

**ELECTRICITY SUPPLY PENSION SCHEME**

**MAGNOX ELECTRIC GROUP REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2016**

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
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**Magnox Electric Group of the Electricity Supply Pension Scheme  
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Message from the Chairman of the Group Trustees**

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**Message from the Chairman of Group Trustees**

I am pleased to present the Magnox Electric Group Report & Financial Statements for the year ended 31<sup>st</sup> March 2016.

This is the first Annual Report since I was appointed as Chairman of the Trustee Board and it has been a year of change, some of which was sadly unwelcome.

It is important to record the Trustee's thanks to our former Chairman, Tony Cooper, who retired at the end of July 2015 and from whose wisdom we all benefitted during his six years in office.

Many of you will be aware that Brian Hibdige who was our longest serving trustee sadly died in October 2015 after a long, and brave, fight against cancer. Brian made a fantastic contribution during the twenty years he served as a trustee, in particular to the investment strategy. We miss Brian greatly.

Tony's retirement created a vacancy on the trustee board and I am very pleased to say that Karen Walkden, who is the Head of Organisational Change and HR Projects for Magnox, agreed to join us.

The loss of Brian meant that there was unfortunately a further vacancy on the trustee board and although it was in very sad circumstances I was very pleased when Nick Gore, who is a previous Chairman of the Trustee Board, agreed to re-join in December.

During the year we continued to monitor and develop our investment strategies and began the preparation work for the actuarial valuations which are due as at 31<sup>st</sup> March 2016. The actuarial valuations are completed by a specialist adviser and determine how well funded each section is and the future contributions required.

There was a change in ownership of one of the section's employer when *EnergySolutions* EU Limited was acquired by W.S. Atkins. The trustees have already met with the new employer and are pleased with the discussions so far.

The financial statements in this report reflect the position at the scheme year end which is 31<sup>st</sup> March 2016. Since that time the United Kingdom has voted to leave the European Union. Each of the pension scheme Sections within the Magnox Group has its own investment strategy to reflect its individual circumstances and the nature of pension schemes mean that the funds will exist over a long term. The trustees are monitoring the position closely and will continue to do so as the position develops.

We anticipate that the results of the actuarial valuations will be available towards the end of the year and will communicate the results in a separate newsletter.

Susan Jee  
Chairman

Date: 20<sup>th</sup> July 2016





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There is also a central Scheme Trustee, Electricity Pensions Trustee Limited (EPTL). EPTL is a trust corporation with a Board of Directors.

## **Group Trustees**

### **APPOINTED TRUSTEE DIRECTORS**

**Susan Jee** Chairman of the Group Trustees <sup>1,2(until 1 September 2015),6</sup>

**Andrew Clare** Chairman of the Investment Sub-committee (Independent Trustee) <sup>1</sup>

**Paul Edwards** Chairman of the Governance & Audit Sub-committee (from 1 September 2015). <sup>5</sup>

**Martin Grafton** Deputy Chairman of the Group Trustees. <sup>5</sup>

**Karen Walkden** (current employee)

### **ELECTED TRUSTEE DIRECTORS**

**Jim Boyd** (Retired employee) <sup>1,4</sup>

**Fergus Hall** (Retired employee) <sup>2,4</sup>

**Nick Gore** (Retired employee) (from 11 December 2015) <sup>4</sup>

**John Jones** (Current employee, Wylfa) <sup>3</sup>

**David Openshaw** (Retired employee) <sup>1(from 1 December 2015),2,4</sup>

**Ceri Davies** (Current employee, Berkeley Centre) <sup>2,3</sup>

*Note:*

1. Member of the Investment Committee

2. Member of the Governance & Audit Sub-committee

3. Active member of the Scheme

4. In receipt of pension from the Scheme

5. Current employee of Cavendish Nuclear Limited seconded to Magnox

6. Non Executive Director Magnox Limited

## **Appointment and Removal of Group Trustees**

The five Appointed Group Trustees are appointed by, and can be removed by, Magnox Limited. The six Elected Group Trustees are elected by contributing and pensioner members of the Group. In addition to changes that take place at an election, an Elected Group Trustee ceases to be a Trustee if he/she resigns, ceases to be a contributing member or pensioner of the Group, or is removed from office by a majority of the other Elected Trustees. A casual vacancy for an Elected Trustee can be filled by a person nominated by the remaining Elected Trustees. Elected Group Trustees normally serve for a term of four years with three Elected Group Trustees being elected every two years.

The Group does not use constituencies (i.e. sections, divisions or classes of member within the Group) in electing Trustees; any candidate standing for election is eligible to receive a vote from any member.

Once having taken up office all Trustees - both Elected and Appointed - act on behalf of and are accountable to all members of the Group.

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### **Meetings of the Group Trustees during the Year**

During the year the Group Trustees met 6 times, including 2 special meetings. At their regular meetings the Group Trustees dealt with all matters relating to the management of the Group members' benefits, funding, governance matters and the investment of the Group's assets. They also received periodic reports and presentations from their committees, working groups and advisers. In addition Group Trustees maintained and monitored its Risks and Business Plan and received training. 2 special meetings and conference calls were held during the year to deal specifically with matters relating to investment matters and preparation for the impending actuarial valuations of the Group.

### **Trustee Committees**

In addition to the meetings of the Group Trustees, certain matters were subject to detailed consideration in Trustee Committees. During the year there were three Trustee Committees.

The Investment Sub-committee is the main interface with investment managers allowing members to develop an in-depth knowledge and understanding of them. Its main aim is to ensure sufficient time is available for investment matters to be properly addressed. The committee reports comprehensively to the Trustee Board on the performance of Group investments and any other matters it has reviewed or considered. The Committee members are set out on page 3. In addition the Principal Employer (Magnox Limited) may nominate not more than two individuals to be non-voting members of the sub-committee. Trustee Directors who are not members of the committee routinely attend meetings of the sub-committee as and when they are able to do so. The Investment Sub-committee met four times during the year.

There is a Governance and Audit Sub-committee which advises the trustee on agreed aspects of the Group's governance and controls to provide assurance of effective stewardship. The committee provides comprehensive reports to the Trustee board and the meetings are open for any Trustee who is not a member of the committee to attend. This Sub-committee met four times during the year

There is also a Distribution of Death Benefits Working Group with delegated authority to determine such distributions referring only to the Trustee Board any cases which have any substantial subjective circumstances. At 31 March 2016, the members of this working party were Ceri Davies, Fergus Hall, David Openshaw and Karen Walkden.

Communication with members was maintained by means of Pensions Update newsletters and via the website, the Group Annual Meeting held at Berkeley and a series of road shows held at various sites.



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**Group Trustees' Responsibilities in Respect of the Financial Statements**

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

- show a true and fair view of the financial transactions of the Group during the Group year and of the amount and disposition at the end of the Group year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Group year;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Group Trustees are responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Group Trustees are also responsible for making available certain other information about the Group in the form of an annual report.

The Group Trustees also have 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 Group and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

**Group Trustees' Responsibilities in Respect of Contributions**

The Group Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the Group by or on behalf of the employer and the active members of the Group and the dates on or before which such contributions are to be paid.

The Group Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Group and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Group in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Group Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

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### **Additional Group Trustees' Responsibilities**

The structure of the Scheme means that certain matters are dealt with by Group Trustees and certain matters are dealt with by the Scheme Trustee. The main additional responsibilities of the Group Trustees are:

- to determine an investment strategy for Group assets;
- to ensure appropriate management of the Group assets;
- to arrange for regular actuarial valuations of the Group to be carried out in accordance with the funding principles agreed with the Employers;
- to prepare and agree with the Employers a Statement of Funding Principles which includes the actuarial assumptions used to assess the Group's liabilities;
- to agree a recovery plan with the Employers for making good any shortfall in assets against liabilities identified in periodic actuarial valuations; and
- to make available to members annual funding updates on the financial position of the Group.

In carrying out their work the Group Trustees must always act impartially and in the best interests of all the members of the Magnox Group.

To assist them in their work the Group Trustees have appointed a team of professional advisers whose advice is taken into account when necessary. The advisers include lawyers, actuaries, administrators, investment consultants and investment managers. Their names are set out on pages 75 and 76. The Trustee Directors are assisted in the management of the Group by the pensions team from Magnox Ltd including the Group Administrator, Rachel Hewlett.

Under a revised constitution introduced in January 2012, each Group within ESPS currently appoints two individuals to be Councillors on the Council which, amongst other matters, is responsible for the appointment of the Board of EPTL the Scheme Trustee. As at 31 March 2016 Fergus Hall was the councillor chosen by the Elected Trustee Directors and Rachel Hewlett was the councillor chosen by our Principal Employer. There were no Magnox Electric Group councillors represented on the Board of EPTL.

