbursed by the NDA.

Future minimum rentals payable under non-cancellable operating leases are as follows, noting that the 2019 figures have been re-stated for comparative purposes to show only leases which do not fall into the scope of IFRS 16:

	2020 £000	2019 *(as restated)* £000	2019 £000
Within one year	**2,917**	3,086	7,904
After one year but not more than five years	**803**	1,054	10,019
More than five years	**3,495**	3,414	4,545
Total minimum lease payments	**7,215**	7,554	22,468

Notes to the financial statements
continued

15 Lease arrangements (continued)

The Company as a lessor

The Company has sub-let certain properties to third parties. The rental income from these operating leases, including the effect of any lease incentives, is recognised on a straight-line basis over the lease term. Under the terms of the Services Agreement, rental income received from third parties is transferred to the NDA. The National Nuclear Laboratory (NNL) is the third party in the majority of these agreements. This now falls under the scope of IFRS 16, however there is no change in lessor accounting for the Company.

The future minimum sub-lease payments expected to be received under non-cancellable sub-lease agreements are as follows:

	2020 £000	2019 £000
Within one year	1,432	1,432
After one year but not more than five years	5,515	5,421
More than five years	12,484	13,610
Total minimum lease payments	19,431	20,463

16 Pension schemes

Schemes accounted for as defined contribution

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

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

Electricity Supply Pension Scheme (ESPS)

On 31 March 2007, the scheme was sectionalised into various sections; however, the Company remains unable to identify its share of the schemes' assets and liabilities, included in The Magnox Electric Group of the ESPS (MEG ESPS), on a consistent and reasonable basis as required by IAS 19 (R). Consequently, the scheme has been accounted for as if the scheme was a defined contribution scheme. The pension charge for the period, which represents contributions payable by the Company to the ESPS, amounted to £195,385 (2019: £186,347).

At 31 March 2020 the Company had 9 employees (2019: 9) who were active members of the ESPS, which has approximately 1,300 active members. The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2016. The projected unit method was used. The results of the valuation were market value of scheme assets of £2,706 million (2013 valuation: £2,555 million), which represented a funding ratio of 100% against technical provisions (2013 valuation: 100%). As a result of the valuation, employer contributions increased from 24% to 33.6% with effect from 1 April 2017.

The latest actuarial valuation has been updated by a qualified independent actuary to 31 March 2020 on a basis consistent with IAS 19 (R). The results of this IAS 19 (R) valuation are a total fair value of scheme assets of £3,248 million (2019: £3,211 million) and a surplus of £393 million (2019: deficit £85 million). There were outstanding employer contributions of £nil at 31 March 2020 (2019: £nil).

Combined Pension Scheme (CPS)

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

The CPS is accounted for as a defined contribution scheme. The pension charge for the period represents contributions payable by the Company to the CPS, which are directly recoverable from the NDA and amounted to £nil (2019: £nil). There were outstanding employer contributions of £nil at 31 March 2020 (2019: £nil).

Notes to the financial statements
continued

16 Pension schemes (continued)

Schemes accounted for as defined benefit

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

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

Combined Nuclear Pension Plan (CNPP) – Sellafield section

Since 24 November 2008, the future pensionable service of employees who were active members of the CPS is met from the Sellafield section of the CNPP. That arrangement remains in place following the transfer of the Company to become a wholly owned subsidiary of the NDA on 1 April 2016.

The CNPP has separately administered funds and with effect from 24 November 2008 has been funded by contributions partly from employees and partly from the Company. The benefits are identical to the CPS.

The Company contributes to the CNPP at rates recommended by the CNPP's professionally qualified actuary. The employer contribution rate was 25.2% in the year ended 31 March 2020 (2019: 25.2%). The principal employer for the CNPP is the NDA.

The CNPP is sectionalised into various sections, and there is a specific section for the Company. These financial statements reflect the Company's share of the IAS 19 (R) assets and liabilities at 31 March 2020 and 31 March 2019 respectively.

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2016. The projected unit method was used. The results of the valuation were market value of scheme assets of £856 million (2013 valuation: £481 million), which represented a 97% level of funding (2013 valuation: 103%). As a result of the valuation, the employer contribution rate increased to 25.2% with effect from 1 April 2018 (2013 valuation: 22%). An IAS 19 (R) actuarial valuation for the Sellafield section was carried out at 31 March 2020 by a qualified independent actuary. There were outstanding employer contributions of £nil at 31 March 2020 (2019: £nil).

