
COMBINED NUCLEAR PENSION PLAN

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

COMBINED NUCLEAR PENSION PLAN

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COMBINED NUCLEAR PENSION PLAN

TRUSTEE AND ITS ADVISERS Year ended 31 March 2017

| | |
|---------------------------------|---|
| Trustee | Combined Nuclear Pension Plan Trustees Limited Herdus House Westlakes Science & Technology Park Moor Row CA24 3HU |
| Trustee Directors | Mrs J Corbett - Member nominated Mr I Driver - Member nominated (resigned 31 March 2017) Mr J Ford - Member nominated (resigned 31 March 2017) Mr D Gregory - Member nominated Mr D Illingworth - Chairman, Independent Mr N Lowe - Employer nominated Mrs A Uppington - Member nominated (appointed 1 April 2017) Mr A van der Lem - Employer nominated (appointed 1 April 2017) Mr D Vineall - Employer nominated PAN Governance LLP - Independent (represented by Mr M Roberts) (appointed 1 April 2016) Capital Cranfield Pension Trustees Limited - Independent (represented by Ms I Kirby) (appointed 1 April 2016) |
| Secretary to the Trustee | Steve Hayton FPMI Combined Nuclear Pension Plan c/o NDA B587 Curie Avenue Harwell Oxford Didcot Oxfordshire OX11 0RH |
| Plan Actuary | Mark McClintock Deloitte Total Reward and Benefits Limited |
| Plan Administrators | Aon Hewitt Limited (for sections other than Nirex) Brims House Forss Business & Technology Park by Thurso Caithness KW14 7UZ Barnett Waddingham LLP (Plan administrators for the Nirex Section) St James's House St James's Square Cheltenham Gloucestershire GL50 3PR |
| Auditor | KPMG LLP |

COMBINED NUCLEAR PENSION PLAN

TRUSTEE AND ITS ADVISERS Year ended 31 March 2017

| | |
|--|---|
| Investment Managers | Defined Benefit Barings Asset Management ("Barings") (formerly Babson Capital) BlackRock Advisors (UK) Limited ("BlackRock") (until 21 July 2016) Columbia Threadneedle Investments (Channel Islands) Limited ("Threadneedle") Highbridge Capital Management (UK) Limited ("Highbridge") Insight Investment Management (Global) Limited ("Insight") Legal & General Assurance (Pensions Management) Limited ("Legal & General") MFS International (UK) Limited ("MFS") Partners Group (Guernsey) Limited ("Partners Group") Standard Life Assurance Limited ("Standard Life") Partners Group Private Markets Credit Strategies S.A. ("Partners Group SA") Pictet Asset Management Ltd ("Pictet") (appointed 15 June 2016) |
| Common Investment Platform Administrators | State Street Bank & Trust Co |
| Investment Platform | Defined Contribution BlackRock Life Limited Prudential Assurance Company Limited |
| Banker | Royal Bank of Scotland PLC |
| Legal Adviser | Squire Patton Boggs (UK) LLP |
| Investment Consultant | Hymans Robertson LLP |
| Independent Medical Adviser | Medigold Health Consultancy Limited |
| Covenant Adviser | AlixPartners Services UK LLP ("AlixPartners") (until 6 February 2017) Lincoln Pensions Limited (from 6 February 2017) |
| Life Insurer | Rutherford Indemnity Limited |
| Sponsoring Employers | Direct Rail Services Limited Dounreay Site Restoration Limited ATK Energy EU Limited (formerly EnergySolutions EU Limited) International Nuclear Services Limited LLW Repository Limited Magnox Limited National Nuclear Laboratory Limited Nuclear Decommissioning Authority (NDA) Sellafield Limited Springfields Fuels Limited Uranium Asset Management Limited (until 6 April 2016) Westinghouse Electric UK Holdings Limited |

COMBINED NUCLEAR PENSION PLAN

TRUSTEE AND ITS ADVISERS Year ended 31 March 2017

Contact address

Aon Hewitt Limited
Brims House
Forss Business & Technology Park
by Thurso
Caithness
KW14 7UZ

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Introduction

The Trustee of Combined Nuclear Pension Plan (the 'Plan') is pleased to present the annual report together with the audited financial statements for the year ended 31 March 2017. The Plan incorporates a defined benefit (DB) structure and a defined contribution (DC) structure with the Nirex Section administered by Barnett Waddingham and all other Sections administered by Aon Hewitt Limited in accordance with the establishing documents and rules, solely for the benefit of its members and other beneficiaries.

The Plan was established with effect from 1 October 2006.

Individual employers participate in one or more sections under the Plan and there are two categories of membership within each section:

- The DB Structure which provides benefits based on a member's salary and length of service. In addition, some members of the DB Structure pay contributions based upon shift pay to a defined contribution arrangement: the Shift Pay Pension Plan (SPPP). The DB Structure is closed to new employees of the participating employers. Members of the DB Structure are able to make additional voluntary contributions (AVCs) to secure additional benefits.
- The DC Structure which provides benefits based on what a member's accumulated fund value will purchase.

Further information about the Plan, including the Trust Deed and Rules, can be found on the Plan website (cnpp.org.uk).

Plan Developments

With effect from 6 April 2016 Uranium Asset Management (UAM) Limited ceased to participate in the Plan and all liabilities have been transferred to Westinghouse Electric UK Holdings Limited. All active UAM members were transferred to the employment of Westinghouse Electric UK Holdings Limited. With effect from 16 August 2016 the GPS WEC/UAM Section will be called the GPS WEC Section.

With effect from 1 July 2016, the Common Investment Platform (CIP) was expanded to include all sections of the Plan with the exception of the GPS EnergySolutions Section.

With effect from 6 April 2016, the basic state pension and second state pension were abolished and replaced by the Single Tier State Pension, which meant the end of contracting out for defined benefit schemes. The Plan therefore ceased to be contracted out from that date.

With effect from 6 February 2017, following their withdrawal from the UK covenant advice market, Alix Partners were replaced by Lincoln Pensions Limited as the Plan's covenant adviser.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Management of the Plan

The Trustee is appointed and may be removed from office and replaced by another corporate trustee by the Lead Company, the Nuclear Decommissioning Authority (NDA), in accordance with the provisions of the Trust Deed.

There are nine Trustee Directors, three of whom are selected by the Lead Company (employer directors), three by the members (member directors) and three professional independent trustees including the Chair selected by the Lead Company with the involvement of the Trustee. Directors are appointed for a fixed period of no longer than five years. Directors will only be eligible to stand again 5 years from the date which they last held office.

Mr I Driver and Mr J Ford resigned as Trustee Directors on 31 March 2017. Mrs A Uppington was appointed as a Member nominated Director and Mr A Van der Lem as a Trustee Director with effect from 1 April 2017.

The Trustee Directors are listed on page 1.

Trustee meetings

During the year the Trustee Board met five times. All decisions are taken by majority with the Chairman having the casting vote.

The Trustee has established the following committees which meet as required:

- Communications sub-committee (met twice during the year)
- Investment sub-committee (met four times during the year)

In addition, a Discretionary sub-committee and an Audit and Administration sub-committee will meet as required.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

The Lead Company and Sponsoring Employers

The Lead Company of the Plan is the NDA. There were 12 sponsoring employers during the year and the sections in which they have participated are listed below:

| Section | Sponsoring Employer |
|-----------------------------|---|
| Closed | NDA |
| DSRL | Dounreay Site Restoration Limited |
| GPS DRS | Direct Rail Services Limited |
| GPS EnergySolutions | ATK Energy EU Limited (formerly EnergySolutions EU Limited) |
| GPS Nexia | National Nuclear Laboratory Limited |
| GPS SLC | International Nuclear Services Limited |
| | LLW Repository Limited |
| | Magnox Limited |
| | Sellafield Limited |
| GPS WEC | Springfields Fuels Limited |
| | Uranium Asset Management Limited (until 6 April 2016) |
| | Westinghouse Electric UK Holdings Limited |
| LLWR | LLW Repository Limited |
| Magnox | Magnox Limited |
| Nirex | NDA |
| Sellafield | Sellafield Limited |
| Springfields Fuels 2 (SFL2) | Springfields Fuels Limited |

The Plan is provided for all eligible employees of the sponsoring employers.

Pension Protection Fund

The payment of the Pension Protection Fund levies are met by the sponsoring employers when due.

Plan changes

The Plan was established under a Trust Deed and Rules on 1 October 2006. A second definitive Trust Deed and Rules was effected from 1 September 2009 and the six further deeds of amendment since that time have been incorporated into the third definitive Trust Deed and Rules dated 28 March 2012. There have been six further Deeds of Amendment since the third definitive Trust Deed and Rules were effected. The Plan's governing documents are available on the Plan website.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Membership

Details of the membership of the Plan as at 31 March 2017 are given below:

| | Active members 2017 | Deferred pensioners 2017 | Pensioners 2017 | Total 2017 |
|--|---------------------------|--------------------------------|--------------------|---------------|
| DB Structure | | | | |
| Members at the start of the year | 9,858 | 2,672 | 2,831 | 15,361 |
| New entrants in the year | 5 | - | - | 5 |
| New spouses and dependants | - | - | 47 | 47 |
| Retirements | (339) | (145) | 484 | - |
| Deaths | (13) | (4) | (33) | (50) |
| Members leaving with no benefit | (1) | (10) | - | (11) |
| Members leaving with preserved benefits | (148) | 148 | - | - |
| Reinstatements | - | 1 | - | 1 |
| | <u>9,362</u> | <u>2,662</u> | <u>3,329</u> | <u>15,353</u> |
| DC Structure | | | | |
| Members at the start of the year | 5,058 | 271 | - | 5,329 |
| New entrants in the year | 600 | - | - | 600 |
| Death in service | (3) | - | - | (3) |
| Members leaving with no benefit | (92) | (18) | - | (110) |
| Members leaving with preserved benefits | (143) | 143 | - | - |
| | <u>5,420</u> | <u>396</u> | <u>-</u> | <u>5,816</u> |
| TOTAL MEMBERSHIP AT THE END OF THE YEAR | <u>14,782</u> | <u>3,058</u> | <u>3,329</u> | <u>21,169</u> |

Included within the closing pensioners figure are dependant pensioners of 257 (2016: 215).

New entrants in the year are gross of opt-outs on auto-enrolment.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

The membership figures are broken down by section as follows:

DB Structure

| | Active members | Deferred members | Pensioners | Total |
|---------------------|----------------|------------------|--------------|---------------|
| Closed | - | 967 | 397 | 1,364 |
| DSRL | 614 | 183 | 162 | 959 |
| GPS DRS | 183 | 65 | 36 | 284 |
| GPS EnergySolutions | - | 5 | 8 | 13 |
| GPS Nexia | 3 | 1 | 1 | 5 |
| GPS SLC | 448 | 430 | 493 | 1,371 |
| GPS WEC | 44 | 17 | 15 | 76 |
| LLWR | 85 | 8 | 17 | 110 |
| Magnox | 427 | 164 | 263 | 854 |
| Nirex | - | 75 | 87 | 162 |
| Sellafield | 6,731 | 635 | 1,645 | 9,011 |
| SFL2 | 827 | 112 | 205 | 1,144 |
| | <u>9,362</u> | <u>2,662</u> | <u>3,329</u> | <u>15,353</u> |

DC Structure

| | Active members | Deferred members | Pensioners | Total |
|------------|----------------|------------------|------------|--------------|
| Closed | - | 1 | - | 1 |
| DSRL | 552 | 10 | - | 562 |
| GPS DRS | 241 | 16 | - | 257 |
| GPS SLC | 48 | 1 | - | 49 |
| GPS WEC | 38 | 8 | - | 46 |
| LLWR | 139 | 7 | - | 146 |
| Magnox | 596 | 165 | - | 761 |
| Sellafield | 3,635 | 158 | - | 3,793 |
| SFL2 | 171 | 30 | - | 201 |
| | <u>5,420</u> | <u>396</u> | <u>-</u> | <u>5,816</u> |

The pensioners figure includes dependant pensioners.

There were no members included in the Plan for life assurance only benefits.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Benefits changes

There were no changes to the Plan benefits during the year.

Pensions Increases

Pensions in payment and deferred pensions received a 0.8% increase from 1 April 2016 for all Benefit Structures with the exception of the Nirex Benefit Structure which received a 1.1% increase. The Trust Deed and Rules of the Plan specify the increases which are based on the percentage increase of the RPI in September each year for CPS and GPS Structures, and LPI in December each year for the Nirex Structure. There were no discretionary increases awarded in the year.

Actuarial Review

The accounts set out on pages 43 to 68 do not take into account the liabilities to provide pension benefits which fall due after the year end. In respect of the Defined Benefit Structure these liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of these liabilities every three years. This valuation considers the funding position of the Defined Benefit Structure and the level of contributions payable.

Actuarial valuations for all 12 sections in operation at 31 March 2016 have been completed. Following the valuations, Schedules of Contributions for all sections have been put in place.

Review of the financial developments during the year as shown by the audited financial statements

The financial statements on pages 43 to 68 show that the value of the Plan's assets increased by £546,463,000 to £2,618,286,000 as at 31 March 2017. The increase was comprised of net additions from dealings with members of £129,172,000, together with a net increase in the returns from investments of £417,291,000.

The financial statements have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.