The main responsibilities of EPTL are:

- to ensure the safe custody and administrative control of assets;
- to produce the Scheme Report & Financial Statements on an annual basis;
- to ensure proper investment management of Group assets invested in the Unitised Fund;
- to select and put in place a range of AVC investment funds for Group Trustees to use as appropriate; and
- to ensure proper investment management of the investment funds originally established by EPTL for Defined Contributions members.



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**Administration report**

**Membership statistics for the year ended 31 March 2016**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2015</b>	<b>2,151</b>	<b>5,303</b>	<b>1,359</b>	<b>1,353</b>	<b>10,166</b>
Adjustments to opening balance	(6)	(1)	(1)	2	(6)
<b>Sub Total</b>	<b>2,145</b>	<b>5,302</b>	<b>1,358</b>	<b>1,355</b>	<b>10,160</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	307	69	122	498
Pension sharing orders and new EPB pensioners in payment	-	1	-	3	4
<b>Sub Total</b>	<b>-</b>	<b>308</b>	<b>69</b>	<b>125</b>	<b>502</b>
<b>Reductions</b>					
Contributors / deferred pensioners retiring	(229)	-	-	(78)	(307)
Deaths	(1)	(122)	(71)	(1)	(195)
Leavers with deferred pensions	(122)	-	-	-	(122)
Leavers with refunds of contributions/ transfers to other schemes/cessation of child allowances	-	-	(5)	(8)	(13)
<b>Sub Total</b>	<b>(352)</b>	<b>(122)</b>	<b>(76)</b>	<b>(87)</b>	<b>(637)</b>
<b>At 31 March 2016</b>	<b>1,793</b>	<b>5,488</b>	<b>1,351</b>	<b>1,393</b>	<b>10,025</b>

The membership statistics for each section are included in appendix 1.

**Pensions increases**

The Rules of the Scheme applicable to the Group provide for all pensions in payment, children's allowances and deferred pensions to be increased on an annual basis on 1 April each year in accordance with the rise in the Retail Prices Index (RPI) in the 12 months ended on the preceding 30 September. If the RPI increase is greater than 5% the Company has the discretion to limit the pension increase to a lower figure subject to a minimum of 5%.

The pensions increase applied from 1 April 2016 was 0.8% in line with the RPI increase for the 12 months to 30 September 2015 and was therefore non-discretionary. A proportionate increase was applied to pensions which came into payment between 2 April 2015 and 1 March 2016.

Pension increases over the previous five years were:

1 April 2015	2.3%
1 April 2014	3.2 %
1 April 2013	2.6 %
1 April 2012	5.0 %
1 April 2011	4.6 %

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### **Transfers from the Scheme**

Deferred pensioners can transfer the cash equivalent of their deferred benefits to a new employer's approved pension arrangement.

New regulations were brought into force on 1 October 2008, the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, replacing the old actuary certified process with a trustee-driven regime. The effect of this was to reduce the actuary's role to an advisory one and the Group Trustees became responsible for calculating and verifying transfer values.

The transfer value payable in such circumstances is to be calculated and verified by either:

- calculating the cash equivalent of the deferred benefits on a best estimate basis; or
- an alternative method in accordance with Regulation 7E of the 2008 Regulations.

The Finance Act 2004 introduced new rights for members who leave the Group with between 3 months and two years of Qualifying Service. These individuals can choose between a refund of contributions and a Cash Transfer Sum (which is calculated in the same manner as a cash equivalent transfer value but without the underlying minimum guarantee which applies to deferred pensioners as set out in the second bullet point above).

In all cases the cash equivalents paid during the year were calculated and verified in the manner prescribed by the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

The policy of the Group Trustees is to make no allowance for discretionary benefits.

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## **Investment Report**

### **Investment Arrangements**

The investment strategy set by the Group Trustees is based on advice received from Aon Hewitt Limited which takes account of the Group's current and anticipated future pension liability profile.

The Group Trustees are responsible for making suitable arrangements for the investment of the assets of the Group and for monitoring the investment performance of those assets.

In addition to investing Group assets in Segregated/Pooled Funds under the investment management of fund managers appointed by the Group Trustees, the Group Trustees may use the Sectors of the Unitised Fund operated by EPTL under the investment management of fund managers appointed by EPTL.

Investment reports are received at quarterly intervals and fund manager representatives attend meetings of the Group Trustees as required to discuss the results of their management of assets against the agreed targets.

The names of those who manage the Group's investments can be found on page 76.

See Note 9 to the financial statements for details of the allocation of Group assets as at 31 March 2016.

### **Statement of Investment Principles**

The Group Trustees have produced a Statement of Investment Principles (SIP) in accordance with the requirements of the Pensions Act 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's voluntary code of conduct for Institutional investment decision making in the UK (the Myners principles) Section 35 of the Pensions Act 1995. In preparing the SIP the Group Trustees took professional advice from Aon Hewitt Limited and consulted with the Company.

The SIP covers the Group Trustee's policy on the following matters:

- (a) ensuring compliance with the current investment requirements;
- (b) the types of investment, and the balance between different types of investment;
- (c) risk;
- (d) expected return of investments;
- (e) realisation of investments;
- (f) voting rights; and
- (g) socially responsible investment.

The Group Trustees are not aware of and have not been informed by the fund managers of any departures from the SIP during the year.

A copy of the SIP can be obtained by writing to the Group's Administrator, whose address and telephone number appears on page 75.



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## **Socially Responsible Investment and Corporate Governance**

Where appropriate, the appointed fund managers have regard to each company's approach to social, environmental and ethical issues in assessing the long term financial merits of investing in that company. Furthermore, they may use their influence on behalf of shareholders to seek improvements in such areas if they consider the company does not comply with good practice. The investment managers are encouraged to vote at all company meetings and the Trustees receive regular reports on voting activity. The Trustees are satisfied the fund managers' corporate governance policy reflects the key principles of socially responsible investment and the managers stated policies on corporate governance are compatible with the best practice paper (The Responsibilities of Institutional Shareholders and Agents - Statement of Principles) published by the Institutional Shareholders' Committee.

## **Strategic changes over the year to 31 March 2016**

### **SLC Section**

The full redemption from the LGIM UK Equity Index Fund to fund investment in two new alternative equity index funds with LGIM. The proceeds from the redemption (c. £120m) were split equally between the FTSE-RAFI Developed 1000 Equity Index Fund and the MSCI World Minimum Volatility Index Fund.

The full redemption of emerging market equity manager Trilogy, with the proceeds (c. £47m) split equally between the two alternative equity index funds with LGIM.

The full redemption the BlackRock Active Corporate Bond mandate (c. £214m as at 31 March 2015) to help meet the Section's cashflow requirements including: benefit and expense payments and capital calls from the Section's illiquid portfolio (Innisfree, M&G and the property debt mandates).

The funds in which the Group invests have different trading dates and some have notice periods which would have prevented the Group from realising these assets at the year-end date. As limited partnerships it is not possible to 'trade' the holdings in the Innisfree and Infrared funds; however, the Group Trustees may transfer the interest to another party with the approval of the general partner. Such a process would likely take at least 3 months however. In a competitive auction process where a good number of parties are brought in to the process, a sale price close to or even above the current valuation might be achieved.

### **Cavendish Nuclear (formerly Babcock) Section**

The implementation of an LDI mandate with BMO to replace the PIMCO Real Return Fund and BlackRock LDI funds as part of a de-risking plan to increase the interest rate and inflation hedge.

### **EnergySolutions Section**

The redemption from the multi-asset managers JP Morgan, Schroders and Ruffer and the implementation of an LDI mandate with BMO to replace the LGIM and PIMCO assets. These changes substantially reduced the investment risk taken for the Section and increased the interest rate and inflation hedge to 100% of liabilities on a flat gilts basis.

### **NNL Section**

The transition from the PIMCO UK Real Return Fund to the LGIM Over 5 Year Index-Linked Gilt Fund, after PIMCO announced the intended closure of the Fund following a review of their fund range.



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## Investment Performance

The Magnox Electric Group of the Electricity Supply Pension Scheme – SLC Section generated a return of 0.7% over the one-year-period to 31 March 2016. This return was 0.5% below the overall Group benchmark return for the same period. The Group's investment managers posted a range of results in terms of performance relative to their respective benchmarks over the year.

- A strong performer over the period in relative terms was the Lindsell Train UK Equity Fund which is an unconstrained and highly concentrated fund and can therefore show a high degree of deviation from the benchmark.
- Other managers that outperformed their respective benchmarks over the period were Babson, BlackRock, Genesis, GreenOak, Infrared, M&G and Renshaw Bay.
- The multi-asset managers Schroders, JP Morgan and Ruffer struggled over the year relative to their absolute return focused targets.
- Whilst achieving positive returns in absolute terms, the property fund with CBRE posted a negative relative return over the year.

In absolute terms, the performance of SLC's assets was positive over the period driven by the return from the growth assets, in particular the equities and the inflation-linked portfolios. SLC's overall performance was reduced by the performance of the LDI portfolio over the period, as the value of the LDI benchmark tracking the liabilities fell.