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 2020 the Company had 4,217 employees (2019: 4,099) who were active members of the defined contribution section of the CNPP. The pension charge for the period, which represents contributions payable by the Company to the CNPP, amounted to £23,596,352 (2019: £21,636,851).

Group Pension Scheme (GPS) section of the CNPP

The Group Pension Scheme (GPS) is a funded scheme. The Company and other participating employers contribute to the GPS at rates recommended by the GPS's professionally qualified actuary. The employer contribution rate was 25% in the year ended 31 March 2020 (2019: 25%).

On 31 March 2007, the GPS was sectionalised into various sections. Following the sectionalisation, these financial statements reflect the Company's share of the IAS 19 (R) assets and liabilities at 31 March 2020 and 31 March 2019 respectively. Of the active members within the section of the GPS relating to the Site Licence Companies (SLC section), the majority are employed by the Company. Consequently, the entire section has been reflected in these accounts.

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

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

The most recent triennial actuarial valuation of the scheme by a qualified independent actuary took place at 31 March 2016. The projected unit method was used. The results of the valuation were market value of scheme assets of £534 million (2013 valuation: £439 million), which represented a 109% level of funding (2013 valuation: 95%). As a result of the valuation, the employer contribution rate reduced to 25% with effect from 1 April 2018 (2013 valuation: 28.7%). An IAS 19 (R) actuarial valuation for the Sellafield section was carried out at 31 March 2020 by a qualified independent actuary. There were outstanding employer contributions of £nil at 31 March 2020 (2019: £nil).

Notes to the financial statements
continued

16 Pension schemes (continued)

Risks associated with the Company's defined benefit schemes

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

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

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

Net benefit expense, 2020

	GPS Section of the CNPP £000	CNPP £000	Total £000
Current service cost	11,204	150,691	161,895
Interest cost	16,972	53,629	70,601
Interest income on assets	(16,278)	(34,731)	(51,009)
Net benefit expense	**11,898**	**169,589**	**181,487**
Net actuarial gains recognised in year	**71,406**	**268,624**	**340,030**

Net benefit expense, 2019

	GPS Section of the CNPP £000	CNPP £000	Total £000
Current service cost	11,670	149,197	160,867
Past service cost	599	365	964
Interest cost	17,269	49,078	66,347
Interest income on assets	(16,371)	(31,963)	(48,334)
Net benefit expense	**13,167**	**166,677**	**179,844**
Net actuarial gains/(losses) recognised in year	**13,526**	**(7,605)**	**5,921**

The NDA is the principal employer of the CNPP, and the NDA is ultimately responsible for funding any pension fund deficits for the defined benefit sections of the CNPP. The level of employer contributions paid by the Company is determined by the CNPP Trustees based on the latest triennial actuarial valuations. Under the Services Agreement between the Company and NDA, the employer contributions paid by the Company are included in operating costs shown in the Income statement and are reimbursed by the NDA.

Amounts relating to the current and past service costs and net interest on the net defined benefit liability are shown in the table above but are not shown on the face of the Income statement. This reflects the fact that any overall pension surplus or deficit is for the benefit of, or to be funded by, the NDA, and therefore there are offsetting amounts to or from the NDA, which the Company has disaggregated.

Under paragraph 116 of IAS 19, when it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets. The components of defined benefit cost recognised in accordance with paragraph 120 of IAS 19 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

Notes to the financial statements
continued

16 Pension schemes (continued)

The past service cost in 2018/19 of £599,000 in the GPS section of the CNPP is to take account of the impact of Guaranteed Minimum Pensions (GMP) equalisation, as estimated by the actuary. GMP equalisation is not relevant to the CNPP Sellafield section.

Changes in the defined benefit liability are summarised as follows:

Benefit/(liability), 2020

	GPS Section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation	(583,872)	(1,929,023)	(2,512,895)
Fair value of plan assets	623,646	1,368,812	1,992,458
Benefit/(liability)	**39,774**	**(560,211)**	**(520,437)**
Benefit/(liability) recognised in Statement of financial position	**39,774**	**(560,211)**	**(520,437)**

Benefit/(liability), 2019

	GPS Section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation	(707,479)	(2,118,651)	(2,826,130)
Fair value of plan assets	681,691	1,385,390	2,067,081
Benefit/(liability)	**(25,788)**	**(733,261)**	**(759,049)**
Benefit/(liability) recognised in Statement of financial position	**(25,788)**	**(733,261)**	**(759,049)**

Under paragraph 116 of IAS 19, when it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. The NDA is the principal employer of the CNPP and ultimately responsible for funding any deficit. As a result, the net deficit of both sections of the CNPP is recognised in full in the Company's Statement of financial position with a corresponding asset from NDA for the full value of the net deficit.