Further details of the financial developments of the Plan may be found in the audited financial statements on pages 43 to 68.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Report on Actuarial liabilities

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent triennial actuarial valuation of the Plan was carried out as at 31 March 2016. An updated valuation was performed as at 31 March 2017.

| Technical Provisions Valuation | 31 March 2016 | | | 31 March 2017 | | |
|--------------------------------|--------------------|------------------|--------------------------|--------------------|------------------|--------------------------|
| | Liabilities (£000) | Assets (£000) | Surplus/(Deficit) (£000) | Liabilities (£000) | Assets (£000) | Surplus/(Deficit) (£000) |
| Closed Section * | 81,748 | 83,064 | 1,316 | 95,511 | 97,929 | 2,418 |
| Magnox * | 82,719 | 81,730 | (989) | 105,444 | 101,917 | (3,527) |
| LLWR * | 13,598 | 13,447 | (151) | 19,353 | 17,528 | (1,825) |
| DSRL * | 69,639 | 64,827 | (4,812) | 97,340 | 83,601 | (13,739) |
| Sellafield * | 881,430 | 855,586 | (25,844) | 1,230,467 | 1,103,714 | (126,753) |
| Nirex * | 32,776 | 29,466 | (3,310) | 37,536 | 34,620 | (2,916) |
| GPS SLC * | 489,709 | 533,864 | 44,155 | 581,300 | 636,592 | 55,292 |
| GPS DRS | 56,012 | 59,131 | 3,119 | 74,519 | 72,531 | (1,988) |
| SFL 2 | 102,780 | 92,820 | (9,960) | 138,718 | 121,604 | (17,114) |
| GPS Nexia | 3,845 | 3,905 | 60 | 4,694 | 4,662 | (32) |
| GPS | 35,909 | 26,457 | (9,452) | 40,634 | 29,877 | (10,757) |
| EnergySolutions | | | | | | |
| GPS WEC | 43,983 | 41,242 | (2,741) | 53,850 | 47,776 | (6,074) |
| Total | 1,894,148 | 1,885,539 | (8,609) | 2,479,366 | 2,352,351 | (127,015) |

* NDA backed Sections

Although there are no current plans to discontinue the Plan and buy-out liabilities with an insurance company (with the exception of the GPS EnergySolutions section), the Trustee also consider the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") and equivalent information on this basis is provided below:

| Solvency Valuation | 31 March 2016 | | |
|---------------------|--------------------|------------------|--------------------------|
| | Liabilities (£000) | Assets (£000) | Surplus/(Deficit) (£000) |
| Closed Section * | 176,059 | 83,064 | (92,995) |
| Magnox * | 198,053 | 81,730 | (116,323) |
| LLWR * | 39,980 | 13,447 | (26,533) |
| DSRL * | 189,243 | 64,827 | (124,416) |
| Sellafield * | 2,483,374 | 855,586 | (1,627,788) |
| Nirex * | 60,731 | 29,466 | (31,265) |
| GPS SLC * | 1,008,199 | 533,864 | (474,335) |
| GPS DRS | 144,714 | 59,131 | (85,583) |
| SFL 2 | 218,993 | 92,820 | (126,173) |
| GPS Nexia | 7,471 | 3,905 | (3,566) |
| GPS EnergySolutions | 35,909 | 26,457 | (9,452) |
| GPS WEC | 82,005 | 41,242 | (40,763) |
| Total | 4,644,731 | 1,885,539 | (2,759,192) |

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Plan in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Post retirement discount rate

- NDA-backed and GPS DRS Sections: selected by inspection of the yields available on fixed interest gilts with a similar duration to the Section's liabilities, plus an allowance for corporate bond outperformance above the yield on gilts and the expected return on the proportion of growth assets being held to back the pensioner liabilities.
- GPS EnergySolutions: selected by inspection of the yields available on fixed interest gilts with a similar duration to the Section's pensioner liabilities, less a deduction of 0.5% p.a. for pensioner members, or a deduction of 1.0% p.a. for non-pensioner members.
- Other sections: selected by inspection of the yields available on fixed interest gilts with a similar duration to the Sections' liabilities, plus an allowance for corporate bond outperformance above the yield on gilts.

Pre-retirement discount rate

- All sections except GPS EnergySolutions: based on the yield available on fixed interest gilts with a similar duration to the Sections' liabilities, plus an allowance for the higher return that would be expected from growth assets after an allowance for prudence. Consideration has been given to the level of growth assets as a percentage of the non-pensioner liabilities up to a threshold of 70%, with any excess above this ignored on the grounds of prudence. Allowance has been made to reflect the strength of the sponsor covenant.
For the NDA-backed and GPS DRS Sections, there is a further allowance for additional outperformance of the assets for future service.
- GPS EnergySolutions: based on the yield available on fixed interest gilts with a similar duration to the Section's non-pensioner liabilities, less a deduction of 1.0% p.a.

Inflation

The assumed rate of RPI price inflation is set by reference to the Bank of England's UK implied inflation spot curve data (using a duration appropriate to the liabilities). An adjustment of 0.20% p.a. is made to allow for a possible inflation risk premium, reflecting the high demand for index linked gilts distorting the Bank of England's market based calculation. The assumed rate of CPI price inflation is derived from the assumption for RPI less an adjustment equal to 1.00% p.a.

Pension increases

Set in line with RPI assumptions. An adjustment could be considered to the assumption for price inflation when looking at RPI inflation-linked pension increases to allow for any caps and collars that apply to the pension increases.

Revaluation of deferred pensions

Set in line with either RPI (or CPI for Nirex).

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Pensionable Earnings Increases

Pensionable Earnings have been assumed to increase relative to either the assumed rate of price inflation following discussions with the Lead Employer or Section Employer by an amount based on an experience analysis conducted for the 31 March 2016 valuation. Short term "salary patches" have been applied for some sections in light of restrictions on public sector pay increases.

Mortality

The standard tables SAPS S2 have been used with the CMI 2015 projections and a long-term improvement rate of 1.25% p.a.

Recovery Plan

The arrangements for the sections backed by the Nuclear Decommissioning Authority were formalised in a Schedule of Contributions which the Scheme Actuary certified on 30 May 2017.

| Section | Recovery Plan |
|----------------|---|
| Closed Section | This section is closed to future contributions and given the surplus at 31 March 2016, no contributions are required. |
| Magnox | To increase the employer contribution rate to 25.8% p.a. of Pensionable Earnings from 1 April 2018. Contributions and existing assets are assumed to return an additional yield of 0.5% p.a. (on the relevant proportion of growth assets). The level of investment performance is sufficient that the funding shortfall is expected to be met by 31 March 2028, therefore no additional employer contributions are required. |
| LLWR | To increase the employer contribution rate to 23.6% p.a. of Pensionable Earnings from 1 April 2018. Contributions and existing assets are assumed to return an additional yield of 0.5% p.a. (on the relevant proportion of growth assets). The level of investment performance is sufficient that the funding shortfall is expected to be met by 31 March 2028, therefore no additional employer contributions are required. |
| DSRL | To increase the employer contribution rate to 25.3% p.a. of Pensionable Earnings from 1 April 2018. Contributions and existing assets are assumed to return an additional yield of 0.5% p.a. (on the relevant proportion of growth assets). Employer contributions of £400k p.a., payable monthly, for 10 years from 1 April 2018 are also required. The level of investment performance is sufficient that the funding shortfall is expected to be met by 31 March 2028. |
| Sellafield | To increase the employer contribution rate to 25.2% p.a. of Pensionable Earnings from 1 April 2018. Contributions and existing assets are assumed to return an additional yield of 0.5% p.a. (on the relevant proportion of growth assets). The level of investment performance is sufficient that the funding shortfall is expected to be met by 31 March 2028, therefore no additional employer contributions are required. |
| Nirex | Existing assets are assumed to return an additional yield of 0.5% p.a. (on the relevant proportion of growth assets). Employer contributions of £556k p.a., payable monthly, for 6 years from 1 April 2016 are also required. The level of investment performance is sufficient that the funding shortfall is expected to be met by 31 March 2022. |
| GPS SLC | Given the surplus at 31 March 2016 it agreed that the employer contribution rate would decrease to 25.0% of Pensionable Earnings from 1 April 2018. |

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

For the other sections, the following recovery plans were negotiated with the respective section employer:

| Section | Recovery Plan |
|------------------------|--|
| SFL 2 | <p>Springfield Fuels Limited agreed to increase the employer contribution rate to 35.9% of Pensionable Earnings from 1 July 2017.</p> <p>The employer has agreed a contribution of £2.8m to allow for the employer contribution rate increasing from 1 July 2017 rather than 31 March 2016 and £2.7m in respect of the increase in the salary linkage liability from 31 March 2013 up to 30 September 2017. These contributions are payable in September 2017.</p> <p>In respect of the deficit at 31 March 2016, the employer has agreed to pay contributions of £1.4m per annum, payable monthly, from 1 April 2018 for a period of 5 years. It is expected that the funding shortfall will be met by 31 March 2023.</p> <p>To cover the future cost of salary linkage, contributions of £62k per month will be paid until 30 September 2017 and from 1 October 2017, the contributions will be £21k per month.</p> <p>The arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 31 July 2017.</p> |
| GPS WEC | <p>Westinghouse Electric UK Holdings Limited and Springfields Fuels Limited agreed to increase the employer contribution rate to 39.2% of Pensionable Earnings from 1 July 2017.</p> <p>The employers have agreed to contribute £350k in September 2017 to allow for the employer contribution rate increasing from 1 July 2017 rather than 31 March 2016.</p> <p>The employers have agreed to pay contributions of £550k per annum, payable monthly, from 1 July 2017 for a period of 6 years. It is expected that the funding shortfall will be met by 30 June 2023.</p> <p>The arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 17 July 2017.</p> |
| GPS EnergySolutions | <p>This section no longer has any active members, no contributions are required for future benefit accrual. Employer contributions of £2m p.a., payable annually for 5 years from 1 July 2017 are required.</p> <p>The recovery plan has the additional conditions in respect of the escrow account;</p> <ul style="list-style-type: none">• The escrow account shall remain available over the length of the recovery plan or until the buyout is completed (if earlier);• The first payment of £2m will be made during July 2017. This payment and future recovery plan payments will not be paid from the escrow account; and• Additional payments are made available if the actual buyout cost is higher than the amount held in escrow. <p>The arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 21 June 2017.</p> |

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TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Section
GPS DRS

Recovery Plan

To increase the employer contribution rate to 28.8% p.a. of Pensionable Earnings from 1 July 2017. As the section was in surplus at 31 March 2016, no additional contributions are required.

The arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 30 May 2017.

GPS Nexia

To increase the employer contribution rate to 37.0% p.a. of Pensionable Earnings from 1 July 2017. As the section was in surplus at 31 March 2016, no additional contributions are required.

The arrangements were formalised in a Schedule of Contributions which the Scheme Actuary certified on 30 May 2017.

The next triennial valuation will be performed as at 31 March 2019.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

General investment matters

All investments, except Additional Voluntary Contributions ("AVCs"), Shift Pay Pension Plan ("SPPP") and the DC Structure funds, have been managed during the year under review by the Plan's DB investment managers.

The Plan's investment strategy is agreed by the Trustee after taking appropriate professional advice. The investment strategy specifies the target proportions of the fund which should be invested in the principal market sectors. It is the responsibility of the investment managers to manage the Plan's assets day-to-day and to invest within the confines of the agreed investment strategy.

Statement of Investment Principles

The Trustee has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. The statement dated March 2017 is available on the CNPP website. The main priority of the Trustee, when considering the investment policy, is to ensure that there are sufficient assets available to pay out members' and dependants' benefits when they fall due.

Payments to the Employer

No payments have been made out of the Plan to the Employer since its inception and none are envisaged.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Custodial arrangements

The Trustee is responsible for ensuring that the Plan's assets continue to be securely held.

The investment managers appoint custodians for the safe custody of assets. The custodians who have been appointed by the investment managers are:

| Investment Manager | Custodian |
|--------------------------------|--|
| Barings | State Street Custodial Services (Ireland) Limited |
| Insight | The Northern Trust Company |
| MFS | State Street Bank Luxembourg S.A. |
| Highbridge | No custodian is appointed due to the nature of the underlying investments - Harmonic Fund Services are used to record unit holdings |
| Legal & General | HSBC Bank Plc and Citibank International Plc |
| Standard Life | Citigroup Inc |
| Columbia Threadneedle | No custodian is appointed due to the nature of the underlying investments - BNP Paribas are used to record unit holdings |
| Partners Group | Partners Group Global Strategies 2014 Fund Deutsche Bank AG No custodian is appointed for the Partners Group Global Value 2014 Fund due to the nature of the investment. The General Partner, Partners Group Management II Limited, a Guernsey limited liability company, manages the funds's investments and day-to-day operations. |
| Pictet | Pictet & Cie (Europe) S.A. |
| Partners Group PMCS | Deutsche Bank |
| BlackRock (until 21 July 2016) | JP Morgan Chase Bank N.A. |
| Common Investment Platform | State Street Global Services |

The Royal Bank of Scotland PLC has been appointed by the Trustee as custodian of the cash held in connection with the administration of the Plan carried out by Aon Hewitt Limited and Barnett Waddingham.

With effect from 1 July 2016, all Sections of the Plan (excluding GPS EnergySolutions) participated in the Common Investment Platform. Custodial services in relation to investments in the Common Investment Platform continued to be provided by State Street Bank & Trust Co.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Custodial arrangements (continued)

AVCs, SPPP and the DC Structure funds are invested with BlackRock Advisors (UK) Limited and the Prudential Assurance Company Limited. Members are free to choose how their contributions are invested from a portfolio of investment funds made available by the Trustee.

The Trustee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. The investment managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

The extent to which social, environmental and ethical considerations are taken into account in investment decisions is left to the discretion of the investment managers subject to such social, environmental and ethical issues not having a prejudicial financial impact on the securities held.

Self-investment

The investments of the Plan are invested in accordance with Section 40 of the Pensions Act 1995.

Transfers

Members leaving service can normally transfer the value of their benefits under the Plan to another pension scheme that they join or to an insurance contract or personal/stakeholder pension.

The transfer value of a Plan member's benefits includes no allowance for any discretionary benefits which might be awarded in the future.

The transfer values paid during the year were calculated and verified by the Plan Actuary in accordance with statutory regulations.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Further information

Further information about the Plan is available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Plan, the Rules and a copy of the latest actuarial report and the Trustees' Statement of Investment Principles can be inspected.

Individual benefit statements are provided to active members annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests are available free of charge once a year.

If members have any queries concerning the Plan or their own pension position, or wish to obtain further information, they should contact the Trustee at the address shown below who will also be able to provide them with a further copy of the Plan Rules, should they require one, and answer any queries that they may have about entitlement to benefits.

The Trustee of Combined Nuclear Pension Plan
c/o Aon Hewitt Limited
Brims House
Forss Business & Technology Park
by Thurso
Caithness
KW14 7UZ

Email: cnpp.mailbox@aonhewitt.com

The Data Protection Act 1998 seeks to protect and respect the individual's rights to privacy. The Data Protection Act came into force on 1 March 2000 and regulates the use of personal data relating to living individuals that are processed automatically or manually and held in a relevant filing system. Explicit consent of the member is required where personal sensitive data is held or processed. Sensitive information can include information relating to, for example, the health of a member.