The Magnox Electric Group of the Electricity Supply Pension Scheme – Cavendish Nuclear, *EnergySolutions* and NNL Sections generated returns of -0.8%, 0.2% and -1.0% respectively over the one-year-period to 31 March 2016. *EnergySolutions* benefited from strong returns of the LDI portfolio over the first quarter of 2016.

The Group Trustee aims to invest each Section's assets in order to ensure that sufficient assets and cashflows are available to pay members' benefits as and when they arise (cashflow objective), while at the same time having regard to the volatility of measures of funding and security and the employer's ability in meeting contribution payments given their size and incidence (valuation objective).

In setting the investment strategy for each Section, the Group Trustee first considered the lowest risk asset allocation that they could adopt in relation to the Section's liabilities. Apart from the *EnergySolutions* EU Section, the investment strategies adopted have been selected with the aim of achieving a higher return than this lowest risk strategy. The targeted level of outperformance for each Section will be reviewed from time to time while maintaining a prudent, diversified approach to meeting each Section's liabilities.

The Group Trustees employ Aon Hewitt Limited, their investment adviser, to provide quarterly independent assessments and help them review the Group's investment performance.

A summary of the Sections' performance against their benchmarks over the last one year and three years is given in the table below.

Section	1 year to 31 March 2016		3 years to 31 March 2016	
	Return (%)	Benchmark (%)	Return (%)	Benchmark (%)
SLC	0.7	1.2	4.6	4.5
Cavendish Nuclear	(0.8)	0.5	6.6	6.4
<i>EnergySolutions</i>	0.2	1.4	6.9	7.0
NNL	(1.0)	0.7	5.9	5.6

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### **Employer Related Investments**

The Investment Regulations limits employer related investments by occupational pension schemes. These investments include shares, loan stocks, debentures and other securities issued by the employers participating in the scheme and their associated companies, together with loans made to the employers, and any properties or land owned by the scheme and occupied by the employers.

The Regulations apply separately to each Group within the Scheme, by reference to the investments of the Group Trustees in the Employers participating in their Group and their associated companies, and provide that such employer-related investments must not exceed 5% of the market value of the Group's assets.

Details of the Group's Employer related investments are given in note 20 to the financial statements.

### **AVC Investments**

During the year a number of members made additional voluntary contributions (AVC investments) into building societies and insurance companies to obtain further benefits, on a money purchase basis, within the overall limits set by HM Revenue & Customs. The Group Trustees hold these assets invested separately from the main fund in the form of individual building society accounts and insurance policies. Each member receives an annual statement at the year end confirming the amount held in his/her account and the movements in the year.

### **Custody**

The assets of the Group are subject to the overall custody and control of EPTL and are held by the Scheme-wide custodians appointed by EPTL to safeguard the assets.

The Bank of New York Mellon is the custodian in relation to securities. Where certificates are available in relation to such securities, they are held by The Bank of New York Mellon and identified as investments of the Scheme. Where certificates are not available, but records are held in computer based systems, the relevant accounts record the Scheme's ownership.

Documents of title in relation to UK Property and Forestry within the Unitised Fund are held by EPTL's solicitors in the name of EPTL's wholly owned nominee company, Electricity Supply Nominees Limited.

For Segregated Funds, money at call and short notice is placed in accordance with the provisions of Investment Management Agreements negotiated between the Group Trustees and the Segregated Fund Managers. For the Unitised Fund, money at call and short notice is placed only with banks which have as a minimum a Moody's P1 short-term deposit rating and meet other criteria. Additionally, limits are in place to minimise exposure to any one bank. In each case the Scheme is identified as the lender.

All cash is held in bank accounts in the name of the Scheme, or in a fund manager's institutional cash fund, commonly called a cash pool. This type of investment allows cash to be invested across a broad range of institutions thereby reducing risk and exposure.



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## **Changes in Scheme Provisions**

### **Scheme wide amendments by the Scheme Co-ordinator, Electricity Pensions Limited (EPL)**

EPL may amend the provisions of the Scheme with the unanimous consent of all of the participating Principal Employers. During the year ended 31 March 2016 the following Scheme-wide amendments were made:

- A Deed of Amendment dated 23 June 2015 to Clause 23A altering the terms of appointment of members of the Scheme Council and Board of Directors of the Scheme Trustee;
- A Deed of Amendment dated 8 December 2015 to transfer employees of the E.ON UK Group to the new Uniper Group; and
- A Deed of Amendment dated 26 January 2016 effecting changes to the investment provisions.

## **Changes to the Group**

The following changes were made to the rules during the year:

- From 31 March 2016 members of the Site Licence Company Section are no longer able to apply to transfer benefits from other schemes to provide additional pensionable service
- From 31 March 2016 the restriction which prevented members of the Site Licence Section from transferring benefits to another policy when they were within 1 year of normal pension scheme retirement age was removed.

## **Dispute Resolution Procedure**

Pension legislation requires pension schemes to have procedures for the trustees to resolve disputes arising from the running of the scheme.

The Dispute Resolution Procedure for the Group is a two-stage process. In the first instance a complaint from a member (including a pensioner, dependant, and deferred member) or prospective member must be addressed to the Group Administrator. In normal circumstances a response will be made within two months. If dissatisfied with the response, the complainant is entitled to refer the complaint to the Group Trustees within six months of receiving the response from the Group Administrator. The Group Trustees will reply directly, again where possible within two months.

This procedure has been introduced to comply with legislative requirements and does not preclude any member from raising any queries regarding the Group informally at any time.

The details for contacting the Group Administrator are shown on page 75.

Approved by the Group Trustees and signed on their behalf on 21st July 2016 :

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Contributions**

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**Independent auditors' statement about contributions to the Group Trustees of the Magnox Electric Group of the Electricity Supply Pension Scheme**

**Statement about contributions**

**Our opinion**

In our opinion, the contributions required by the schedules of contributions for the Group year ended 31 March 2016 as reported in Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions have in all material respects been paid in accordance with the schedules of contributions specified in the summary of contributions and certified by the Actuary as detailed on page 16.

**What we have examined**

Magnox Electric Group of the Electricity Supply Pension Scheme's summary of contributions for the Group year ended 31 March 2016 is set out on pages 15 and 16.

**Responsibilities for the statement about contributions**

**Our responsibilities and those of the Group Trustees**

As explained more fully in the statement of Trustees' responsibilities, the Group's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Group by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Group Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an examination of the summary of contributions involves**

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 in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Group under the schedule of contributions and the timing of those payments.

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

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Birmingham  
Date

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

**Summary of contributions payable to the Magnox Electric Group of the Electricity Supply Pension Scheme**

During the year ended 31 March 2016, the contributions payable to the Group by the Employer and Employees were as follows:

**Site Licence Company Section**

	<b>Employer £ million</b>	<b>Employee £ million</b>	<b>Total £ million</b>
<b>Required by the schedule of contributions</b>			
Normal*	26.7	-	<b>26.7</b>
Augmentations (Early retirements)	15.7	-	<b>15.7</b>
Supplementary pensions funding	5.3	-	<b>5.3</b>
Other	2.0	-	<b>2.0</b>
<b>Total (as per Fund Account)</b>	<b>49.7</b>	<b>-</b>	<b>49.7</b>

\*Under salary sacrifice arrangements, £5.4m of contributions were met by the Employer rather than the Employees and are included in the £26.7m above.

**Cavendish Nuclear Section**

	<b>Employer £ million</b>	<b>Employee £ million</b>	<b>Total £ million</b>
<b>Required by the schedule of contributions</b>			
Normal*	1.2	-	<b>1.2</b>
Deficit repair	0.4	-	<b>0.4</b>
<b>Total (as per Fund Account)</b>	<b>1.6</b>	<b>-</b>	<b>1.6</b>

\*Under salary sacrifice arrangements, £0.2m of contributions were met by the Employer rather than the Employees and are included in the £1.2m above.

**EnergySolutions Section**

	<b>Employer £ million</b>	<b>Employee £ million</b>	<b>Total £ million</b>
<b>Required by the schedule of contributions</b>			
Normal	0.4	0.1	<b>0.5</b>
Other	0.1	-	<b>0.1</b>
<b>Total (as per Fund Account)</b>	<b>0.5</b>	<b>0.1</b>	<b>0.6</b>

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
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**National Nuclear Laboratory Section**

	Employer £ million	Employee £ million	Total £ million
<b>Required by the schedule of contributions</b>			
Normal	0.1	-	<b>0.1</b>
Deficit repair	0.2	-	<b>0.2</b>
<b>Total (as per Fund Account)</b>	<b>0.3</b>	-	<b>0.3</b>

**Summary of Schedules of Contributions in force during the year ended 31 March 2016:**

Section	Date of certification of Schedule(s)
Site Licence Company	23 October 2013
Cavendish Nuclear	10 June 2014
EnergySolutions	30 January 2014
National Nuclear Laboratory	21 February 2014

Approved by the Group Trustees and signed on their behalf on .....