In accordance with paragraphs 116 and 120 of IAS 19, re-measurements of the defined benefit liabilities and assets are recognised in the Statement of comprehensive income, offset by movements in the fair value of the corresponding asset from the NDA. As a result, the Company has netted these offsetting movements in the Statement of comprehensive income.

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

Notes to the financial statements
continued

16 Pension schemes (continued)

	GPS Section of the CNPP £000	CNPP £000	Total £000
Defined benefit obligation at 31 March 2018	681,509	1,851,795	2,533,304
Interest on liabilities	17,269	49,078	66,347
Current service cost	11,670	149,197	160,867
Past service cost	599	365	964
Actuarial loss on change in financial assumptions	21,584	83,247	104,831
Actuarial (gain) on change in demographic assumptions	(4,286)	(12,672)	(16,958)
Experience (gain)/loss on liabilities	(547)	(98)	(645)
Transfers (paid)	(9,440)	(3,158)	(12,598)
Benefits (paid)	(12,275)	(14,605)	(26,880)
Employee contributions	1,396	15,502	16,898
Defined benefit obligation at 31 March 2019	**707,479**	**2,118,651**	**2,826,130**
Interest on liabilities	16,972	53,629	70,601
Current service cost	11,204	150,691	161,895
Actuarial (gain) on change in financial assumptions	(97,415)	(339,812)	(437,227)
Actuarial (gain) on change in demographic assumptions	(13,511)	(44,888)	(58,399)
Transfers (paid)	(23,545)	(5,022)	(28,567)
Benefits (paid)	(18,625)	(19,451)	(38,076)
Employee contributions	1,313	15,225	16,538
Defined benefit obligation at 31 March 2020	**583,872**	**1,929,023**	**2,512,895**

Changes in the fair value of plan assets are as follows:	GPS Section of the CNPP £000	CNPP £000	Total £000
Fair value of plan assets at 1 April 2018	648,873	1,216,774	1,865,647
Interest income	16,371	31,963	48,334
Employer contributions	6,489	76,042	82,531
Transfers (paid)	(9,440)	(3,158)	(12,598)
Benefits (paid)	(12,275)	(14,605)	(26,880)
Return on plan assets (excluding amounts included in interest income)	30,277	62,872	93,149
Contributions by employees	1,396	15,502	16,898
Fair value of plan assets at 31 March 2019	**681,691**	**1,385,390**	**2,067,081**
Interest income	16,278	34,731	51,009
Employer contributions	6,054	74,015	80,069
Transfers (paid)	(23,545)	(5,022)	(28,567)
Benefits (paid)	(18,625)	(19,451)	(38,076)
Return on plan assets (excluding amounts included in interest income)	(39,520)	(116,076)	(155,596)
Contributions by employees	1,313	15,225	16,538
Fair value of plan assets at 31 March 2020	**623,646**	**1,368,812**	**1,992,458**

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

Deloitte Total Reward and Benefits Limited is the CNPP actuary.

Notes to the financial statements
continued

16 Pension schemes (continued)

At 31 March 2020 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:

	2020 %	2019 %
Group Pension Scheme Section of the CNPP		
Equities and diversified growth funds	50	52
Bonds and gilts	38	37
Properties and other	12	11
Combined Nuclear Pension Plan		
Equities and diversified growth funds	62	63
Bonds and gilts	24	24
Properties and other	14	13