The Trustee, in its capacity as 'Data Controllers' and the Plan's advisers and suppliers in their capacity as 'Data Processors' under the Act each have a legal obligation and legitimate interest to process data relating to members for the purpose of administering and operating the Plan, which includes passing on data to third parties. For example, the provision of Death in Service benefits requires information to be passed to other professional providers and life office advisers who underwrite such benefits.

The Lead Company (which is also regarded as a "Data Controller") also has a legal obligation and legitimate interest to process data relating to members for the purpose of administering and operating the Plan, which includes passing on data to third parties, as mentioned above.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Investment commentary

Political uncertainty was to the fore in the period, most notably in the UK's decision in June to leave the EU and the US election of President Trump in November. Neither event was widely expected in March 2016 and both did disrupt financial markets but only very briefly. The most significant sustained reaction was a plunge in Sterling after the referendum vote which in trade-weighted terms fell by 10% over the period as a whole.

Economic developments had the more lasting influence on markets. Global economic growth was a little disappointing over 2016 as a whole, but momentum increased towards the end of the year. Global inflation was certainly not pointing to a lasting downturn. There was a sharp rise in headline inflation in the US, UK and Eurozone which mainly reflected a rise in oil prices from early 2016 after the collapse of the previous 18 months. However, underlying price pressures continued to grow, albeit slowly.

April brought the (previously announced) extension of the Eurozone's Quantitative Easing programme and the Bank of Japan extended its own programme in September. UK rates were cut to 0.25% p.a. in August in anticipation of post-referendum economic weakness. The second half of the period brought two rate rises in the US and an admission from the Bank of England that the further rate cut they had threatened wasn't required by a still-buoyant UK economy. There was even a growing view that further easing in the Eurozone and Japan was becoming less likely.

Government bonds took their cue from interest rate expectations. Yields were flat or tending to drift down in the early part of the period, but moving higher later on. Over the 12 months to March, 10-year gilt yields fell from 1.5% p.a. to 1.1% p.a., after falling as low as 0.6% p.a. in August. The fall in index-linked gilt yields was even greater, reflecting both the likely rise in inflation over the next couple of years (driven by Sterling weakness) and investors' willingness to pay more for protection against future uncertainty.

In general, non-government bonds outperformed government bonds. In sterling investment-grade markets, yield spreads relative to gilts were close to 5-year highs in March 2016 but much closer to 5-year lows in March 2017.

Equity markets had dipped in advance of the US presidential election. Just before polling day, global indices were barely higher than they were at the start of the period. But initial doubts about a Trump regime were quickly replaced by growing optimism and markets rallied strongly. The FTSE All-World Index returned 18% over the period in local currency terms; currency weakness meant this was boosted to 33% in sterling terms.

UK commercial property values fell in the wake of the EU referendum and some property funds (particularly those aimed at retail investors) had to make substantial sales quickly to meet redemption requests. As measured by the widely-followed IPD Monthly Index, values recovered towards the end of the period, but still finished a little lower than they started. The total return on the Index was positive, as income was sufficient to offset the modest capital falls. In aggregate, rents continued to rise over the period, but the rate of growth was falling throughout, particularly in the office sector.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

Market returns



DB Structure investment strategy

The Trustee currently sets the investment strategy for each Section of the Plan, taking into account considerations such as the strength of the employer covenant, the maturity of the Sections and after receiving professional advice from Hymans Robertson LLP, in order to try and achieve the following objectives:

The primary objective of the DB structure of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a DB basis.

The Trustee's over-riding funding principles for the DB structure are:

- to build up assets to provide for new benefits of active members as they are earned;
- to recover any funding shortfall over an agreed time frame; and
- to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee intends to ensure that the investment objectives are consistent with the Plan's Statement of Funding Principles. Within the context of achieving these over-riding funding principles, the Trustee also aims to:

- achieve a return required to enable contributions to be consistent with an acceptable level for the sponsor (NDA backed sections);
- achieve self-sufficiency by the time all members have reached retirement or such earlier date as may be appropriate (non-NDA backed sections);
- control the exposure to investment risk associated with the investment strategy and its implementation, whilst meeting the above objectives; and
- invest the Plan assets to meet net cashflows, and thus avoid the risk of forced disinvestment at unattractive prices.

COMBINED NUCLEAR PENSION PLAN

TRUSTEE'S REPORT YEAR ENDED 31 MARCH 2017

In order to achieve these objectives, it is necessary to take investment risk.

The following table summarises the broad asset classes in which each Section of the Plan was invested as at 31 March 2017. The proportions of assets held in the various asset classes shown in the table may differ from the proportions reported for the purpose of the 31 March 2016 accounts due to the transfer of a number of sections into the CIP with effect from 1 July 2016, changes in the value of the underlying funds during the year and the impact of cashflows. Investment in each of these classes is achieved via a number of pooled investment vehicles managed by various investment managers, as discussed in the following section.

| Asset class | % of Defined Benefit Assets | CIP Growth Fund ^[1] | CIP Bond Fund ^[1] | GPS EnergySolutions |
|--------------------|-----------------------------|--------------------------------|------------------------------|---------------------|
| Equities | 47.2% | ✓ | | |
| Private Equity | 2.5% | ✓ | | |
| Property | 9.1% | ✓ | | |
| Diversified Growth | 5.9% | ✓ | | |
| Liquid Credit | 4.0% | ✓ | | |
| Illiquid Credit | 2.3% | ✓ | | |
| Secured loans | 3.4% | ✓ | | |
| Corporate bonds | 11.1% | | ✓ | ✓ |
| Index-linked Gilts | 13.3% | | ✓ | ✓ |
| Ground Rents | 0.9% | | ✓ | |
| Cash | 0.2% | ✓ | ✓ | ✓ |

* Figures may not tally due to rounding.

[1]CIP: Common Investment Platform managed by State Street. Prior to 1 July 2016, Sellafield and GPS SLC Sections invested in the CIP Growth and Bond funds. From 1 July 2016, all remaining sections of the Plan (excluding the GPS EnergySolutions section) transferred their assets into the CIP Growth and Bond funds.

COMBINED NUCLEAR PENSION PLAN

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Investment managers

With effect from 1 July 2016, all participating Sections of the Plan (with the exception of GPS EnergySolutions) transferred their assets into the CIP and therefore have exposure to the same range of investment managers and funds.

State Street are the custodians to the CIP and manage its day to day operation. State Street are responsible for the following:

- managing cashflow to and from the CIP for each participating section (i.e. investment of contributions and disinvestment of assets required to meet benefits);
- investment and disinvestment of assets within the Growth and Bond Funds (specifically for liquid funds);
- unitisation of the assets;
- accounting and record keeping of section holdings.

In addition, State Street manage a series of cash accounts for the participating sections of the CIP and the CIP Growth and CIP Bond funds.

The following paragraphs describe the asset classes and investment funds which the Plan invests in.

Equities

The Plan's exposure to equities is expected to deliver investment growth in excess of Government bonds over the longer term. Investment in global markets aids diversification.

Over the Plan year the Trustee invested in equity funds with Legal & General and MFS.

The Trustee invests assets with Legal & General for the CIP Growth Fund through a range of passively managed equity index funds. The value of the underlying units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians who are regularly reviewed by external auditors.

The Trustee also invests assets with MFS for the CIP Growth Fund. The Trustee invests in the MFS Global Equity Fund. This is a fund that invests across global equities, including emerging markets. MFS maintains a disciplined investment approach, based on the belief that stocks which provide sustainable, above-average earnings growth and trade at a discount to their expected growth rates should outperform the market. The objective is to seek capital appreciation and is benchmarked against the MSCI World Index.

Private equity

The CIP Growth Fund also includes a private equity mandate managed by Partners Group. Partners Group is a global private markets investment manager with investment programmes in private equity, private debt, private real estate and private infrastructure.

The Trustee has committed €102m to the Partners Group Global Value 2014 Fund for the CIP Growth Fund.

The private equity allocation is expected to outperform world equities, but with greater volatility and so is regarded as a longer term investment.

Private equity investment differs from other 'traditional' asset classes. It will require an initial commitment of capital by the Plan, which then gets drawn down, usually over a period of years, as the private equity manager identifies attractive investments in underlying companies. Capital remains invested with the Plan's current investment managers until drawn down for investment. As the private equity investments begin to yield returns, and are realised, cash is returned to the Plan.

COMBINED NUCLEAR PENSION PLAN

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Property

The Plan's exposure to property is expected to deliver investment growth in excess of Government bonds over the longer term, through a combination of income returns and capital growth. Investment in balanced funds helps to reduce concentration risk.

Over the Plan year the Trustee invested in property funds with Legal & General, Standard Life and Columbia Threadneedle for the CIP Growth and CIP Bond funds.

The Trustee invests assets with Legal & General for the CIP Growth Fund. The Trustee invests in the Managed Property Fund which in turn invests in UK freehold and leasehold property. The value of underlying units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians who are regularly reviewed by external auditors.

The Trustee also invests assets in the Standard Life Long Lease Property Fund for the CIP Growth Fund. The objective of the Long Lease Property Fund is to provide long-term growth from a combination of income and capital appreciation by investing typically in properties with long leases from across the UK retail, office, industrial and other sectors. The Long Lease Property Fund is actively managed and the investment manager looks to hold properties that have a high lease to value ratio, with inflation-linked rental uplifts where possible.

The Trustee invests assets in the Standard Life Ground Rent Fund for the CIP Bond Fund which is intended to provide a combination of capital growth and income (ground rents) through investment in UK Commercial Ground Rents from across a number of property sectors. The fund is expected to support the ongoing cashflow requirements of the Plan.

The Trustee also invests in the Threadneedle Property Unit Trust for the CIP Growth Fund. The mandate aims to provide investors with an indirect investment exposure to a diversified, multi-sector portfolio of commercial assets throughout the UK. The objective is to outperform the benchmark on an annual basis and be within the top quartile on a rolling three-year basis.

Diversified Growth

The Plan's exposure to diversified growth funds is expected to deliver growth in excess of cash over the longer term. Diversified funds can invest in a range of asset classes and so are expected to exhibit lower volatility than equity investment.

Over the Plan year the Trustee invested assets in diversified growth funds with BlackRock and Pictet.

The Trustee invested in the BlackRock Dynamic Diversified Growth Fund (DDGF) for the GPS WEC, GPS Nexia and GPS DRS sections as well as the CIP Growth Fund until July 2016. From July 2016 all investments in the BlackRock DDGF were transferred to the Pictet Dynamic Asset Allocation Fund ("DAAF") within the CIP Growth Fund.

The objective of the fund is to provide a positive absolute return against a cash based benchmark. The DAAF is actively managed and the investment manager employs a more flexible approach to asset allocation, with the option to employ derivatives at the manager's discretion. The DAAF seeks to generate positive, consistent returns in a range of market environments with significantly lower volatility than an equity portfolio.

Secured loans

The Plan's exposure to secured loans funds is expected to deliver growth in excess of cash over the longer term, predominantly through interest returns. The secured loan funds provide an alternative form of credit exposure to traditional corporate bond funds.

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Over the Plan year the Trustee invested in secured loan funds with Baring Asset Management (formerly Babson Capital) and Highbridge for the CIP Growth Fund.

The Trustee invested in the Barings Capital Global Loans Fund. The objective of the fund is to provide a positive absolute return against a cash based benchmark. The fund will invest principally in floating rate instruments and the investment manager expects returns to be generated from ongoing interest income as well as original issue discount, closing payments, commitment fees, prepayments and related penalties. While the fund is actively managed, the manager is expected to pursue a buy and hold strategy.

The Trustee also invests in the Highbridge Specialty Loan Fund III LP and the Highbridge Private Loan Opportunities Fund for the CIP Growth Fund. The objective of the funds is to provide a positive absolute return against a cash based benchmark. The funds will invest principally in floating rate fixed-income instruments and the investment manager expects returns to be generated from ongoing interest income as well as original issue discount, closing payments, commitment fees, prepayments and related penalties. While the fund is actively managed, the manager is expected to pursue a buy and hold strategy.

Multi credit

The multi-credit funds provide an alternative form of credit exposure to traditional corporate bond funds.

Over the Plan year the Trustee invested in multi credit funds with Partners Group and Baring Asset Management (formerly Babson Capital).

The Trustee invests in the Partners Group Multi Asset Credit 2014 Fund (I) for the CIP Growth Fund. The fund is a pooled investment programme offering investors access to private real assets and corporate debt. The fund's objective is to obtain superior returns and achieve capital growth over the medium and long-term. The fund will target senior secured and subordinated debt, with select investments in high yield bonds and distressed situations.

The Trustee invests in the Barings Capital Global High Yield Fund for the CIP Growth Fund. The objective of the fund is to provide a positive absolute return against a cash based benchmark. The fund will invest predominantly in floating rate and fixed-income instruments and the investment manager expects returns to be generated from ongoing interest income as well as original issue discount, closing payments, commitment fees, prepayments and related penalties. While the fund is actively managed, the manager is expected to pursue a buy and hold strategy.

Corporate bonds and index-linked gilts

The Plan's exposure to corporate bonds and index-linked gilts is expected to provide matching protection for the Plan's liabilities. Specifically, the corporate bonds provide a degree of interest rate protection coupled with an enhanced yield versus Government bonds over the longer term. Index-linked gilts are expected to react to changes in interest and inflation rates in a similar way as the Plan's liabilities.

Over the Plan year the Trustee invested in bond funds with Legal & General and Insight.

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The Trustee invests assets with Legal & General for the CIP Bond Fund and the GPS EnergySolutions Section. The Trustee invests in the Investment Grade Corporate Bond All Stocks Index Fund, Over 15 year Index-Linked Gilts Fund and a range of levered index-linked bond funds through a pooled Liability Driven Investment platform.

The Trustee invests assets in the levered index-linked bond funds for the CIP Bond Fund and the GPS EnergySolutions Section. The underlying funds are invested wholly or predominantly in gilt repos, reverse gilt repos, gilts, gilt total return swaps, interest rate swaps and shares in the Legal & General Sterling Liquidity Fund. The principal instrument used to gain leveraged exposure will generally be gilt repos. All derivative exposure will be collateralised daily to help reduce counterparty risk.