Trustee

Trustee



**Magnox Electric Group of the Electricity Supply Pension Scheme  
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Contributions**

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**Magnox Electric Group of the ESPS (the Group)**

**SLC section**

**Schedule of Contributions**

**Introduction**

This schedule of contributions is required by Section 227 of the Pensions Act 2004. It comes into effect on the date of certification of this schedule by the Group's scheme actuary and covers the five year period from that date. The Group Trustees are responsible for preparing a revised schedule no later than 30 June 2017.

**Participating Employers**

This schedule covers contributions to the SLC Section of the Group from all employers who participate in the Section from time to time.

**Employer Contributions**

The participating employers will contribute to the Section as follows:

Type	Period	Rate/Amount
Normal and Additional (future service)	The five year period commencing with the date of certification of this schedule by the Group's scheme actuary	As set out in Appendix A, equivalent to an average of 21.4% of Salaries up to 31 December 2013 and 24.0% of Salaries thereafter for members currently contributing (including those members that would be contributing were it not for the employer's salary sacrifice arrangement). The shortfall compared with the future service cost will be met by an element of the deficit contributions set out below.
Deficit contributions to satisfy the recovery plan dated 23 October 2013	The five year period commencing with the date of certification of this schedule by the Group's scheme actuary	£20.0M on 31 July 2014

The participating employers will ensure that the Group Trustees receive these contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate, except for Deficit contributions which will be paid by the dates shown above.

Contributions will be split between Magnox Limited and other participating employers in accordance with proportions notified from time to time by Magnox Limited to the Group Administrator, on behalf of the Group Trustees, in advance of the contributions being paid. In the event that any such contributions are not paid by the other participating employers, they shall be payable by Magnox Limited.

The Group provisions cover other employer contributions when members leave service or retire which are not determined at periodic actuarial valuations. These and the above contributions are appended to this schedule. The participating employers will ensure that the Group Trustees receive these other contributions in accordance with the time limits appropriate to each contribution type as set out in Appendix A.

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
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**Contributions**

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A participating employer may, from time to time, pay additional contributions to the Section as advised to the Group Trustees by the Principal Employer in writing.

Non-investment related administration expenses in respect of the SLC Section of the Group will be met directly by the employer and do not appear in this schedule, with the exception of the Section's Pension Protection Levy, which is met by a matching employer contribution (if the levy is not directly paid by the employer).

**Employee Contributions**

Employees who are active members of the Section will contribute to the Section as follows:

Period	Rate/Amount
The five year period commencing with the date of certification of this schedule by the Group's scheme actuary	The relevant rate of Salaries (6%, 5%, 3% or nil) as required under the Group's provisions.

These amounts do not include members' Additional Voluntary Contributions or other additional contributions members may choose to pay.

The participating employers will ensure that the Group Trustees receive the contributions payable by their employees within 19 days of the end of the calendar month in which the contributions were deducted from the employees' salaries.

Under the Employer's salary sacrifice arrangement, certain members are not required to pay their standard contributions. For those members, the participating employer will pay Additional Contributions equal to the contribution the member would have otherwise paid. The participating employers will ensure that the Group Trustees receive the Additional Contributions within 19 days of the end of the calendar month to which the contributions relate.

Signed on behalf of the Group Trustees:

Signature: *Tony Cooper*

Name: Tony Cooper

Capacity: Trustee Director

Date: 23 October 2013

Signature: *Fergus Hall*

Name: Fergus Hall

Capacity: Trustee Director

Date: 23 October 2013

Signed on behalf of the Employers:

Signature: *Tim Joyce*

Name: Tim Joyce

Capacity: Director

Date: 23 October 2013



**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
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**Certification of schedule of contributions**

Name of scheme:       Magnox Electric Group of the Electricity Supply Pension Scheme  
                                  SLC Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 23 October 2013.

**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 23 October 2013.

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 Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	23 October 2013
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	25 Marsh Street Bristol BS1 4AQ	Name of employer	Aon Hewitt Limited

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
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**Appendix A**

**Employer contribution details**

<b>Contribution</b>	<b>Clause/Rule</b>	<b>Rate/Amount</b>
Normal	Clause 13(1)(a)	Twice members' contributions or, for members who participate in the salary sacrifice arrangement, twice members' contributions that would otherwise have been payable had the member not participated in the salary sacrifice arrangement.
Deficit (Past Service)	Clause 13(1)(i)	£20.0M on 31 July 2014
Additional (Future Service)	Clause 13(1)(g)	9.4% of Salaries up to 31 December 2013 and 12.0% of Salaries thereafter for members currently contributing (including those members that would be contributing were it not for the employer's salary sacrifice arrangement). The shortfall compared with the future service cost will be met by an element of the deficit contributions set out above.
Early retirement	Clause 13(1)(e) (arising from Rule 16 and Rule 17)	The cost of early retirements (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Supplementary pensions	Clause 13(1)(f) (arising from Rule 44)	The cost of supplementary pensions (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Special terms	Clause 13(1)(f) (arising from Rule 32)	As required under the provisions of Rule 32.
Employer's matching contribution to reduction in benefits under Rule 29(1)(b)	Clause 13(1)(b)	As required under the provisions of Clause 13(1)(b).
Employer's matching contribution to reduction in lump sum benefits under Rule 14(3), Rule 20(5) and Part II of Appendix B	Clause 13(1)(c)	As required under the provisions of Clause 13(1)(c).
Other	Clause 13(1)(d)	As required under the provisions of Clause 13(1)(d).
	Rule 32A	As required under the provisions of Rule 32A.
	Clause 13(1)(ff)	As required under the provisions of Clause 13(1)(ff).

**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
Contributions**

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Subject to the note below, the Participating Employers will ensure that the Group Trustees receive in such a manner (or manners) as notified to the Group Trustees in writing:

- Normal, Additional (Future Service), Expenses of Administration and Other contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate.
- Deficit contributions by the due dates shown above.
- Early retirement contributions and Supplementary pensions contributions within 2 months of the month in which retirement occurs or the supplementary pension is granted or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Special terms contributions within 2 months of the month in which the grant of special terms is made or the increase in Benefit is made under Rule 32A, as applicable or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Clause 13(1)(b) and Clause 13(1)(c) contributions within 2 months of the month in which the relevant reduction in benefits is made or such later date as may be agreed by the Principal Employer with the Group Trustees.

The date of receipt by the Group Trustees will be taken as the date on which the contributions are credited for value to an ESPS account designated to the Section.



**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
Contributions**

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**Magnox Electric Group of the ESPS (the Group)**

**Babcock section**

**Schedule of Contributions**

**Introduction**

This schedule of contributions is required by Section 227 of the Pensions Act 2004. It comes into effect on the date of certification of this schedule by the Group's scheme actuary and covers the five year period from that date. The Group Trustees are responsible for preparing a revised schedule no later than 30 June 2017.

**Employer Contributions**

The employer will contribute to the Section as follows:

Type	Period	Rate/Amount
Normal and Additional (future service)	The five year period commencing with the date of certification of this schedule by the Group's scheme actuary.	Rates equivalent to an average of 31.6% of Salaries for members currently contributing (including those members that would be contributing were it not for the employer's salary sacrifice arrangement). The shortfall compared with the future service cost will be met by an element of the deficit contributions set out below. Full details are set out in Appendix A.
Deficit contributions to satisfy the recovery plan dated 10 June 2014	The five year period commencing with the date of certification of this schedule by the Group's scheme actuary.	£0.38M by each 1 April, from 1 April 2014 to 1 April 2016 inclusive.

The employer will ensure that the Group Trustees receive these contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate, except for Deficit Contributions which will be paid by the dates shown above.

The Group provisions cover other employer contributions when members leave service or retire which are not determined at periodic actuarial valuations. These and the above contributions are appended to this schedule. The participating employers will ensure that the Group Trustees receive these other contributions in accordance with the time limits appropriate to each contribution type as set out in Appendix A.

The employer may, from time to time, pay additional contributions to the Section as advised to the Group Trustees in writing.

Non-investment related administration expenses in respect of the Babcock Section of the Group are met directly by the employer and do not appear in this schedule, with the exception of the Section's Pension Protection Levy, which is met by a matching employer contribution (if the levy is not directly paid by the employer).

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

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**Employee Contributions**

Employees who are active members of the Section will contribute to the Section as follows:

Period	Rate/Amount
The five year period commencing with the date of certification of this schedule by the Group's scheme actuary.	The relevant rate of Salaries (6%, 5%, 3% or nil) as required under the Group's provisions.

These amounts do not include members' Additional Voluntary Contributions or other additional contributions members may choose to pay.

The employer will ensure that the Group Trustees receive the contributions payable by their employees within 19 days of the end of the calendar month in which the contributions were deducted from the employees' salaries.