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

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

	GPS Section of the CNPP 2020 %	GPS Section of the CNPP 2019 %	CNPP 2020 %	CNPP 2019 %
Main assumptions				
Future salary increases: year 1	–	2.50	–	2.50
Future salary increases: years 1 to 10	2.00	–	2.00	–
Future salary increases: years 2 to 11	–	2.35	–	2.35
Future salary increases: years 10+	2.50	–	2.50	–
Future salary increases: years 12 and thereafter	–	2.85	–	2.85
Future pension increases in payment or deferment	2.40	3.50	2.40	3.50
Discount rate	2.25	2.45	2.25	2.45
RPI Inflation assumption	2.40	3.50	2.40	3.50
CPI Inflation assumption	2.00	2.35	2.00	2.35
Post-retirement mortality (in years)				
Current pensioners at 65 – male	21.3	21.8	21.3	21.8
Current pensioners at 65 – female	23.2	23.7	23.2	23.7
Future pensioners at 65 (now 45) – male	22.4	22.9	22.4	22.9
Future pensioners at 65 (now 45) – female	24.5	25.0	24.5	25.0

Notes to the financial statements
continued

16 Pension schemes (continued)

The UK discount rate is based on published indices for 15-year AA bonds. The assumptions for inflation and for increases in pension are based on the yield gap between long-term index-linked and long-term fixed interest gilt securities. Mortality rates for both the CNPP and GPS are based on SAPS CMI 2018 projections (1% long-term trend rate) (2019: SAPS CMI 2017 projections (1% long-term rate). For both sections, mortality assumptions have been adjusted to allow for expected future improvements in longevity.

The post-retirement mortality assumptions allow for expected changes 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 2035.

Sensitivity analysis

The impact on defined benefit obligations being:

	Increase £000	Decrease £000
Group Pension Scheme Section of the CNPP		
0.5% change in discount rates: 2020	(57,219)	50,797
0.5% change in discount rates: 2019	(69,333)	61,551
0.5% change in salary increase: 2020	7,590	(7,006)
0.5% change in salary increase: 2019	9,197	(8,490)

	Increase £000	Decrease £000
Combined Nuclear Pension Plan		
0.5% change in discount rates: 2020	(252,702)	221,838
0.5% change in discount rates: 2019	(277,543)	243,645
0.5% change in salary increase: 2020	90,664	(82,948)
0.5% change in salary increase: 2019	99,577	(91,102)

The most recently completed actuarial valuation of the GPS section was carried out as at 31 March 2016. Following the valuation, the Company's ordinary contribution rate decreased to 25% (2013 valuation: 28.7%) of pensionable salaries with effect from 1 April 2018. The next valuation is due to be completed as at 31 March 2019.

The most recently completed actuarial valuation of the CNPP scheme was carried out as at 31 March 2016. Following the valuation, the Company's ordinary contribution rate increased to 25.2% (2013 valuation: 22%) of pensionable salaries with effect from 1 April 2018. The next valuation is due to be completed as at 31 March 2019.

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

Employer contributions in the year ended 31 March 2021 are expected to be £6,176,000 (2019/20: £6,651,000) in respect of the GPS section and £75,495,000 (2019/20: £77,568,000) 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.

Notes to the financial statements
continued

16 Pension schemes (continued)

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

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

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
GPS Section of the CNPP					
Defined benefit obligation	**(584)**	(707)	(682)	(737)	(564)
Plan assets	**624**	682	649	637	534
Surplus/(deficit)	**40**	(25)	(33)	(100)	(30)

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Combined Nuclear Pension Plan					
Defined benefit obligation	**(1,929)**	(2,119)	(1,852)	(1,644)	(1,048)
Plan assets	**1,369**	1,385	1,217	1,104	857
(Deficit)	**(560)**	(734)	(635)	(540)	(191)

The net deficit of both sections of the CNPP is recognised in full with a corresponding asset from the NDA, as principal employer, for the full value of the net deficit

History of experience of gains and losses

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
GPS Section of the CNPP					
Experience (losses)/gains on scheme assets: Amount	**(39,520)**	30,277	6,835	85,508	(14,493)
Experience gains on scheme liabilities: Amount	**–**	547	46,021	3,139	5,368

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Combined Nuclear Pension Plan					
Experience (losses)/gains on scheme assets: Amount	**(116,076)**	62,872	14,896	141,151	(17,950)
Experience gains/(losses) on scheme liabilities: Amount	**–**	98	(91,781)	726	1,074

17 Ultimate Group undertaking

The Company's shareholder, NDA, is a Non-Departmental Public Body sponsored by BEIS. The Company is included within the publicly available group accounts of both the NDA and BEIS. As a result, in the directors' opinion, the Company's ultimate controlling party is Her Majesty's Government.

18 Post balance sheet events

As described in note 13, on 27 April 2020 the B share of £1 was transferred from NMP to NDA.

Sellafield Ltd