The Trustee invests assets in inflation swap funds for the GPS EnergySolutions Section. The purpose of the inflation swaps is to hedge a proportion of the GPS EnergySolutions Section's inflation-linked liabilities.

The overall hedging investment strategy for the GPS EnergySolutions Sections targets a 95% hedge of interest and inflation rates.

The value of underlying units fluctuates directly in relation to the value of the underlying assets. All units are redeemable at bid prices that are calculated from independent, external pricing sources. The assets underlying the units are held by independent corporate custodians who are regularly reviewed by external auditors.

The Trustee also invests assets with Insight for the CIP Bond Fund and GPS EnergySolutions Section. Bond assets are invested in Insight's UK Corporate All Maturities Bond Fund and the Insight UK Index-Linked Bond Fund.

Cash

Over the Plan year the Trustee held cash with Legal & General in relation to the CIP Growth Fund, CIP Bond Fund and GPS EnergySolutions Section. In addition, cash is held by State Street (in relation to the Sellafeld and GPS SLC sections within the CIP Growth and CIP Bond funds). The cash holdings are intended to provide short term liquidity in order to meet benefit payments and the expenses of running the Plan.

Hedging

The Plan's investments in levered and non-levered index-linked gilts with Legal & General and Insight index-linked gilts are intended to provide protection from changes in interest and inflation rates. In particular, these assets are intended to move in line with changes in the liabilities, which are affected by changes in interest and inflation rates. The degree to which the assets 'match' changes in the liabilities is represented by the hedging ratio and this varies by section. As at 31 March 2017, the approximate overall hedging ratio for the Plan was approximately 20% of the Plan's Technical Provisions.

Review of investment performance

The following table summarises the estimated investment performance for the Plan over the one and three year periods to 31 March 2017:

| | 12 months | 3 years |
|------------------|-----------|--------------------|
| | % | % per annum (p.a.) |
| Fund Return | 19.2 | 10.9 |
| Benchmark Return | 17.7 | 10.2 |

Note: Fund and benchmark returns are based on information provided by the underlying investment managers.

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The Plan has delivered a total return of 19.2% over the 12 month period to 31 March 2017, outperforming the benchmark return by 1.5%. Although characterised by substantial political uncertainty, the 12 month period delivered strong performance from equity markets. In addition, falls in bond yields led to a rise in the value of the Plan's bond investments.

Over three years, the fund has delivered a total return of 10.9% p.a. ahead of the benchmark return of 10.2% p.a. Three year performance was supported by strong returns from equities, reflecting the global market recovery. In the same period, bond yields fell to historic low levels, driving up the value of bond investments, and the Plan's liabilities.

Over the 12 month period to 31 March 2017, the CIP Growth Fund delivered a return of 19.1% outperforming the benchmark return by 2.0%. Over the same period the CIP Bond Fund delivered a return of 21.2%, broadly in line with its benchmark return.

COMBINED NUCLEAR PENSION PLAN

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DC Structure assets

The Plan's DC Structure consists of assets held in respect of AVCs, SPPP and the DC Structure funds which are managed by BlackRock Advisors (UK) Limited and the Prudential Assurance Company Limited.

The investment objective of the AVC, SPPP and DC arrangements is to offer investment choice to members whilst maximising investment returns and providing an acceptable level of security. To this end, members may make a choice from a number of pooled funds which span a range of broad asset classes.

The pooled funds are in the form of unitised insurance policies with BlackRock and Prudential. The Trustees regularly review the investment performance of the funds against appropriate benchmarks.

During the Plan year to 31 March 2017, the Trustee introduced a series of target date funds managed by BlackRock. As part of this process, approximately £2.8m of investment in the pre-existing fund range was transferred to the target date funds.

A summary of the AVC, SPPP and DC funds split between key asset classes, along with 12 month and 3 year performance to 31 March 2017(1), is provided in the table below:

| Asset class | % of total assets held in respect of the AVC, SPPP and DC arrangements | 12 month performance (%) | 3 year performance (% p.a.) |
|---------------------------|--|--------------------------|-----------------------------|
| Global Equity | 13.0% | 27.4 | 11.6 |
| UK Equity | 4.9% | 22.0 | 7.8 |
| Global Equity (ex UK) | 5.0% | 33.5 | 17.5 |
| Emerging Markets Equity | 0.0% | 37.9 | 12.2 |
| Sharia Law (Equity) | 0.0% | 29.9 | 17.7 |
| Property | 0.2% | 2.4 | 9.6 |
| Multi-Asset | 0.0% | 4.2 | n/a |
| Corporate Bonds | 0.0% | 9.3 | 7.5 |
| Index-Linked Gilts | 3.9% | 22.0 | 14.6 |
| Pre-Retirement (bonds) | 2.1% | 10.2 | 10.4 |
| With Profits ² | 1.3% | n/a | n/a |
| Cash | 2.8% | 0.5 | 0.5 |
| Target Date Funds | 66.6% | n/a | n/a |

Due to roundings the total assets may not add to 100%.

1 Based on performance from relevant BlackRock and Prudential funds which the Plan invests in.

2 Performance information for the Prudential With-Profits fund is reported annually as part of the fund's bonus declaration and relates to calendar year periods only. The 12 month return from the With-Profits fund for the year ending 31 December 2016 was 12.2% (after tax).

COMBINED NUCLEAR PENSION PLAN

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The audited financial statements which are to be prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

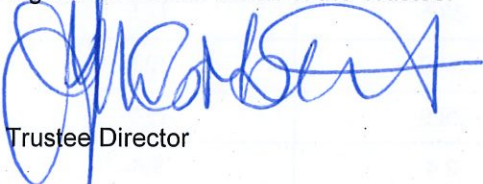
- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which they should ensure is consistent with the accounts it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal controls.

Signed for and on behalf of the Trustee:



Trustee Director

Date:

20 October 2017

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Introduction

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996 No. 1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015 No. 879).

This Statement has been prepared on behalf of the Trustee of the Plan and confirms the Plan's compliance with the governance requirements in the 2015 Regulations for the period 1 April 2016 to 31 March 2017.

(a) Default arrangements

The default arrangement is the investment option that the Trustee has chosen for Defined Contribution (DC) members who do not make an active fund choice. Members who do not choose an investment option will automatically be put into the default for their Section of the Plan.

The Plan has three default arrangements for DC arrangements which applied to members in the following Sections at 31 March 2017:

| Section | Default |
|---|---|
| 1. CNPP CPS New Joiners DC Structure of the CNPP CPS Section | BlackRock LifePath Flexi Funds |
| 2. CNPP CPS Shift Pay Pension Plan (SPPP) | BlackRock LifePath Capital Funds |
| 3. The CNPP GPS Section which includes members in the GPS New Joiners DC Structure and GPS SPPP | Lifestyle strategy administered by Prudential |

Prior to December 2016 the default arrangements for all three Sections were Lifestyle strategies.

There is no default arrangement for AVC members.

The default arrangements for all three sections are types of "lifecycle" investment strategies which, as members near retirement, move from investments expected to give a good longer-term return relative to inflation (such as equities) towards investments whose values are expected to be less volatile in the shorter-term (such as bonds and cash) as well as aligned to the benefits most members were expected to take at retirement.

For the CPS Sections, the default arrangements are sets of "target date funds" where the fund manager moves investments as each Fund nears its target retirement date.

For the GPS Section, the default arrangement is a "lifestyle" strategy where the administrator automatically switches funds as members near retirement.

Further information on the default arrangements and any other investment options open to members is shown in the Statement of Investment Principles which is appended to this Statement.

Reviewing the default arrangement and strategies

A key responsibility of the Trustee Board is to ensure that the default arrangements are suitable for the majority of members in each Section.

The Trustee Board has delegated the task of reviewing the default strategies to the Investment Sub Committee (ISC).

The ISC reviews the range of investment options available to members on a regular basis. Advice is received as required from professional advisors. In addition, the ISC reviews the performance of the Plan's investments on a regular basis.

The ISC periodically, and no less frequently than a three yearly cycle, reviews the appropriateness of the default arrangements.

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

The ISC reviewed the default arrangements in 2013 and concluded that lifecycle strategies, which manage the investment risks members face over time remained suitable for the Plan's membership profile. The ISC judged that a Target Date Fund (TDF) approach would provide increased flexibility for members, diversification, reduced investment risk and simpler and cheaper administration for all the Sections. However, in light of the pensions freedoms announced in the March 2014 Budget which were to come into force in April 2015, the Trustee postponed the implementation of the TDF strategy. The ISC again reviewed the investment strategy for the default arrangements in September 2015 when it was concluded that the default arrangements for the DC Sections should adopt TDFs.

The revised default arrangement was implemented in December 2016 for the CNPP CPS Section such that the default for members in the New Joiners DC Structure now targets a final investment mix suitable for members who wish to utilise income drawdown in retirement, while the default for SPPP members now targets a final investment mix suitable for cash withdrawal. Implementation of a new default arrangement for the CNPP GPS Section has been delayed following a decision by the Plan's main administration provider to withdraw from providing these services for all its clients where administration is the only service provided, which has resulted in a review of administration services for both DB and DC. A new default for the GPS Section is expected to follow.

The next triennial review of the default arrangements' suitability is scheduled on the Trustee's business plan for 2018.

(b) Charges and transaction costs

Charges

Default arrangement

The Occupational Schemes (Charges and Governance) Regulations 2015 place a cap on charges which can be borne by members of 0.75% of member's fund values within the default arrangement for schemes used by employers to meet their auto-enrolment duties. The cap applies to all investment and administration charges for a default, but excludes the funds' transaction costs and a small number of other specified administrative costs and charges. The excluded costs and charges relate to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs, or costs solely associated with the provision of death benefits. Transaction costs are those incurred as a result of buying, selling, lending or borrowing investments.

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Trustee monitors the charges and, so far as it is able to do so, the transaction costs, borne by members of the plan between 1 April 2016 and 31 March 2017.

The member borne charges for the default arrangements are within the 0.75% cap.

During this period the charges applied to the default arrangements ranged from 0.45% to 0.75%. Full details of the charges for each default arrangement are set out below.

Level of member-borne charges

The member borne charges shown below include the total expense ratio (TER) for investment management and the administration fee and is a measure of the total cost of the respective default arrangements to the members in each Section.

TER includes fees charge by the fund manager for investment management and the funds' other operating expenses (such as for audit and custodianship). TER excludes the funds' transaction costs described below. TER is calculated by dividing the total fees and expenses by the fund's total assets. It is typically quoted as an average over that year and is denoted as a percentage.

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

CPS Sections: During the period under review, member borne charges for the lifestyle strategy ranged from 0.45% to 0.58%. As described in (a) above, the default arrangement for the CNPP CPS Sections changed during the period under review leading to a reduction in member borne charges as follows:

Up to December 2016 the member borne charges for the individual funds used in the default arrangement were:

| | <u>TER</u> |
|--------------------------|------------|
| CNPP Global Equity Fund | 0.51% |
| CNPP Pre Retirement Fund | 0.45% |
| DC Cash Fund | 0.58% |

Source: Blackrock and Aon Hewitt

| | |
|--|------------|
| From December 2016 the member born charges for the new default were: | <u>TER</u> |
| BlackRock LifePath Flexi Fund (CPS New Joiners DC Structure) | 0.46% |
| BlackRock LifePath Capital Fund (CPS SPPP) | 0.46% |

The Employers separately bore the costs of the Section's communication and governance.

GPS Sections: The member borne charges during the period under review applicable to the CNPP GPS Section Structure default lifestyle strategy was 0.75%. The charges for the individual funds used in this default arrangement were:

| | <u>TER</u> |
|--|------------|
| Prudential BlackRock Aquila 50:50 Global Equity Fund | 0.75% |
| Prudential Cash Fund * | 0.75% |
| Prudential Long-Term Gilt Passive Fund | 0.75% |

* Prudential reduced the charge for the Cash Fund to 0.55% after the period covered by this Statement.

The Trustee monitors the default arrangement's compliance with the charge cap on an annual basis as described in the 2015 Regulations. There are no other investment options which are considered to be a default arrangement.

Other funds outside the default arrangements

The 0.75% cap does not apply to funds outside of the default arrangements, however, with the exception of the With Profits Fund all funds were within the cap. During the period covered by this Statement the level of member borne TER charges applying to funds outside the default arrangement (excluding the With Profits Fund) were in the range from 0.51% to 0.75%. These funds and their charges are listed in Appendix 4.

Additional Voluntary Contributions ("AVCs")

During the period covered by this Statement the level of member borne TER charges applying to funds used in the AVC arrangements and the Nirex Section (excluding the With Profits Fund) were in the range from 0.65% to 0.75%. These funds and their charges are listed in Appendix 4.

With Profits

A With Profits option is available to GPS Section members making AVCs, and members in the CNPP CPS Section. It is also available to Nirex Members. It is not available to members in the CNPP New Joiner DC Structure, GPS New Joiner DC Structure or Shift Pay Pension Plan members.

The charges and transaction costs for the With Profits Fund are deducted from the overall fund before bonus rates are set for all policyholders. As a result, it is not possible to determine the exact charges and costs borne by members.

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

The Principles and Practices of Financial Management for the Prudential With Profits Fund state that the administration and investment charges should average not more than 1.00%. The actual level of charges depends upon the investment return of the With Profits Fund and Prudential have indicated that, at a growth rate of 5% p.a. compound, the charges for a pension contract of this sort should be in the region of 0.8%.

It should be noted that the implicit charges for the With Profits Fund cover members accessing Prudential's preferential annuity rates as well as investment management and administration.

Transaction costs

Government Regulations setting out how transaction costs should be calculated and communicated are awaited. The Financial Conduct Authority's ("FCA") rules for fund managers and workplace pension providers on the disclosure of transaction costs are not expected to come into force until late 2017, while the European Union's "MiFID II" Directive comes into force in January 2018. As a result, it is not currently possible for platform providers and fund managers to provide, or for the Trustee to compare, transaction costs on a consistent basis.

Transaction costs can arise:

- When the fund manager buys or sells part of a fund's portfolio of assets; or
- When the platform provider or fund manager buys or sells units in a fund.

Transaction costs can vary from day to day depending on how each fund is invested and market conditions. Transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible.