Under the Employer's salary sacrifice arrangement, certain members are no longer required to pay their standard contributions. For those members, the employer pays Additional Contributions equal to the contribution the member would have otherwise paid. The employer will ensure that the Group Trustees receive the Additional Contributions within 19 days of the end of the calendar month to which the contributions relate. For the avoidance of doubt these Additional Contributions are above and beyond the Employer contributions summarised above and in Appendix A

Signed on behalf of the Group Trustees

Signature: *Tony Cooper*

Name: Tony Cooper

Capacity: Trustee Director

Date: 10 June 2014

Signature: *Fergus Hall*

Name: Fergus Hall

Capacity: Trustee Director

Date: 10 June 2014

Signed on behalf of the Employer

Signature: *Bill Tame*

Name: Bill Tame

Capacity: Chief Financial Officer

Date: 10 June 2014

**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
Contributions**

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**Certification of schedule of contributions**

Name of scheme:   Magnox Electric Group of the Electricity Supply Pension Scheme  
                          Babcock Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 10 June 2014.

**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 10 June 2014.

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 Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	10 June 2014
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	25 Marsh Street Bristol BS1 4AQ	Name of employer	Aon Hewitt Limited



**Magnox Electric Group of the Electricity Supply Pension Scheme**  
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**Contributions**

**Appendix A**

**Employer contribution details**

<b>Contribution</b>	<b>Clause/Rule</b>	<b>Rate/Amount</b>
Normal	Clause 13(1)(a)	Twice members' contributions or, for members who participate in the salary sacrifice arrangement, twice members' contributions that would otherwise have been payable had the member not participated in the salary sacrifice arrangement.
Deficit (Past Service)	Clause 13(1)(i)	£0.38M by each 1 April, from 1 April 2014 to 1 April 2016 inclusive.
Additional (Future Service)	Clause 13(1)(g)	19.6% of Salaries for members currently contributing (including those members that would be contributing were it not for the employer's salary sacrifice arrangement). The shortfall compared with the future service cost will be met by an element of the deficit contributions.
Early retirement	Clause 13(1)(e) (arising from Rule 16 and Rule 17)	The cost of early retirements (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Supplementary pensions	Clause 13(1)(f) (arising from Rule 44)	The cost of supplementary pensions (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Special terms	Clause 13(1)(f) (arising from Rule 32)	As required under the provisions of Rule 32.
Employer's matching contribution to reduction in benefits under Rule 29(1)(b)	Clause 13(1)(b)	As required under the provisions of Clause 13(1)(b).
Employer's matching contribution to reduction in lump sum benefits under Rule 14(3), Rule 20(5) and Part II of Appendix B	Clause 13(1)(c)	As required under the provisions of Clause 13(1)(c).
Expenses of administration	Clause 13(1)(h)	Contributions required to match the Pension Protection Fund levy if not directly paid by the employer.
Other	Clause 13(1)(d)	As required under the provisions of Clause 13(1)(d).
	Rule 32A	As required under the provisions of Rule 32A.
	Clause 13(1)(ff)	As required under the provisions of Clause 13(1)(ff).

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

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Subject to the note below, the Employer will ensure that the Group Trustees receive in such a manner (or manners) as notified to the Group Trustees in writing:

- Normal, Additional (Future Service), Expenses of Administration and Other contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate.
- Deficit contributions by the due dates shown above.
- Early retirement contributions and Supplementary pensions contributions by the 19<sup>th</sup> day of the month in which retirement occurs or the supplementary pension is granted or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Special terms contributions by the 19<sup>th</sup> day of the month following the month in which the grant of special terms is made or the increase in Benefit is made under Rule 32A, as applicable or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Clause 13(1)(b) and Clause 13(1)(c) contributions by the 19<sup>th</sup> day of the month following the month in which the relevant reduction in benefits is made or such later date as may be agreed by the Principal Employer with the Group Trustees.

The date of receipt by the Group Trustees will be taken as the date on which the contributions are credited for value to an ESPS account designated to the Section.



**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
Contributions**

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**Magnox Electric Group of the ESPS (the Group)**

**EnergySolutions EU Section**

**Schedule of Contributions**

**Introduction**

This schedule of contributions is required by Section 227 of the Pensions Act 2004. It comes into effect on the date of certification of this schedule by the Group's scheme actuary and covers the five year period from that date. The Group Trustees are responsible for preparing a revised schedule no later than 30 June 2017.

**Participating Employers**

This schedule covers contributions to the EnergySolutions EU Section of the Group from all employers who participate in the Section from time to time.

**Employer Contributions**

The participating employers will contribute to the Section as follows:

Type	Period	Rate/Amount
Normal and Additional (future service)	The five year period commencing with the date of certification of this schedule by the Group's scheme actuary	Rates equivalent to an average of 29.4% of Salaries up to 31 December 2013 and 40.6% of Salaries thereafter. An extra payment will also be made by 31 January 2014 to allow for the backdating of the increased cost from 1 April 2013 to 31 December 2013. Full details are set out in Appendix A.

If required under the Deed of Undertaking dated 30 January 2014 (attached to this schedule), further contributions will be paid.

The participating employers will ensure that the Group Trustees receive these contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate.

The Group provisions cover other employer contributions when members leave service or retire which are not determined at periodic actuarial valuations. These and the above contributions are appended to this schedule. The participating employers will ensure that the Group Trustees receive these other contributions in accordance with the time limits appropriate to each contribution type as set out in Appendix A.

A participating employer may, from time to time, pay additional contributions to the Section as advised to the Group Trustees by the Principal Employer in writing.

Non-investment related administration expenses in respect of the EnergySolutions EU Section of the Group are met directly by the employer and do not appear in this schedule, with the exception of the Section's Pension Protection Levy, which is met by a matching employer contribution (if the levy is not directly paid by the employer).

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

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**Employee Contributions**

Employees who are active members of the Section will contribute to the Section as follows:

Period	Rate/Amount
The five year period commencing with the date of certification of this schedule by the Group's scheme actuary	The relevant rate of Salaries (6%, 5%, 3% or nil) as required under the Group's provisions.

These amounts do not include members' Additional Voluntary Contributions or other additional contributions members may choose to pay.

The participating employers will ensure that the Group Trustees receive the contributions payable by their employees within 19 days of the end of the calendar month in which the contributions were deducted from the employees' salaries.

Signed on behalf of the Group Trustees:

Signature: *Tony Cooper*

Name: Tony Cooper

Capacity: Trustee Director

Date: 30 January 2014

Signature: *Fergus Hall*

Name: Fergus Hall

Capacity: Trustee Director

Date: 30 January 2014

Signed on behalf of the Employers:

Signature: *Tim Joyce*

Name: Tim Joyce

Capacity: Director

Date: 30 January 2014

**Magnox Electric Group of the Electricity Supply Pension Scheme  
Annual Report and Financial Statements for the year ended 31 March 2016  
Contributions**

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**Certification of schedule of contributions**

Name of scheme:       Magnox Electric Group of the Electricity Supply Pension Scheme  
                                  EnergySolutions EU Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period for which the schedule is to be in force.

**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 30 January 2014.

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 Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	30 January 2014
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	25 Marsh Street Bristol BS1 4AQ	Name of employer	Aon Hewitt Limited



**Magnox Electric Group of the Electricity Supply Pension Scheme  
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**Appendix A**

**Employer contribution details**

<b>Contribution</b>	<b>Clause/Rule</b>	<b>Rate/Amount</b>
Normal	Clause 13(1)(a)	Twice members' contributions.
Deficit (Past Service)	Clause 13(1)(i)	Nil
Additional (Future Service)	Clause 13(1)(g)	For members currently contributing, 17.4% of Salaries up to 31 December 2013 and 28.6% of Salaries thereafter. An extra payment will also be made by 31 January 2014 to allow for the backdating of the increased cost from 1 April 2013 to 31 December 2013.
Early retirement	Clause 13(1)(e) (arising from Rule 16 and Rule 17)	The cost of early retirements (assessed using actuarial factors provided by the Actuary) met by a lump sum payment. The actuarial factors used to derive the value of the early retirement benefits will be based on a solvency basis.
Supplementary pensions	Clause 13(1)(f) (arising from Rule 44)	The cost of supplementary pensions (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Special terms	Clause 13(1)(f) (arising from Rule 32)	As required under the provisions of Rule 32.
Employer's matching contribution to reduction in benefits under Rule 29(1)(b)	Clause 13(1)(b)	As required under the provisions of Clause 13(1)(b).
Employer's matching contribution to reduction in lump sum benefits under Rule 14(3), Rule 20(5) and Part II of Appendix B	Clause 13(1)(c)	As required under the provisions of Clause 13(1)(c).
Expenses of administration	Clause 13(1)(h)	Contributions required to match the Pension Protection Fund levy if not directly paid by the employer.
Other	Clause 13(1)(d)	As required under the provisions of Clause 13(1)(d).
	Rule 32A	As required under the provisions of Rule 32A.
	Clause 13(1)(ff)	As required under the provisions of Clause 13(1)(ff).

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

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Subject to the note below, the Employer will ensure that the Group Trustees receive in such a manner (or manners) as notified to the Group Trustees in writing:

- Normal, Additional (Future Service), Expenses of Administration and Other contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate.
- Early retirement contributions and Supplementary pensions contributions by the 19<sup>th</sup> day of the month following the month in which retirement occurs or the supplementary pension is granted or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Special terms contributions by the 19<sup>th</sup> day of the month following the month in which the grant of special terms is made or the increase in Benefit is made under Rule 32A, as applicable or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Clause 13(1)(b) and Clause 13(1)(c) contributions by the 19<sup>th</sup> day of the month following the month in which the relevant reduction in benefits is made or such later date as may be agreed by the Principal Employer with the Group Trustees.

The date of receipt by the Group Trustees will be taken as the date on which the contributions are credited for value to an ESPS account designated to the Section.

**Magnox Electric Group of the Electricity Supply Pension Scheme**  
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**Contributions**

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**Magnox Electric Group of the ESPS (the Group)**

**National Nuclear Laboratories Section**

**Schedule of Contributions**

**Introduction**

This schedule of contributions is required by Section 227 of the Pensions Act 2004. It comes into effect on the date of certification of this schedule by the Group's scheme actuary and covers the period to 1 April 2019. The Group Trustees are responsible for preparing a revised schedule no later than 30 June 2017.

**Employer Contributions**

The participating employers will contribute to the Section as follows:

Type	Period	Rate/Amount
Normal and Additional (future service)	The period commencing with the date of certification of this schedule by the Group's scheme actuary and ending on 1 April 2019	Rates equivalent to an average of 29.4% of Salaries up to 31 March 2014, then 35.2% of Salaries thereafter. The shortfall over the year to 31 March 2014 will be met by an element of the deficit contributions. Full details are set out in Appendix A.
Deficit contributions to satisfy the recovery plan dated 21 February 2014	The period commencing with the date of certification of this schedule by the Group's scheme actuary and ending on 1 April 2019	£200,000 by each 1 April, from 1 April 2014 to 1 April 2019 inclusive.

The employer will ensure that the Group Trustees receive these contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate, except for Deficit Contributions which will be paid by the dates shown above.

The Group provisions cover other employer contributions when members leave service or retire which are not determined at periodic actuarial valuations. These and the above contributions are appended to this schedule. The participating employers will ensure that the Group Trustees receive these other contributions in accordance with the time limits appropriate to each contribution type as set out in Appendix A.

The employer may, from time to time, pay additional contributions to the Section as advised to the Group Trustees in writing.

Non-investment related administration expenses in respect of National Nuclear Laboratories Section of the Group are met directly by the employer and do not appear in this schedule, with the exception of the Section's Pension Protection Levy, which is met by a matching employer contribution (if the levy is not directly paid by the employer).



**Magnox Electric Group of the Electricity Supply Pension Scheme**  
**Annual Report and Financial Statements for the year ended 31 March 2016**  
**Contributions**

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**Employee Contributions**

Employees who are active members of the Section will contribute to the Section as follows:

Period	Rate/Amount
The period commencing with the date of certification of this schedule by the Group's scheme actuary and ending on 1 April 2019.	The relevant rate of Salaries (6%, 5%, 3% or nil) as required under the Group's provisions.

These amounts do not include members' Additional Voluntary Contributions or other additional contributions members may choose to pay.

The employer will ensure that the Group Trustees receive the contributions payable by their employees within 19 days of the end of the calendar month in which the contributions were deducted from the employees' salaries.

Signed on behalf of the Group Trustees:

Signature: *Peter Roach*

Name: Peter Roach

Capacity: Trustee Director

Date: 21 February 2014

Signature: *Fergus Hall*

Name: Fergus Hall

Capacity: Trustee Director

Date: 21 February 2014

Signed on behalf of the Employers:

Signature: *Valerie Brown*

Name: Valerie Brown

Capacity: Head of Finance

Date: 21 February 2014

**Magnox Electric Group of the Electricity Supply Pension Scheme  
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**Certification of schedule of contributions**

Name of scheme:           Magnox Electric Group of the Electricity Supply Pension Scheme  
                                  National Nuclear Laboratories Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

The statutory funding objective could have been expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 21 February 2014.

**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 21 February 2014.

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 Section's liabilities by the purchase of annuities, if the Section were to be wound up.

Signature	<i>Chris Vaughan-Williams</i>	Date	21 February 2014
Name	Chris Vaughan-Williams	Qualification	Fellow of the Institute and Faculty of Actuaries
Address	25 Marsh Street Bristol BS1 4AQ	Name of employer	Aon Hewitt Limited



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**Appendix A**

**Employer contribution details**

<b>Contribution</b>	<b>Clause/Rule</b>	<b>Rate/Amount</b>
Normal	Clause 13(1)(a)	Twice members' contributions.
Deficit (Past Service)	Clause 13(1)(i)	£200,000 by each 1 April, from 1 April 2014 to 1 April 2019.
Additional (Future Service)	Clause 13(1)(g)	For members currently contributing, 17.4% of Salaries up to 31 March 2014, then 23.2% of Salaries thereafter. The shortfall over the year to 31 March 2014 will be met by an element of the deficit contributions.
Early retirement	Clause 13(1)(e) (arising from Rule 16 and Rule 17)	The cost of early retirements (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Supplementary pensions	Clause 13(1)(f) (arising from Rule 44)	The cost of supplementary pensions (assessed using actuarial factors provided by the Actuary) met by a lump sum payment.
Special terms	Clause 13(1)(f) (arising from Rule 32)	As required under the provisions of Rule 32.
Employer's matching contribution to reduction in benefits under Rule 29(1)(b)	Clause 13(1)(b)	As required under the provisions of Clause 13(1)(b).
Employer's matching contribution to reduction in lump sum benefits under Rule 14(3), Rule 20(5) and Part II of Appendix B	Clause 13(1)(c)	As required under the provisions of Clause 13(1)(c).
Expenses of administration	Clause 13(1)(h)	Contributions required to match the Pension Protection Fund levy if not directly paid by the employer.
Other	Clause 13(1)(d)	As required under the provisions of Clause 13(1)(d).
	Rule 32A	As required under the provisions of Rule 32A.
	Clause 13(1)(ff)	As required under the provisions of Clause 13(1)(ff).

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Subject to the note below, the Participating Employers will ensure that the Group Trustees receive in such a manner (or manners) as notified to the Group Trustees in writing:

- Normal, Additional (Future Service), Expenses of Administration and Other contributions by the 19<sup>th</sup> day of the month following the month to which the contributions relate.
- Deficit contributions by the due dates shown above.
- Early retirement contributions and Supplementary pensions contributions by the 19<sup>th</sup> day of the month following the month in which retirement occurs or the supplementary pension is granted or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Special terms contributions by the 19<sup>th</sup> day of the month following the month in which the grant of special terms is made or the increase in Benefit is made under Rule 32A, as applicable or such later date as may be agreed by the Principal Employer with the Group Trustees.
- Clause 13(1)(b) and Clause 13(1)(c) contributions by the 19<sup>th</sup> day of the month following the month in which the relevant reduction in benefits is made or such later date as may be agreed by the Principal Employer with the Group Trustees.

The date of receipt by the Group Trustees will be taken as the date on which the contributions are credited for value to an ESPS account designated to the Section.

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**Report on Actuarial Liabilities**

The latest actuarial valuations were completed as at 31 March 2013. The current statutory funding regime came into force at the end of 2005 and for this purpose each Group of the Electricity Supply Pension Scheme is treated as a pension scheme in its own right. The new scheme funding provisions require the Group Trustees to prepare a Statement of Funding Principles. The Group Trustees must also keep members informed about the Group's funding position by issuing regular summary funding statements. A summary funding statement is a formal document which provides detailed information concerning the funding position of the Group.

Details of the funding positions of each section as detailed in the actuarial valuations at 31 March 2013, calculated using the projected unit method, are in the table below:

As at 31 March 2013	SLC £m	Cavendish Nuclear £m	EnergySolutions £m	NNL £m
<b>Assets</b>	2,542	45.5	55.8	6.6
<b>Liabilities</b>	(2,553)	(47.7)	(54.5)	7.6
<b>Funding position</b>	(11)	(2.2)	1.3	(1.0)

Deficit funding contributions are being paid as a result of the funding deficits declared in the actuarial valuations of three section of the Group under the terms of the agreements between the Employers and the Group Actuary. Details of these contributions can be found in the Schedules of Contributions on pages 17 to 36.