The Trustee has been unable to obtain information on the transaction costs for the investment options during the period covered by this Statement. The Trustee is monitoring progress on the introduction of regulations on transaction cost disclosure with its advisers and the investment providers to obtain information on the transaction costs for the funds in the future.

The Plan's funds are managed by BlackRock and M&G who, as major investment managers, may be expected to obtain competitive transaction costs from stockbrokers and custodians. The level of transaction costs will be reflected in the funds' investment returns which the Trustees monitor regularly. The target date funds adopted by the CPS Sections are also expected to have lower overall transaction costs than a comparable lifestyle strategy.

(c) Value for Members

The Trustee carries out an annual assessment of the extent to which the DC Sections' member borne charges for the default arrangement and investment options outside the default arrangement represent good 'Value for Members'. The Trustee believes, in line with the Pension Regulator ('TPR')'s guidance, a value for money scheme is one in which the cost of membership provides good value in relation to the benefit of membership, when compared with other options available in the market.

Overall rating

Overall, the Trustee believes that the Plan offered average value for the year ending March 2017. The Trustee has agreed a reduction in administration charges for the CPS sections which came into effect from 1 April 2017. The Trustee anticipates that the Value for Members rating will improve during 2018 reflecting this action and other steps expected to be undertaken to improve quality.

Value for members assessment

The Trustee's assessment of the features of the DC Sections investment and administration services were, in summary on the following page:

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

| Category and weighting | Rating | Comments |
|-------------------------------|----------------------|---|
| Investment options 37.5% | Good | <p>The CPS Sections' default options moved to new funds incorporating some of the latest thinking during the year.</p> <p>Corresponding changes will be made to the GPS Section as soon as practicable.</p> <p>The investment options have performed in keeping with their investment objectives.</p> |
| Member borne charges 37.5% | Below average | <p>The charges for the CPS Sections' investment options cover both investment and administration costs.</p> <p>When considered in isolation, investment related charges for the CPS Sections are rated Good, whereas the level of administration costs have in recent years become less competitive and so are rated Below average.</p> <p>The administration costs are such that the overall charge is above average compared to similar schemes in surveys conducted by the Trustee's adviser and the DWP.</p> <p>The GPS Section is provided through a contract with Prudential, where the charges for the GPS Section's investment options include both investment and administration costs.</p> <p>Member borne charges for the unit-linked funds used by the GPS Sections are rated Poor. The overall charges are higher than similar schemes in surveys conducted by the Trustee's adviser and the DWP.</p> <p>The charges for With Profits, while lacking transparency which make assessment difficult, are believed to be Average to Good.</p> |
| Administration 25% | Average | <p>Financial transactions have been carried out efficiently and accurately. Enquiries by members and quotations of members' benefits have been handled promptly.</p> <p>BlackRock and Aon Hewitt for the CPS Sections and Prudential for the GPS and Nirex Section are well-resourced.</p> |

Please note that the Government Regulations and the Pensions Regulator's guidance on assessing Value for Members do not take into account the level of pension contributions, which is a key driver of the level of benefits emerging at retirement. The Scheme offers members a Good level of contributions, which is not reflected in this assessment

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Key actions to enhance Value for Members

Over the last 12 months the Trustee has undertaken the following to improve Value for Members:

- For the CPS Sections - replaced the default and alternative lifestyle options with BlackRock's "LifePath" target date funds which cost-effectively invest in a broader range of assets and it is felt will be easier for members to use;
- For the CPS Section – extended choice of the self-select investment options to meet a wider range of members' likely investment needs.

Over the next 12 months the Trustee will undertake the following to improve Value for Members:

- For the CPS Sections - reduced the administration charges from 0.31% to 0.25% from April 2017; and
- Undertake a wider review of the Plan's administration arrangements including those for the GPS Section.

Missing information and any limitations

During the next 12 months the Trustee intends to undertake the following work to refine the way in which the Value for Members is assessed:

- The Trustee acknowledges that at this point, limited data is available on industry wide comparisons and have largely relied on surveys conducted by its advisers; and
- The Trustee has been unable to obtain full information on transaction costs during the period covered by this Statement. Pending further regulations and guidance on how transaction costs should be calculated and reported, the information provided is limited. The Trustee will monitor the situation with a view to providing more information next year.

Progress will be regularly monitored over the next 12 months. An update for the Plan year to 31 March 2018 will be reported to members in the next Chair's statement.

Approach

In keeping with the guidance from the Pensions Regulator, the Trustee's approach to this year's Value for Members assessment was:

- The Trustee considered the features of the Plan where costs are fully or partially borne by members:

| | Paid for by members only | Paid for jointly by members & Employer | Paid for by the Employer only |
|----------------|--------------------------|--|-------------------------------|
| Investment | Yes | - | - |
| Administration | Yes | - | - |
| Communications | - | - | Yes |
| Governance | - | - | Yes |

Members in the DC Sections of the Plan bear the costs of the investment and administration services. The Value for Members' assessment only considers these two areas. The Employers bear the costs of communication and governance and so these aspects are excluded from Value for Members' assessment.

- The Trustee considered that the investment services have the greatest impact on DC members' retirement benefits and so have weighted their assessment 75% to investment services (split equally between charges and the quality of the investment options) and 25% to administration services.
- With the help of their advisers, the Trustee has gathered information and evaluated how the services perform against the agreed metrics including other comparable pension schemes, taking into account cost, quality and scope of the investment and administration services.
- The Trustee rated each aspect of the Plan as shown in the table on the following page:

COMBINED NUCLEAR PENSION PLAN

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

| Definition | Summary |
|---|---------------|
| The Trustee considers the Plan offers excellent Value for Members providing services within a top 20% quality/cost range compared with other options or similar schemes in the market. | Excellent |
| The Trustee considers the Plan offers good Value for Members providing services at better quality/cost compared with other typical options or similar schemes in the market. | Good |
| The Trustee considers the Plan offers average Value for Members providing similar services at similar quality/cost compared with other typical options or similar schemes in the market. | Average |
| The Trustee considers the Plan offers below average Value for Members providing similar services at higher cost for similar quality compared with other typical options or similar schemes in the market. | Below Average |
| The Trustee considers the Plan offers poor Value for Members providing services within the bottom 20% quality/cost range compared with other options or similar schemes in the market. | Poor |

(d) Processing financial transactions

The Trustee monitors the core financial transactions such as receipt and investment of contributions and payments of benefits.

The Trustee receives regular quarterly reports from the administrator on the processing of financial transactions against agreed service levels.

The Trustee has concluded that the Plan's core financial transactions have been processed promptly and accurately during the Plan year covered by this statement.

(e) Trustee knowledge and understanding

During the plan year, the Trustee directors have met the requirements of sections 247 and 248 of the Pension Act 2004 (requirements for Trustee knowledge and understanding).

Newly appointed Trustee directors are required to complete the Pensions Regulator's "Trustee Toolkit" within six months of becoming a Trustee director.

Training is provided to Trustee directors as an integral part of meetings when considering issues. A training day, covering a specific topic identified by the Trustee directors, is undertaken annually.

Trustee directors are encouraged to undertake further development which supports their work as trustees.

The Trustee has a documented plan in place for ongoing training and knowledge appropriate to their duties which is reviewed periodically.

The Trustee is satisfied that during the period covered by this Statement it has taken effective steps to maintain and develop Trustee directors' knowledge and understanding to properly to exercise their functions as Trustee of the Plan.

The Trustee has appointed recognised and suitably qualified legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Plan in accordance with the Plan's Trust Deed and Rules and in compliance with legislation. The appointment of the Trustee's advisers is reviewed on a periodic basis.

The Trustee is satisfied that during the period covered by this Statement the Trustee directors had access to suitable advice, which enabled them to properly exercise their functions as Trustee of the Plan.

COMBINED NUCLEAR PENSION PLAN

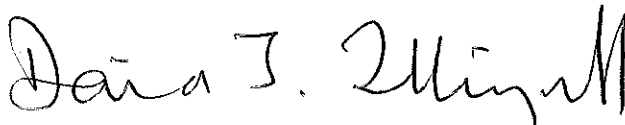
CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

(f) Planned activity in the current year

During the next 12 months the Trustee intends to undertake the following:

- Complete a review of the Plan's administration (following the decision by Aon Hewitt to withdraw from providing administration services) and implement the result of that review. The investment options for DC members in the GPS Section will be included in this review.
- Monitor progress on the publication of Regulations on the basis of calculating and disclosing transaction costs and the implementation by fund managers and platform providers.
- Look to refine and expand the measures used to assess value for members in each area as market practice continues to develop.

Signed on behalf of the Trustee by:



Chair of the Trustee of the Combined Nuclear Pension Plan

COMBINED NUCLEAR PENSION PLAN

APPENDIX TO CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Statement of Investment Principles

This Statement sets out the principles for investing the assets of the Defined Contribution (DC) Structure, Shift Pay Pension Plan (SPPP) and Additional Voluntary Contributions (AVCs) sections of the Combined Nuclear Pension Plan ('the Plan') as adopted by the Combined Nuclear Pension Plan Trustees Limited ('the Trustee').

This Statement has been written in accordance with Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pension Act 2004) and is consistent with the Trustee's investment powers as set out in the Trust Deed (clauses 11 and 12).

This Statement also takes into account the Pensions Regulator (tPR) Defined Contribution (DC) Code of Practice.

In preparing this statement the Trustee has consulted with the Lead Company, the Nuclear Decommissioning Authority ('NDA'), as sponsor to the Plan, and has taken and considered written advice from the Plan Actuary and from the Plan's Investment Advisers, Hymans Robertson LLP. Participating employers within the Plan have signed a 'Deed of Participation' allowing the NDA to act on their behalf in consultation with the Trustee.

The Trustee will review this Statement every three years or more frequently as considered appropriate by the Trustee, and specifically in response to legislative and regulatory changes or a change to the attitude in risk of the Trustee or the sponsor, if appropriate. The next such review is due to be undertaken in 2018.

To ensure effective management of investment issues, the Trustee has established an Investment Sub Committee ("ISC") to deal with the investment issues facing the Trustee. The Terms of Reference for this committee have been set by the Trustee and are shown in Appendix 1. They may be changed by the Trustee from time to time.

The power and obligation for deciding on the strategic investment policy rests with the Trustee. However, the Trustee has delegated specific powers to the ISC around the implementation of the investment strategy within certain parameters. The aim is to lead to a more efficient and effective implementation of any recommended changes to the Plan's investment arrangements.

The Trustee is part way through a reorganisation of the DC offering for the GPS sections, with further changes in progress and expected to be completed in 2018. This document sets out position of the arrangements as at August 2017.

The appendices do not formally form part of the Statement of Investment Principles.

Previous amendments:

March 2017, June 2016, August 2015, July 2014, August 2011

COMBINED NUCLEAR PENSION PLAN

APPENDIX TO CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Aims and objectives for the DC Investment Options

Primary Objective

The primary objective of the DC structure and SPPP is to provide, on a defined contribution basis, benefits for members on their retirement or benefits for their dependents on death before retirement.

In light of the regulatory changes following the Budget announcement in March 2014, the Trustee reviewed the investment strategy of the default option for the CNPP DC Section and a revised strategy was implemented in 2016. The Trustee is considering the options available for the GPS Sections and AVC contributors.

Default arrangements

The Trustee recognises that members have differing investment needs and that these may change during the course of their working lives. It also recognises that members have different attitudes to risk. The Trustee believes that members should make their own investment decisions based on their individual circumstances. The Trustee's objective is therefore to make available a range of investment options that, whilst avoiding excessive complexity, should assist members in achieving the following objectives:

- Optimising the value of retirement benefits from the given contributions.
- Protecting the value of those benefits in the years approaching retirement against market falls.
- Protecting the value of those benefits in the years approaching retirement against fluctuations in turning fund values into retirement benefits.
- Tailoring their investments to meet their own needs.

The Plan offers a default investment option, because the Trustee recognises that some members will not want to choose an investment option and the Plan is a qualifying scheme for auto-enrolment purposes.

- The main objective of the default option is to provide good member outcomes at retirement while subject to a level of investment risk appropriate to the majority of members who do not make active investment choices.
- The default option is a lifestyle strategy because it manages over time the principal investment risks faced by members: inflation, volatility in fund values (when this is material) and converting the fund value into lump sum and annuity benefits at retirement.
- The default option invests in passively managed equities until 10 years before the member's selected retirement age, because equities are expected to give the best returns relative to inflation over the longer-term while avoiding the risk of a fund manager underperforming the market.
- The default lifestyle strategy for members of the New Joiners DC Structure switches into funds targeting income drawdown (known as the BlackRock LifePath Flexi Funds) over the last 10 years before a member's selected retirement date to mitigate volatility and benefit conversion risks while maintaining a level of asset growth into retirement.
- The default lifestyle strategy for Shift Pay Pension Plan members switches into funds targeting cash withdrawal (known as the BlackRock LifePath Capital Funds) over the last 10 years before a member's selected retirement date to mitigate volatility and benefit conversion risks.

Other investment options

The Plan offers members a number of choices of investment options as alternatives to the default arrangements. The main objectives of the alternative options are to:

- Provide a choice of investment approaches for members who want to more closely involved in choosing where their pension pot is invested;
- Complement the objectives of the default arrangements;
- Provide a broader choice of levels of investment risk and return;
- Provide a broader choice of investment approaches including ethical and faith based funds; and
- Help members more closely tailor how their pension pot is invested to their personal needs and attitude to risk.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

COMBINED NUCLEAR PENSION PLAN

APPENDIX TO CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

CPS Section

Default arrangement – the default arrangements are series of target date funds, where members' contributions are invested in a mix of assets which are expected to deliver growth relative to inflation when members are younger and gradually switches into a mix of assets whose values are expected to be less volatile as members approach retirement.

New Joiners DC Structure – a series of target date funds which are suitable for members who are expected to use income drawdown in retirement.

Shift Pay Pension Plan – a series of target date funds which are suitable for members who are expected to take all their benefits in cash at retirement.

Self-Select Options: a range of equity and bond funds which provide appropriate strategic choices for members' different savings objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest.

GPS Section

Default arrangement - the default arrangement is a lifestyle strategy, where members' contributions are invested according to a life-styling matrix, whereby investment is made in equity based funds when members are younger and is gradually switched to a mix of lower volatility funds as members approach retirement which are suitable for members who are expected to take 25% of their fund value as cash and use the balance to buy an annuity.