The financial assumptions used for calculating the technical provisions as at 31 March 2013 are as follows:

Pre-retirement discount rate	<p><b><u>SLC</u></b> The RPI inflation assumption at all terms plus the index-linked gilt yield curve plus a risk premium of 1.45% p.a.</p> <p><b><u>Cavendish Nuclear</u></b> The gilt yield curve plus a risk premium of 0.5% p.a.</p> <p><b><u>EnergySolutions</u></b> The gilt yield curve plus a risk premium of 1.35% p.a. tapering down to 0.5% p.a. over 2020/21.</p> <p><b><u>NNL</u></b> The gilt yield curve plus a risk premium of 1.6% p.a.</p>
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Post-retirement discount rate	<p><b><u>SLC</u></b>  The RPI inflation assumption at all terms plus the index-linked gilt yield curve plus a risk premium of 1.45% p.a.</p> <p><b><u>Cavendish Nuclear</u></b>  The gilt yield curve plus a risk premium of 0.5% p.a.</p> <p><b><u>EnergySolutions</u></b>  The gilt yield curve plus a risk premium of 1.35% p.a. tapering down to 0.5% p.a. over 2020/21.</p> <p><b><u>NNL</u></b>  The gilt yield curve plus a risk premium of 0.4%</p>
Rate of RPI price inflation	The assumption is the RPI yield curve derived from the gilt market at the valuation date.
Rate of CPI price inflation	The assumption is derived at the valuation date by deducting 0.9% p.a. from the RPI inflation assumption.
Pensionable salary increases (excluding promotional increases)	The assumption is derived at the valuation date by adding 0.5% p.a. to the RPI inflation assumption.
Increases to pensions in payment	Derived from the RPI or CPI price inflation assumption allowing for the maximum and minimum annual increases using term dependent best estimates of future inflation volatility.
Revaluations of deferred pensions	The RPI inflation assumption, with allowance for the statutory underpin.
Post-retirement mortality assumption – base table	<p><b><u>SLC</u></b>  S1PM/FA tables with 90% scaling factor for normal health members and with 180% scaling for ill-health members.</p> <p><b><u>Cavendish Nuclear</u></b>  S1PM/FA Light tables with 105% scaling factor for all members.</p> <p><b><u>EnergySolutions</u></b>  S1PM/FA Light tables with 100% scaling factor for all members.</p> <p><b><u>NNL</u></b>  S1PM/FA tables with 95% scaling factor for all members.</p>
Post-retirement mortality assumption – future improvements	CMI 2011 core projections with long-term improvement rate of 1.25% p.a. for men and women.

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The Group Trustees continue to monitor the funding position of the Group with the help of the Group Actuary and their investment advisers. The most recent funding update was carried out as at 31 March 2016 and the funding positions at that date are shown below:

<b>As at 31 March 2016</b>	<b>SLC £m</b>	<b>Cavendish Nuclear £m</b>	<b>EnergySolutions £m</b>	<b>NNL £m</b>
<b>Assets</b>	2,698	56.5	58.3	8.3
<b>Liabilities</b>	2,821	(61.0)	(59.6)	(9.7)
<b>Funding position</b>	(123)	(4.5)	(1.3)	(1.4)

The formal valuation of the Group as at 31 March 2016 is underway and the results will be set out in next year's Group Report and Financial Statements.

The new scheme funding provisions require the Group Trustees to prepare a Statement of Funding Principles. The Group Trustees must also keep members informed about the Group's funding position by issuing regular summary funding statements. A summary funding statement is a formal document which provides detailed information concerning the funding position of the Group. Copies of the Group Actuary's full report on the Actuarial Valuation are available from the address shown under the Further Information section on page 80.



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**Independent auditors' report to the Group Trustees of the Magnox Electric Group of the Electricity Supply Pension Scheme**

**Report on the financial statements**

**Our opinion**

In our opinion, Magnox Electric Group of the Electricity Supply Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Group during the year ended 31 March 2016, 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**What we have audited**

Magnox Electric Group of the Electricity Supply Pension Scheme's financial statements comprise:

- the statement of net assets available for benefits as at 31 March 2016;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the Trustees**

As explained more fully in the statement of Group Trustees' responsibilities, the Group Trustees are responsible for the preparation of the financial statements and being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Group Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Group Trustees; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

Birmingham

Date

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**Fund Account**

	Note	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	Total 2016 £ million	Total 2015 £ million
<b>Additions from dealings with members</b>							
Employer contributions	4	49.7	1.6	0.5	0.3	52.1	75.5
Employee contributions	4	2.4	0.1	0.1	-	2.6	2.9
Total contributions		52.1	1.7	0.6	0.3	54.7	78.4
Transfers from other plans	5	1.0	-	-	-	1.0	0.5
		53.1	1.7	0.6	0.3	55.7	78.9
<b>Withdrawals from dealings with members</b>							
Benefits	6	(127.7)	(0.6)	(0.9)	(0.1)	(129.3)	(120.9)
Payments to and on account of leavers	7	(0.8)	(0.7)	-	-	(1.5)	(1.8)
		(128.5)	(1.3)	(0.9)	(0.1)	(130.8)	(122.7)
<b>Net (withdrawals) / additions from dealings with members</b>		(75.4)	0.4	(0.3)	0.2	(75.1)	(43.8)
<b>Returns on investments</b>							
Investment income	8	34.0	-	-	-	34.0	35.5
Change in market value of investments	9	(15.3)	(0.4)	0.2	-	(15.5)	314.9
Investment management expenses	10	(2.9)	-	(0.1)	-	(3.0)	(3.2)
Taxes on investment income	11	(0.1)	-	-	-	(0.1)	-
<b>Net returns on investments</b>		15.7	(0.4)	0.1	-	15.4	347.2
<b>Net (decrease) / increase in the fund during the year</b>		(59.7)	-	(0.2)	0.2	(59.7)	303.4
<b>Opening net assets</b>		2,781.7	56.8	59.4	8.2	2,906.1	2,602.7
<b>Closing net assets</b>		2,722.0	56.8	59.2	8.4	2,846.4	2,906.1

The notes on pages 44 to 69 form part of these financial statements.



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**Statement of Net Assets Available for Benefits as at 31 March 2016**

	Note	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	Total 2016 £ million	Total 2015 £ million
<b>Investment assets</b>							
Equities	9	181.6	-	-	0.4	182.0	184.4
Bonds	9	340.0	-	-	0.5	340.5	493.9
Property loan assets	9	119.4	-	-	-	119.4	37.0
Pooled investment vehicles	12	1,870.4	44.4	54.7	7.0	1,976.5	1,992.7
Unitised fund	14	114.0	-	-	-	114.0	150.0
Derivatives	13	0.1	-	-	-	0.1	0.1
AVC investments	15	15.8	0.3	0.9	0.1	17.1	18.1
Cash	16	75.4	12.0	3.6	0.4	91.4	17.9
Other investment balances	16	2.2	-	-	-	2.2	8.9
		<u>2,718.9</u>	<u>56.7</u>	<u>59.2</u>	<u>8.4</u>	<u>2,843.2</u>	<u>2,903.0</u>
<b>Investment liabilities</b>							
Derivatives	13	(0.5)	-	-	-	(0.5)	(1.0)
Other investment balances	16	(1.4)	-	-	-	(1.4)	(5.5)
		<u>(1.9)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.9)</u>	<u>(6.5)</u>
<b>Total net investments</b>		<u>2,717.0</u>	<u>56.7</u>	<u>59.2</u>	<u>8.4</u>	<u>2,841.3</u>	<u>2,896.5</u>
Current assets	22	9.9	0.1	-	-	10.0	9.8
Current liabilities	23	(4.9)	-	-	-	(4.9)	(0.2)
<b>Closing net assets</b>		<u>2,722.0</u>	<u>56.8</u>	<u>59.2</u>	<u>8.4</u>	<u>2,846.4</u>	<u>2,906.1</u>

The financial statements summarise the transactions of the Group and deal with the net assets at the disposal of the Group Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Group, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included within this Annual Report on pages 37 and 39 and these financial statements should be read in conjunction with this report.

The financial statements on pages 42 to 69 were approved by the Group Trustees on 21st July 2016.

Signed on behalf of the Group Trustees:

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## **Notes to the financial statements**

### **1. General information**

The Magnox Electric Group of the Electricity Supply Pension Scheme is an occupational pension scheme established under irrevocable trusts to provide retirement benefits for certain groups of employees and its provisions are set out in the Clauses and Rules contained in the Scheme document. The address of the Scheme's principal office is C/O Capita – ESPS Team, 5<sup>th</sup> Floor, 65 Gresham Street, London EC2V 7NQ.

The Group is no longer open to new members but existing members continue to accrue benefits.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the Employers are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

### **2. Basis of preparation**

The Financial Statements of the Group have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP"). This is the first year FRS 102 and the revised SORP have applied to the Group's Financial Statements. In adopting FRS 102, the Group Trustees have adopted the provisions of 'Amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland – Fair value hierarchy disclosures (March 2016)' early.