Self-Select Options: a range of equity and bond funds which provide appropriate strategic choices for members' different savings objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest.

Details of the default options and self-select fund options for both sections are set out in the Investment Implementation Document.

The Trustee has appointed providers and fund managers authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has agreed the appropriateness of the asset allocation benchmarks, performance benchmarks and the various controls adopted by the managers for each fund in which members can invest. For each fund, the benchmark and guideline controls reflect the Trustee's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk for that fund's strategic aim.

The Trustee reviews the range of funds available on a regular basis. Advice is received as required from professional advisers. In addition, the Trustee reviews the performance of the Plan investments on a regular basis.

Choosing Investments

The funds in which members invest are pooled funds, which the Trustee believes is appropriate given the size and nature of the Plan. The managers invest using a passive (index tracking) approach, the objective of which is to seek to match, rather than exceed, the performance of the chosen benchmark index. Within each fund the investment manager invests in individual stocks in such a way as to replicate, as closely as possible, the composition of the benchmark index. In adopting this approach, the manager ensures a suitably diversified portfolio. The Trustee is satisfied that the range of funds and the assets held in each fund are suitable in relation to the needs of members.

COMBINED NUCLEAR PENSION PLAN

APPENDIX TO CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Kinds of investment to be held

The investment managers may invest in UK and overseas investments including equities, fixed and index linked bonds, and cash. However, the investments in each fund will depend on the nature of each fund, its objective and benchmark and the risk controls which operate.

Balance between different kinds of investments: Each fund has a defined benchmark and the Trustee is satisfied that the benchmark, in combination with other funds, is appropriate for different categories of members.

Investment Risks

The Trustee believes that the three main investment risks most members will face are:

1) Inflation risk – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by investing in funds which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

2) Benefit conversion risk – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

3) Volatility/Market risk – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Funds investing in bonds or a mix of assets or investment techniques may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

Other investment risks

The Trustee has considered the other investment risks members may face from a number of perspectives. These are:

- a) The risk that the investment returns over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension.
- b) The risk that movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.
- c) The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.
- d) The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.
- e) The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.
- f) The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.
- g) The risk that the asset allocation of each individual member's portfolio is not appropriate to their needs.

COMBINED NUCLEAR PENSION PLAN

APPENDIX TO CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Managing investment risks

The CPS arrangements' target date funds and GPS DC Section's lifestyle strategy manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement. The self-select fund range provides members with a choice of funds with differing risk and return characteristics.

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Plan. The funds used give a good spread of investments which will help manage risks associated with market conditions. The Trustee believes that the Plan's investment options are appropriate for managing the risks typically faced by members.

In selecting the funds made available to members, the Trustee has tried to ensure that there is a sufficient range of funds across asset classes and risk profiles, which can be tailored to members' individual requirements at different ages and terms to retirement.

The decision to appoint only one investment manager for each asset class does involve some degree of manager risk relative to benchmark (which would arise from the potential underperformance of that manager). However, as the majority of the funds the Trustee has made available are managed on a passive (index tracking) basis, the risk of underperformance from the manager is materially reduced. Within the GPS fund range there are a number of actively managed funds where passive management would not be appropriate.

Expected return on investments

The objective of the equity funds is to achieve an attractive real return over the long term. The objective of the cash and bond funds is to provide for the payment of the tax-free lump sum on retirement and to reduce the volatility of the cost of the annuity that may be purchased, rather than to achieve a specified 'real' or 'nominal' return.

The Trustee is also satisfied that these return objectives are consistent with the aims of members at different stages within the lifestyle process.

Realisation of investments

The Plan's investments may be realised quickly if required.

Stewardship

Social, Environmental and Ethical Considerations: The manager has produced statements setting out its policy with regard to social, environmental and ethical considerations. However, as the assets are invested on an index-tracking basis (which requires close replication of the appropriate index), it is understood by the Trustee that these factors will not be given priority by the manager when selecting investments for purchase, retention or sale.

Exercise of Voting Rights: The Trustee has delegated the exercise of voting rights to the investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager has produced written guidelines of their process and practice in this regard. The manager is encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

COMBINED NUCLEAR PENSION PLAN

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

We have audited the financial statements of the Combined Nuclear Pension Plan for the year ended 31 March 2017 set out on pages 43 to 68. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Plan's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to it 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 Plan's Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 28, the Plan's Trustee is responsible for supervising the preparation of accounts which show a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

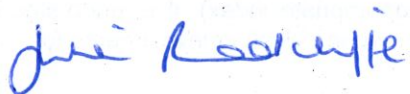
Scope of the audit of the financial statements

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on accounts

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year ended 31 March 2017 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited financial statements and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester M2 3AE

Date: 31 October 2017

COMBINED NUCLEAR PENSION PLAN

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

| | | DB Structure | DC Structure | For the year ended | For the year ended |
|---|------|--------------|--------------|--------------------|--------------------|
| | Note | 2017 | 2017 | 31 March | 31 March |
| | | £000 | £000 | 2017 | 2016 |
| | | | | £000 | £000 |
| Contributions and Benefits | | | | | |
| Members' Contributions | 3 | 28,852 | 10,452 | 39,304 | 38,910 |
| Employers' Contributions | 4 | 108,329 | 23,332 | 131,661 | 132,595 |
| | | | | | |
| Contributions | | 137,181 | 33,784 | 170,965 | 171,505 |
| | | | | | |
| Transfers in | 5 | 206 | - | 206 | - |
| Other income | 6 | - | 151 | 151 | 658 |
| | | | | | |
| | | 137,387 | 33,935 | 171,322 | 172,163 |
| | | | | | |
| Benefits | 7 | (34,080) | (2,182) | (36,262) | (31,634) |
| Leavers | 8 | (3,278) | (2,604) | (5,882) | (2,781) |
| Administrative expenses | 9 | (5) | (1) | (6) | (8) |
| | | | | | |
| | | (37,363) | (4,787) | (42,150) | (34,423) |
| | | | | | |
| Net additions from dealings with members | | 100,024 | 29,148 | 129,172 | 137,740 |
| | | | | | |
| Returns on investments | | | | | |
| Investment income | 10 | 14,381 | - | 14,381 | 7,700 |
| Change in market value of investments | 11 | 374,535 | 31,107 | 405,642 | (759) |
| Investment management expenses | 16 | (2,186) | (546) | (2,732) | (1,955) |
| | | | | | |
| Net returns on investments | | 386,730 | 30,561 | 417,291 | 4,986 |
| | | | | | |
| Net increase in the fund during the year | | 486,754 | 59,709 | 546,463 | 142,726 |
| Transfers between sections | | (2,276) | 2,276 | - | - |
| | | | | | |
| Net assets of the Plan | | | | | |
| At 1 April | | 1,965,533 | 106,290 | 2,071,823 | 1,929,097 |
| | | | | | |
| Net assets of the Plan | | | | | |
| At 31 March | | 2,450,011 | 168,275 | 2,618,286 | 2,071,823 |

The notes on pages 46 to 68 form an integral part of these financial statements.

COMBINED NUCLEAR PENSION PLAN

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2017

| | Note | 31 March 2017 £000 | 31 March 2016 £000 |
|---|------|--------------------------|--------------------------|
| DB Structure | | | |
| Investment assets | | | |
| Pooled investment vehicles | 12 | 2,326,450 | 1,871,094 |
| AVC and SPPP investments | 14 | 98,893 | 79,994 |
| Cash deposits | 11 | 23,826 | 10,355 |
| Accrued investment income | 11 | 1,924 | 1,999 |
| Cash in transit | 11 | 69 | 1,104 |
| Total investments | | 2,451,162 | 1,964,546 |
| Investment liabilities | | | |
| Other Investment Balances | 11 | (1,924) | (1,999) |
| Total net investments | | 2,449,238 | 1,962,547 |
| Current assets | 19 | 3,517 | 4,913 |
| Current liabilities | 19 | (2,744) | (1,927) |
| Total net assets of DB Structure | | 2,450,011 | 1,965,533 |

COMBINED NUCLEAR PENSION PLAN

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 MARCH 2017

| | Note | 31 March 2017 £000 | 31 March 2016 £000 |
|---|------|--------------------------|--------------------------|
| DC Structure | | | |
| Investment assets | | | |
| Pooled investment vehicles | 11 | 167,978 | 106,225 |
| Cash in transit | | 3 | - |
| Total investments | | <u>167,981</u> | <u>106,225</u> |
| Current assets | 19 | 298 | 72 |
| Current liabilities | 19 | (4) | (7) |
| Total net assets of DC Structure | | <u>168,275</u> | <u>106,290</u> |
| TOTAL NET ASSETS OF THE PLAN AT 31 MARCH | | <u><u>2,618,286</u></u> | <u><u>2,071,823</u></u> |

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year.

The actuarial position of the Plan, which does take account of such obligations for the DB Structure, is dealt with in the Report on Actuarial Liabilities on pages 10 to 14 of the annual report and these financial statements should be read in conjunction with this report.

The notes on pages 46 to 68 form an integral part of these financial statements.

Signed for and on behalf of Combined Nuclear Pension Plan Trustees Limited

Trustee Director:

Andrew van der Lem

Trustee Director:

[Signature]

Date:

26 October 2017

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014).

The Trustee has elected to adopt early the amendments to FRS 102 fair value hierarchy disclosures issued in March 2016.

2. ACCOUNTING POLICIES

The following principal accounting policies have been adopted in the preparation of the financial statements.

2.1 The financial statements have been prepared on an accruals basis with the exception of individual transfers which are recognised when received or paid.

2.2 Employee contributions, including those where members are auto-enrolled are accounted for when they are deducted from pay by the employer. Normal contributions are accounted for at rates agreed between the Trustee and the employer based on the Schedule of Contributions.

Employer augmentation payments are accounted for in the period they fall due as payable to the Plan.

Employer deficit funding contributions are accounted for on the due date on which they are payable or received in accordance with the Schedule of Contributions and the recovery plan under which they are being paid.

2.3 Benefits are accounted for in the year in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Lump sum payments on death are accounted for on an accruals basis.

2.4 Individual transfers in or out are accounted for when paid or received which is normally when liability is accepted/discharged.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

2.5 Assets and liabilities in foreign currencies are expressed in sterling at the relevant rates of exchange ruling at the year end.

The functional and presentational currency of the Plan is sterling.

Transactions denominated in foreign currencies are translated into sterling at the spot exchange rate prevailing at the date of the transaction.

Gains and losses arising on conversion or translation are shown within the change in market value of investments.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. ACCOUNTING POLICIES (continued)

2.6 Administration and investment manager expenses have been met separately by the employers, with the exception of the direct administration cost for DC administration, which are charged to the structure to which they relate and met by the members from disinvested units.

2.7 The investments are included at fair value. The value of pooled investment vehicles is taken as the bid price as quoted by the investment managers at the period end, or single price where there is no bid price as provided by the investment manager.

The Additional Voluntary Contributions (AVCs), Shift Pay Pension Plan (SPPP) and DC Structure funds are shown as the total of the individual member funds valued by the insurance company at the period end.

The changes in investment market values are accounted for in the period in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the period end.

Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price. Such income is reported within the change in market value.

2.8 Investment income on cash deposits is accounted for on an accruals basis.

In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income which is reinvested in the funds.

Income arising from individual annuity policies held by the Trustee and received by the Fund is included within investment income on an accruals basis.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

3. MEMBERS' CONTRIBUTIONS

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|-------------------------|------------------------------|------------------------------|---|
| Normal | 21,329 | 10,452 | 31,781 |
| AVCs | 4,778 | - | 4,778 |
| Shift pay contributions | 2,745 | - | 2,745 |
| | <u>28,852</u> | <u>10,452</u> | <u>39,304</u> |

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|-------------------------|---------------------------------|---------------------------------|---|
| Normal | 22,073 | 8,597 | 30,670 |
| AVCs | 5,613 | - | 5,613 |
| Shift pay contributions | 2,627 | - | 2,627 |
| | <u>30,313</u> | <u>8,597</u> | <u>38,910</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

4. EMPLOYERS' CONTRIBUTIONS

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|-------------------------|------------------------------|------------------------------|---|
| Normal | 102,080 | 23,332 | 125,412 |
| Augmentations | 941 | - | 941 |
| Shift pay contributions | 4,002 | - | 4,002 |
| Deficit funding | 1,306 | - | 1,306 |
| | <u>108,329</u> | <u>23,332</u> | <u>131,661</u> |

Deficit contributions shown in the table above includes £750,000 from Springfield Fuels Limited in relation to additional salary linkage employer contributions in the Schedule of Contributions.

Deficit contributions shown in the table above of £556,000 per annum are payable for the Nirex Section until 31 March 2022 under the Recovery Plan of 30 May 2017.

Deficit contributions of £2,000,000 per annum are payable for the GPS EnergySolutions Section from 1 July 2017 for 5 years under the Recovery Plan of 8 June 2017.

Deficit contributions of £550,000 per annum are payable for the GPS WEC Section from July 2017 for 6 years under the Recovery Plan of 17 July 2017.

Deficit contributions of £400,000 per annum are payable for the DSRL Section from 1 April 2018 for 10 years under the Recovery Plan of 30 May 2017.

Deficit contributions of £1,400,000 per annum are payable for the SFL2 Section from 1 April 2018 for 5 years under the Recovery Plan of 31 July 2017.

Augmentation payments are principally made when employees retire under the employers' severance arrangements. The augmentation payments relate to the capitalised cost of providing some elements of the severance benefits through the Plan. This includes lump sum payment, annual pension payments made whilst under normal pension age and pension payments relating to enhanced service. The total cost is calculated and paid by the employer to the Plan at the time of premature retirement.

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|-------------------------|---------------------------------|---------------------------------|---|
| Normal | 105,851 | 20,639 | 126,490 |
| Augmentations | 1,272 | - | 1,272 |
| Shift pay contributions | 4,083 | - | 4,083 |
| Deficit funding | 750 | - | 750 |
| | <u>111,956</u> | <u>20,639</u> | <u>132,595</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

5. TRANSFERS IN

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|---------------------------|---------------------------------|---------------------------------|---|
| Transfers in - Individual | 206 | - | 206 |
| | | | |
| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
| Transfers in - Individual | - | - | - |

6. OTHER INCOME

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|-----------------------------------|---------------------------------|---------------------------------|---|
| Claims on term insurance policies | - | 150 | 150 |
| Other income | - | 1 | 1 |
| | - | 151 | 151 |
| | | | |
| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
| Claims on term insurance policies | 2 | 627 | 629 |
| Other income | 28 | 1 | 29 |
| | 30 | 628 | 658 |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

7. BENEFITS

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|-----------------------|---------------------------------|---------------------------------|---|
| Pensions | 16,427 | - | 16,427 |
| Commutations | 12,833 | 372 | 13,205 |
| Purchase of annuities | 3,262 | 1,191 | 4,453 |
| Death benefits | 1,522 | 619 | 2,141 |
| Taxation | 36 | - | 36 |
| | <u>34,080</u> | <u>2,182</u> | <u>36,262</u> |
| | | | |
| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
| Pensions | 14,064 | - | 14,064 |
| Commutations | 11,507 | 372 | 11,879 |
| Purchase of annuities | 2,712 | 1,064 | 3,776 |
| Death benefits | 1,141 | 774 | 1,915 |
| Taxation | - | - | - |
| | <u>29,424</u> | <u>2,210</u> | <u>31,634</u> |

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|----------------------------|------------------------------|------------------------------|---|
| Transfers out - individual | 3,261 | 2,453 | 5,714 |
| Refunds | 17 | 151 | 168 |
| | <u>3,278</u> | <u>2,604</u> | <u>5,882</u> |

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|----------------------------|---------------------------------|---------------------------------|---|
| Transfers out - individual | 1,517 | 1,158 | 2,675 |
| Refunds | - | 106 | 106 |
| | <u>1,517</u> | <u>1,264</u> | <u>2,781</u> |

9. ADMINISTRATIVE EXPENSES

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|--------------|------------------------------|------------------------------|---|
| Bank charges | 5 | 1 | 6 |
| | <u>5</u> | <u>1</u> | <u>6</u> |

Except as noted above, administrative expenses of the Plan are borne by the sponsoring employers.

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|--------------|---------------------------------|---------------------------------|---|
| Bank charges | 6 | 2 | 8 |
| | <u>6</u> | <u>2</u> | <u>8</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

10. INVESTMENT INCOME

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|--|------------------------------|------------------------------|---|
| Income from pooled investment vehicles | 14,374 | - | 14,374 |
| Interest on cash deposits | 7 | - | 7 |
| | <u>14,381</u> | <u>-</u> | <u>14,381</u> |

The income on pooled investment vehicles is not always distributed. Where this is the case, it is included in the change in market value of investments.

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|--|---------------------------------|---------------------------------|---|
| Income from pooled investment vehicles | 7,690 | - | 7,690 |
| Interest on cash deposits | 10 | - | 10 |
| | <u>7,700</u> | <u>-</u> | <u>7,700</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. INVESTMENTS MOVEMENTS IN INVESTMENTS DB Structure

| | Value at 1 April 2016 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2017 |
|----------------------------|--------------------------|----------------------|-------------------|---------------------------|---------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | 1,871,094 | 1,021,183 | (924,433) | 358,606 | 2,326,450 |
| AVC and SPPP investments | 79,994 | 72,748 | (69,778) | 15,929 | 98,893 |
| | <u>1,951,088</u> | <u>1,093,931</u> | <u>(994,211)</u> | <u>374,535</u> | <u>2,425,343</u> |
| Cash deposits | 10,355 | | | | 23,826 |
| Accrued investment income | 1,999 | | | | 1,924 |
| Cash in transit | 1,104 | | | | 69 |
| Unsettled transactions | (1,999) | | | | (1,924) |
| | <u>1,962,547</u> | | | | <u>2,449,238</u> |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

There were no direct transaction costs incurred during the year. Indirect transaction costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identified.

The "With-Profits" policies remain with the Prudential Assurance Company Limited.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. INVESTMENTS (CONTINUED)

MOVEMENT IN INVESTMENTS

DC Structure

| | Value at 1 April 2016 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2017 |
|----------------------------|--------------------------|----------------------|-------------------|---------------------------|---------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | 106,225 | 131,261 | (100,615) | 31,107 | 167,978 |
| | <u>106,225</u> | <u>131,261</u> | <u>(100,615)</u> | <u>31,107</u> | <u>167,978</u> |
| Cash in transit | - | | | | 3 |
| | <u>106,225</u> | | | | <u>167,981</u> |

12. POOLED INVESTMENT VEHICLES

| | DB Structure 2017 £000 | DC Structure 2017 £000 | 31 March 2017 £000 |
|---------------------------------|------------------------------|------------------------------|--------------------------|
| Client specific funds (note 13) | 1,175,679 | - | 1,175,679 |
| Bond funds | 423,303 | 8,940 | 432,243 |
| Equity funds | 205,420 | 40,314 | 245,734 |
| Property funds | 233,448 | 83 | 233,531 |
| Private Equity funds | 146,482 | - | 146,482 |
| Diversified growth funds | 137,424 | - | 137,424 |
| Liquidity funds | 4,694 | 2,655 | 7,349 |
| Multi Asset | - | 115,986 | 115,986 |
| | <u>2,326,450</u> | <u>167,978</u> | <u>2,494,428</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

| | DB Structure 2016 £000 | DC Structure 2016 £000 | 31 March 2016 £000 |
|---------------------------------|---------------------------------|---------------------------------|--------------------------|
| Client specific funds (note 13) | 681,798 | - | 681,798 |
| Bond funds | 410,481 | 9,103 | 419,584 |
| Equity funds | 351,712 | 94,913 | 446,625 |
| Property funds | 214,021 | - | 214,021 |
| Private Equity funds | 119,758 | - | 119,758 |
| Diversified growth funds | 80,902 | - | 80,902 |
| Liquidity funds | 12,422 | 2,209 | 14,631 |
| | <u>1,871,094</u> | <u>106,225</u> | <u>1,977,319</u> |

13. CLIENT SPECIFIC FUNDS

The table below shows the breakdown of the underlying assets held in the client specific funds.

| | DB Structure 2017 £000 | DC Structure 2017 £000 | 31 March 2017 £000 |
|-----------------|------------------------------|------------------------------|--------------------------|
| Equities | 886,940 | - | 886,940 |
| Bonds | 280,616 | - | 280,616 |
| Liquidity funds | 1,608 | - | 1,608 |
| Cash | 2,514 | - | 2,514 |
| Accruals | 4,001 | - | 4,001 |
| | <u>1,175,679</u> | <u>-</u> | <u>1,175,679</u> |

| | DB Structure 2016 £000 | DC Structure 2016 £000 | 31 March 2016 £000 |
|-----------------|---------------------------------|------------------------------|--------------------------|
| Equities | 497,271 | - | 497,271 |
| Bonds | 175,775 | - | 175,775 |
| Liquidity funds | 5,115 | - | 5,115 |
| Cash | 1,282 | - | 1,282 |
| Accruals | 2,355 | - | 2,355 |
| | <u>681,798</u> | <u>-</u> | <u>681,798</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

14. AVC AND SPPP INVESTMENTS

The Trustee holds assets which are separately invested from the main fund in the form of individually earmarked funds. These secure additional benefits, on a defined contribution basis, for those members who have elected to pay AVCs or who are in the SPPP.

The total amount of AVC and SPPP investments at the year end is shown below.

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|-----------------|------------------------------|------------------------------|---|
| Prudential AVC | 10,623 | - | 10,623 |
| Prudential SPPP | 65 | - | 65 |
| BlackRock AVC | 14,108 | - | 14,108 |
| BlackRock SPPP | 74,097 | - | 74,097 |
| | <u>98,893</u> | <u>-</u> | <u>98,893</u> |

| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
|-----------------|---------------------------------|---------------------------------|---|
| Prudential AVC | 10,220 | - | 10,220 |
| Prudential SPPP | 65 | - | 65 |
| BlackRock AVC | 11,224 | - | 11,224 |
| BlackRock SPPP | 58,485 | - | 58,485 |
| | <u>79,994</u> | <u>-</u> | <u>79,994</u> |

15. CONCENTRATION OF INVESTMENTS

The following investments, excluding UK Government securities, account for more than 5% of the Plan's net assets as at 31 March 2017.

| | Market Value 2017 £000 | 2017 % | Market Value 2016 £000 | 2016 % |
|---|------------------------------|-----------|------------------------------|-----------|
| Legal & General Global Equity 50:50 Index Fund | - | - | 172,445 | 8.3 |
| MFS Global Equity Fund | 205,420 | 7.8 | 144,373 | 7.0 |
| Insight UK Corporate All Maturities Bond Fund | - | - | 115,818 | 5.6 |
| Legal & General Investment Grade Corporate Bond All Stocks Fund | - | - | 118,584 | 5.7 |
| Legal & General All Stocks Index-Linked Gilts | - | - | 107,711 | 5.2 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

16. INVESTMENT MANAGEMENT EXPENSES

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|--------------------------------------|---------------------------------|---------------------------------|---|
| Administration, management & custody | 2,283 | - | 2,283 |
| Annual management charge | 377 | 546 | 923 |
| Investment fee rebate | (474) | - | (474) |
| | <u>2,186</u> | <u>546</u> | <u>2,732</u> |
| | | | |
| | DB Structure 2016 £000 | DC Structure 2016 £000 | For the year ended 31 March 2016 £000 |
| Administration, management & custody | 1,791 | - | 1,791 |
| Annual management charge | 115 | 144 | 259 |
| Investment fee rebate | (95) | - | (95) |
| | <u>1,811</u> | <u>144</u> | <u>1,955</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

17. FAIR VALUE

The fair value of finance instruments has been calculated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability either directly or indirectly;

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

| | At 31 March 2017 | | | |
|----------------------------|------------------|------------------|----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | £000 | £000 | £000 | £000 |
| DB Structure | | | | |
| Pooled investment vehicles | 1,869 | 1,944,651 | 379,930 | 2,326,450 |
| AVC and SPPP investments | - | 88,205 | 10,688 | 98,893 |
| Cash deposits | 23,826 | - | - | 23,826 |
| Accrued investment income | 1,924 | - | - | 1,924 |
| Cash in transit | - | - | 69 | 69 |
| Other investments | (1,924) | - | - | (1,924) |
| | <u>25,695</u> | <u>2,032,856</u> | <u>390,687</u> | <u>2,449,238</u> |
| DC Structure | | | | |
| Pooled investment vehicles | - | 167,978 | - | 167,978 |
| Cash in transit | 3 | - | - | 3 |
| | <u>3</u> | <u>167,978</u> | <u>-</u> | <u>167,981</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

| | <i>Level 1</i> | <i>At 31 March 2016</i> | <i>Level 3</i> | <i>Total</i> |
|----------------------------|----------------|-------------------------|----------------|------------------|
| | <i>£000</i> | <i>Level 2</i> | <i>£000</i> | <i>£000</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| DB Structure | | | | |
| Pooled investment vehicles | - | 1,537,315 | 333,779 | 1,871,094 |
| AVC and SPPP investments | - | 69,709 | 10,285 | 79,994 |
| Cash deposits | 10,355 | - | - | 10,355 |
| Accrued investment income | 1,999 | - | - | 1,999 |
| Cash in transit | 1,104 | - | - | 1,104 |
| Other investments | (1,999) | - | - | (1,999) |
| | <u>11,459</u> | <u>1,607,024</u> | <u>344,064</u> | <u>1,962,547</u> |
| DC Structure | | | | |
| Pooled investment vehicles | - | 106,225 | - | 106,225 |
| | <u>-</u> | <u>106,225</u> | <u>-</u> | <u>106,225</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

18. INVESTMENT RISK

FRS 102 requires certain disclosures in relation to investment risks arising from financial instruments.

Retirement benefit plans need to disclose information that enables users of its financial statements to evaluate the nature and extent of the market risk and credit risk arising from the investments at the end of the reporting period.

It defines market risk as:

"the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk, and other price risk.

- Interest rate risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates
- Currency risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates
- Other price risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market"

It defines credit risk as:

"the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation."

Overall investment strategy

The Trustee currently sets the investment strategy for each Section of the Plan, taking into account considerations such as the strength of the employer covenant, the maturity of the Sections and after receiving professional advice from Hymans Robertson LLP, in order to try and achieve the following objectives:

The primary objective of the DB Structure of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's over-riding funding principles for the DB structure are:

- to build up assets to provide for new benefits of active members as they are earned;
- to recover any funding shortfall over an agreed time frame; and
- to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee intends to ensure that the investment objectives are consistent with the Plan's Statement of Funding Principles.

In order to achieve these objectives, it is necessary to take investment risk.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT RISK (continued)

Current investment strategy – DB Structure

The table below sets out the Plan's actual and target allocations for the DB Structure of the Plan as at 31 March 2017. The figures below reflect the Plan's underlying investments in Pooled Investment Vehicles.

| Asset class | Asset allocation 31 March 2017 (%) | Asset allocation 31 March 2016 (%) | Target Weight (%) ¹ |
|--|--|--|-----------------------------------|
| Equities (Legal & General, MFS) | 47.3 | 45.6 | 44.4 |
| Private Equity (Partners Group SA) | 2.5 | 2.0 | 2.3 |
| Property (Legal & General, Columbia Threadneedle, Standard Life) | 9.1 | 10.8 | 9.8 |
| Diversified growth funds (Pictet) | 5.9 | 4.3 | 6.4 |
| Liquid Credit (Barings) | 4.0 | 3.8 | 4.5 |
| Illiquid Credit (Partners Group) | 2.3 | 2.9 | 3.8 |
| Secured Loans (Babson, Highbridge) | 3.4 | 3.7 | 4.1 |
| Corporate Bonds (Legal & General, Insight) | 11.1 | 12.5 | 11.5 |
| Index-Linked Gilts (Legal & General) | 13.3 | 13.0 | 12.0 |
| Ground rents (Standard Life) | 0.9 | 0.6 | 1.2 |
| Cash/liquidity funds (Legal & General) | 0.2 | 0.8 | 0.0 |
| TOTAL | 100.0 | 100.0 | 100.0 |

¹ The target weights are based on the weighted average of the target weights for the underlying Sections of the Plan as at 31 March 2017 which vary with changes in relative asset valuations for the Sections.

The key risks associated with the current investment strategy are:

Interest rate risk (indirect)

The Plan is subject to indirect interest rate risk in relation to the invested assets. The value of the Plan's bonds, secured loans and gilts, held through pooled investment vehicles, representing approximately 30% of the Plan's assets, are subject to indirect interest rate risk. However, this risk offsets a proportion of the interest rate risk associated with the liabilities. The degree of protection depends on the underlying strategies for each Section of the Plan, with the proportion of assets invested in bonds which ranges from approximately 15% to 70% depending on the investment strategy adopted for each Section. If interest rates fall, the value of these investments is expected to rise to help match the increase in the actuarial value of the liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets are expected to fall in value as will the actuarial value of the liabilities because of an increase in the discount rate.

The majority of the Plan's interest rate risk hedging is delivered through investment in an Index-linked Gilt Client Specific Unitised Fund managed by Legal & General. The composition of the fund consists of individual leveraged inflation-linked gilt funds, and cash. These funds are held in a combined portfolio that is expected to hedge interest rate and inflation risks in relation to a portion of the Plan's liabilities.

The Investment Sub-Committee has put in place interest rate triggers to increase the level of hedging over time and regularly monitors the Sections' hedging levels against the targets.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT RISK (continued)

Credit risk (direct & indirect)

The Plan is subject to direct credit risk through investment in pooled investment vehicles, and indirect credit risk in relation to the pooled investment vehicles' holdings in bonds, secured loans, gilts and cash balances.

The Trustee manages indirect credit risk by constructing a diverse portfolio of investments across various markets and with various investment managers. Where managers use derivatives arrangements, these are generally collateralised to reduce risk.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements, although the pooled investment vehicles themselves are not credit rated. The Trustee carries out due diligence checks prior to the appointment of new managers and, on an ongoing basis, monitors any changes to the operating environment of the pooled manager.

Pooled fund investment arrangements used by the Plan can include unit-linked insurance contracts, authorised unit trusts, unauthorised exempt unit trusts, OEICs and SICAVs. As at 31 March 2017, all of the Plan's investments were in pooled investment vehicles.

Currency risk (direct & indirect)

The Plan is exposed to indirect currency risk due to a proportion of its investments in equities and other financial instruments being denominated in overseas currencies, and direct currency risk through investment in pooled funds denominated in overseas currencies. The Plan mitigates this risk by investing a proportion of the fund in domestic equities, and in sterling hedged overseas pooled funds.

The table below summarises the Plan's direct currency risk as at 31 March 2017:

| Currency | 31 March 2017 (£000) | 31 March 2016 (£000) |
|-----------|-------------------------|-------------------------|
| US Dollar | 34,258 | 28,502 |
| Euro | 59,251 | 37,917 |

Other price risk

Other price risk arises principally from the Plan's return seeking portfolio, which includes indirectly held equities, diversified growth funds, secured loans and property. A number of the Plan's investment managers may use derivatives as a way of obtaining efficient exposure to investment markets.

The Trustee manages other price risk by constructing a diverse portfolio of investments across various markets and with various investment managers.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT RISK (continued)

The following table illustrates the extent to which the Plan's investments are subject to the above indirect risks:

| Asset class | 31 March 2017 (£000) | 31 March 2016 (£000) | Credit risk | Interest rate risk | Currency risk | Other price risk |
|---|-------------------------|-------------------------|----------------|-----------------------|------------------|---------------------|
| Equities (Legal & General, MFS) | 1,099,063 | 852,840 | No | No | Yes | Yes |
| Private Equity (Partners Group SA) | 59,177 | 37,917 | No | No | Yes | Yes |
| Property (Legal & General, Columbia Threadneedle, Standard Life) | 211,897 | 202,276 | Yes | Yes | No | Yes |
| Diversified funds (Pictet) | 137,425 | 80,902 | Yes | Yes | Yes | Yes |
| Liquid Credit (Babson) | 92,521 | 71,283 | Yes | Yes | Yes | Yes |
| Illiquid Credit (Partners Group) | 53,004 | 53,340 | No | Yes | Yes | Yes |
| Secured Loans (Babson, Highbridge) | 80,147 | 70,119 | No | Yes | Yes | Yes |
| Corporate Bonds (Legal & General, Insight) | 257,012 | 234,402 | Yes | Yes | No | Yes |
| Index-Linked Gilts (Legal & General) | 309,958 | 243,848 | Yes | Yes | No | Yes |
| Ground rents (Standard Life) | 21,552 | 11,745 | Yes | Yes | No | Yes |
| Cash/liquidity funds (Legal & General) | <u>4,694</u> | <u>14,120</u> | No | Yes | No | No |
| TOTAL (excluding DC, AVC and SPPP funds) | <u>2,326,450</u> | <u>1,872,792</u> | | | | |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT RISK (continued)

AVC and SPPP arrangements

Direct credit risk

The AVC and SPPP assets are all subject to direct credit risk in relation to holdings in unit linked insurance funds held with Prudential and Blackrock.

Prudential and Blackrock are regulated by the Financial Conduct Authority and maintain separate funds for their policy holders.

Indirect credit risk and other market risks

The following table illustrates the extent to which the AVC and SPPP investments are subject to indirect credit risk and other market risks:

| Asset class | 31 March 2017 (£000) | 31 March 2016 (£000) | Credit risk | Interest rate risk | Currency risk | Other price risk |
|---------------------------------------|-------------------------|-------------------------|----------------|--------------------------|------------------|------------------------|
| Equities | 20,950 | 50,951 | No | No | Yes | Yes |
| Property | 324 | 266 | Yes | Yes | No | Yes |
| Multi-asset | 63 | 596 | Yes | Yes | Yes | Yes |
| With-profits | 3,610 | 4,101 | Yes | Yes | Yes | Yes |
| Bonds | 7,111 | 19,208 | Yes | Yes | No | Yes |
| Cash | 4,937 | 4,872 | No | Yes | No | No |
| Target date funds | 61,898 | n/a | Yes | Yes | Yes | Yes |
| TOTAL (AVC AND SPPP funds) | <u>98,893</u> | <u>79,994</u> | | | | |

The analysis of the risks set out above is at Plan level. Member level risk exposures will depend on the funds invested in by members.

The Trustee has selected the above funds and has considered the indirect risk in the context of the investment strategy described in the Trustee's Report.

DC Structure Current Investment Strategy

Direct credit risk

The DC assets are subject to direct credit risk in relation to holdings in unit linked insurance funds held with Prudential and BlackRock.

Prudential and BlackRock are regulated by the Financial Conduct Authority and maintain separate funds for their policy holders.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

INVESTMENT RISK (continued)

Indirect credit risk and other market risks

The following table illustrates the extent to which the DC Structure investments are subject to indirect credit risk and other market risks:

| Asset class | 31 March 2017 (£000) | 31 March 2016 (£000) | Credit risk | Interest rate risk | Currency risk | Other price risk |
|-------------------------|-------------------------|-------------------------|----------------|-----------------------|------------------|---------------------|
| Equities | 40,314 | 94,862 | No | No | Yes | Yes |
| Property | 83 | n/a | Yes | Yes | No | Yes |
| Multi-asset | 60 | n/a | Yes | Yes | Yes | Yes |
| With-profits | - | 9,103 | Yes | Yes | Yes | Yes |
| Bonds | 8,941 | n/a | Yes | Yes | No | Yes |
| Target date fund | 115,925 | n/a | Yes | Yes | Yes | Yes |
| Cash | <u>2,655</u> | <u>2,260</u> | No | Yes | No | No |
| TOTAL (DC funds) | <u>167,978</u> | <u>106,225</u> | | | | |

The analysis of the risks set out above is at Plan level. Member level risk exposures will depend on the funds invested in by members.

The Trustee has selected the above funds and has considered the indirect risk in the context of the investment strategy described in the Trustee's Report.

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

19. CURRENT ASSETS AND LIABILITIES

| | DB Structure 2017 £000 | DC Structure 2017 £000 | For the year ended 31 March 2017 £000 |
|---|------------------------------|------------------------------|---|
| Current assets | | | |
| Employer contributions due | - | - | - |
| Employee contributions due | - | - | - |
| Cash balances | 3,517 | 298 | 3,815 |
| | <u>3,517</u> | <u>298</u> | <u>3,815</u> |
| Current liabilities | | | |
| Unpaid benefits | 294 | - | 294 |
| Accrued expenses | 1,946 | - | 1,946 |
| HM Revenue & Customs | 504 | 4 | 508 |
| | <u>2,744</u> | <u>4</u> | <u>2,748</u> |
| Total current assets and liabilities | <u>773</u> | <u>294</u> | <u>1,067</u> |

COMBINED NUCLEAR PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

| | DB Structure 2016 £000 | DC Structure 2016 £000 | <i>For the year ended 31 March 2016 £000</i> |
|---|---------------------------------|---------------------------------|--|
| Current assets | | | |
| Employer contributions due | - | 2 | 2 |
| Employee contributions due | 50 | 1 | 51 |
| Cash balances | 4,863 | 69 | 4,932 |
| | <u>4,913</u> | <u>72</u> | <u>4,985</u> |
| Current liabilities | | | |
| Unpaid benefits | 1,267 | - | 1,267 |
| Accrued expenses | 444 | - | 444 |
| HM Revenue & Customs | 216 | 7 | 223 |
| | <u>1,927</u> | <u>7</u> | <u>1,934</u> |
| Total current assets and liabilities | <u>2,986</u> | <u>65</u> | <u>3,051</u> |

Included in the DC structure above is £295k (2016: £72k) which is designated to members.

20. RELATED PARTY TRANSACTIONS

The Plan has received contributions in respect of four Trustee Directors (Mr I Driver, Mr J Ford, Mr D Gregory and Mrs JM Corbett) who were contributing members of the Plan during the year.

The Trustee fees paid in respect of the year to 31 March 2017 totalled £160,585 (2016: £57,000).

There were no other related party transactions during the year.

21. EMPLOYER RELATED INVESTMENTS

There were no employer related investments at any time during the year.

22. CAPITAL COMMITMENTS

The Plan has a capital commitment with Highbridge to the value of \$90m. The commitment remaining at 31 March 2017 is \$41.6m. The Plan also has a capital commitment with Partners Group. As at 31 March 2017, a total commitment of £50m had been fulfilled in relation to the Partners MAC 2014 (Partners Group Private Markets Credit Strategies S.A.). In relation to the Partners Global Value Fund (Partners Group Global Value 2014, L.P. Inc), a total of €62.6m had been committed out of a total commitment of €102m.

COMBINED NUCLEAR PENSION PLAN

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2017

Independent Auditor's statement about contributions to the Trustee of the Combined Nuclear Pension Plan

We have examined the summary of contributions payable under the Schedule of Contributions to the Combined Nuclear Pension Plan in respect of the Plan year ended 31 March 2017 which is set out on page 70.

This statement is made solely to the Plan's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 70, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the Schedules of Contributions.


It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Plan and to report our opinion to you.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the Schedules of Contributions.

Statement about contributions payable under the Schedule of Contributions

In our opinion contributions for the Plan year ended 31 March 2017 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material aspects been paid at least in accordance with the Schedules of Contributions certified by the actuary.


Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester M2 3AE


Date: 31 October 2017

COMBINED NUCLEAR PENSION PLAN

SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 31 MARCH 2017

Statement of Trustees' Responsibilities in respect of Contributions

The Plan's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Plan by or on behalf of the employers and the active members of the Plan and the dates on or before which such contributions are to be paid. In view of the complexity of the arrangements and the number of employers participating in the Plan, the Trustee has decided to maintain Schedules relevant to each of the participating employers and sections of the Plan as if the Pensions Act 2004 applied to those individual Schedules and employer. The Plan's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Plan in accordance with the Schedules.

Trustees' Summary of Contributions payable under the schedule in respect of the Plan year ended 31 March 2017

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee.

The Summary of Contributions sets out the employer and member contributions payable to the Plan in respect of the Plan year ended 31 March 2017. The Plan auditor reports on these in the Auditor's Statement about Contributions.

Contributions payable under the Schedules in respect of the Plan year

| | DB Structure £000 | DC Structure £000 |
|--|----------------------|----------------------|
| Employers' Contributions | | |
| Normal | 102,080 | 23,332 |
| Deficit | 1,306 | - |
| Shift pay contributions | 4,002 | - |
| Augmentations | 941 | - |
| Members' Contributions | | |
| Normal | 21,329 | 10,452 |
| Shift pay contributions | 2,745 | - |
| Additional voluntary contributions | 4,778 | - |
| Total contributions payable under the Schedules as reported in the financial statements (as reported on by the Plan Auditor) | 137,181 | 33,784 |

Signed on behalf of the Trustee:

Trustee Director:

Date:

26 October 2017

COMBINED NUCLEAR PENSION PLAN

ACTUARIAL STATEMENTS

The Actuary's following certification of Schedule of Contributions has been provided for the Sections of the Combined Nuclear Pension Plan listed below:

Closed
DSRL
GPS DRS
GPS EnergySolutions
GPS Nexia
GPS SLC
GPS WEC/UAM
LLWR
Magnox
Nirex
Sellafield
SFL2

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Adequacy of rates of contributions for sections; Closed, GPS DRS, GPS SLC, GPS Nexia

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected to be met on 31 March 2016 and continue to be met for the period for which the schedule is to be in force.

Adequacy of rates of contributions for sections; DSRL, LLWR, Magnox, Nirex, Sellafield, GPS WEC, SFL2, GPS Energy Solutions

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the Recovery Plan dated between 30 May 2017 and 20 July 2017.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles, dated between 30 May 2017 and 20 July 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the above Sections' liabilities by the purchase of annuities, if the above Sections were to be wound up.

| | | | |
|------------|---|------------------|---|
| Signature: | MARK McCLINTOCK | Date: | 30 May 2017, 21 June 2017, 17 July 2017 and 31 July 2017 |
| Name: | M. McClintock | Qualification: | Fellow of the Institute and Faculty of Actuaries |
| Address | Lincoln Building 27-45 Great Victoria Street Belfast BT2 7SL | Name of Employer | Deloitte Total Reward and Benefits Limited |