The date of transition to FRS 102 was 1 April 2014, and in applying the Standard, no changes to accounting policies have been required. Additional disclosures have been incorporated into the financial statements relating to Fair Value and Investment Risks, but there has been no impact to the net assets reported at 31 March 2015 in the prior year's annual report

### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### **Currency**

The Group's functional currency and presentational currency is pounds sterling (GBP).

Assets and liabilities in foreign currency are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

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### **Contributions**

Normal and additional voluntary contributions, both from employees and employers, are generally accounted for on an accruals basis in the payroll period to which they relate. In the case of employee contributions this is when they are deducted from pay.

Employers' augmentation contributions, Rule 29 and Supplementary contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.

Employers' deficit funding contributions are accounted for on the due dates set out in the Schedule of Contributions, or on receipt if earlier, with the agreement of the Employer and Group Trustees.

### **Transfers to and from the Group**

Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Group. They are accounted for on an accruals basis on the date the trustees of the receiving plan accept the liability. In the case of individual transfers, this is normally when payment of the transfer value is made.

### **Benefits and payments to and on account of leavers**

Pensions in payment are accounted for in the period to which they relate.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate. Refunds and opt-outs are accounted for when the Group Trustees are notified of the members' decision to leave the Scheme.

Where the Group Trustees agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any tax liability due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within Benefits.

### **Investment income and expenditure**

Income from equities, and any pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend, or in the case of unquoted instruments, when the dividend is declared.

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds. Other interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.

Investment income includes withholding taxes. Withholding taxes is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense.



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The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Group such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

#### **Valuation and classification of investments**

Investment assets and liabilities are included in the Financial Statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted and other unit prices are not available, the Group Trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the Notes to the Financial Statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles, which are traded on an active market, are included at the quoted price, which is normally the bid price;
- Unitised pooled investment vehicles, which are not traded on an active market, but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end;
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustees. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made;
- Properties held in the Unitised Fund are valued in accordance with the Royal Institution of Chartered Surveyors Valuation Standards UK PS 1.1 Valuation for Financial Statements taking into consideration the current estimate of the rental values and market yields. The valuations have been carried out at the reporting date by Cushman & Wakefield t/a DTZ Debenham Tie Leung, chartered surveyors appointed as independent property valuers to the Scheme Trustee, who have recent experience in the locations and class of the investment properties held by the Scheme. No depreciation is provided on freehold forests and landholdings. Purchases and sales of forests are recognised in the Financial Statements on completion of contracts;

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- Forests and land holdings in the UK Forestry Sector of the Unitised Fund have been valued in accordance with the Royal Institution of Chartered Surveyors Valuation Standards UK PS 1.1 Valuation for Financial Statements taking into consideration the current estimate of the rental values and market yields. The valuations have been carried out at the reporting date by Smiths Gore, chartered surveyors appointed as independent property valuers to the Scheme Trustee, who have recent experience in the locations and class of the investment properties held by the Scheme. No depreciation is provided on freehold buildings or long lease properties. Purchases and sales of property are recognised in the Financial Statements on completion of contracts;
- Exchange traded futures are valued as the sum of the daily mark-to-market, which is a calculated difference between exchange settlement prices and inception prices;
- Forward foreign exchange contracts (FFX) are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Accrued interest is excluded from the market value of bonds, but is included in investment income receivable.

#### 4. Contributions

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Employers:						
- Normal <sup>1</sup>	26.7	1.2	0.4	0.1	<b>28.4</b>	32.1
- Deficit funding <sup>2</sup>	-	0.4	-	0.2	<b>0.6</b>	25.0
- Augmentations (Contractual early retirements)	15.7	-	-	-	<b>15.7</b>	12.5
- Supplementary pensions funding <sup>3</sup>	5.3	-	-	-	<b>5.3</b>	4.4
- Other						
- Rule 29	2.0	-	0.1	-	<b>2.1</b>	1.5
Employees:						
- Normal	-	-	0.1	-	<b>0.1</b>	0.1
- AVCs	2.4	0.1	-	-	<b>2.5</b>	2.8
	<u>52.1</u>	<u>1.7</u>	<u>0.6</u>	<u>0.3</u>	<b><u>54.7</u></b>	<u>78.4</u>

<sup>1</sup> Included within Normal Employers are contributions that were met by the employer rather than the employees under the salary sacrifice arrangement. The salary sacrifice contributions for the SLC Section were £5.4 million (2015: £6.1 million), and for the Cavendish Nuclear Section £0.2 million (2015: £0.2 million).

<sup>2</sup> Deficit funding contributions are being paid as a result of the funding deficits declared in the Actuarial Valuations of each section of the Group under the terms of the agreements between the Employers and the Group Actuary. For the SLC Section, £20million was received in the year to 31 March 2015 and no further deficit contributions are due. For the Cavendish Nuclear Section, £380,000 was received in the years to 31 March 2016 and 31 March 2015 and no further deficit contributions are due. For the EnergySolutions section £2.5million was paid in April 2014 and £1.9million in July 2014 under the terms of the Deed of Undertaking dated 30 January 2014. For the NNL Section, £200,000 was received in the years to 31 March 2016 and 31 March 2015 and this amount will continue to be paid each 1 April to 1 April 2019.

<sup>3</sup> Supplementary pensions funding represents Employer contributions payable to meet contractual additional benefits on early retirement including Rule 32 payments (grant of special terms).



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**5. Transfers in**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Transfer values received from other pension arrangements:						
- Individual transfers	0.8	-	-	-	<b>0.8</b>	<i>0.4</i>
- Individual transfers - AVCs	-	-	-	-	-	<i>0.1</i>
Intra-scheme transfers:						
- Individual transfers	0.2	-	-	-	<b>0.2</b>	-
	<u>1.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>1.0</b></u>	<u><i>0.5</i></u>

**6. Benefits**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Pensions	96.5	0.6	0.9	0.1	<b>98.1</b>	<i>93.7</i>
Lump sum retirement benefits and commutations	27.6	-	-	-	<b>27.6</b>	<i>23.0</i>
Purchase of annuities on retirement (AVCs)	3.2	-	-	-	<b>3.2</b>	<i>2.7</i>
Lump sum death benefits (in service)	0.3	-	-	-	<b>0.3</b>	<i>1.1</i>
Lump sum death benefits (in retirement)	0.1	-	-	-	<b>0.1</b>	-
Taxation where lifetime or annual allowance exceeded	-	-	-	-	-	<i>0.4</i>
	<u>127.7</u>	<u>0.6</u>	<u>0.9</u>	<u>0.1</u>	<u><b>129.3</b></u>	<u><i>120.9</i></u>

**7. Payments to and on account of leavers**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Purchase of annuities to match preserved benefits	0.1	-	-	-	<b>0.1</b>	<i>0.2</i>
Transfer values paid to other pension arrangements:						
- Individual transfers	0.7	0.7	-	-	<b>1.4</b>	<i>0.8</i>
Intra-scheme transfers:						
- Individual transfers	-	-	-	-	-	<i>0.8</i>
	<u>0.8</u>	<u>0.7</u>	<u>-</u>	<u>-</u>	<u><b>1.5</b></u>	<u><i>1.8</i></u>



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**8. Investment income**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Restated* Total 2015 £ million</i>
Dividends from equities	5.2	-	-	-	<b>5.2</b>	5.2
Income from bonds	4.6	-	-	-	<b>4.6</b>	12.3
Income from property loan assets	4.8	-	-	-	<b>4.8</b>	0.4
Income from pooled investment vehicles	19.1	-	-	-	<b>19.1</b>	17.1
Interest on cash deposits	0.3	-	-	-	<b>0.3</b>	0.9
	<u>34.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>34.0</b></u>	<u>35.9</u>

\*Since the production of the Group's Annual Report to 31 March 2015 some assets of the SLC section have been reclassified under the heading 'property loan assets' and the income earned by these assets in the prior year (£0.4 million) has been reclassified from pooled investment vehicles.

Investment income relating to the Unitised Fund is included within the net change in market value as shown in Note 14.

**9. Reconciliation of net investments**

**Investment movements – SLC Section**

	Restated* Value at 01.04.2015 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market Value £ million	Value at 31.03.2016 £ million
Equities	182.4	20.3	(24.2)	3.1	<b>181.6</b>
Bonds	491.8	62.7	(206.8)	(7.7)	<b>340.0</b>
Property loan assets	37.0	111.2	(30.0)	1.2	<b>119.4</b>
Pooled investment vehicles	1,874.9	379.0	(339.1)	(44.4)	<b>1,870.4</b>
Derivatives – net	(0.9)	5.0	(3.4)	(1.1)	<b>(0.4)</b>
Unitised fund	150.0	-	(47.9)	11.9	<b>114.0</b>
AVC investments	17.0	2.4	(3.3)	(0.3)	<b>15.8</b>
	<u>2,752.2</u>	<u>580.6</u>	<u>(654.7)</u>	<u>(37.3)</u>	<u><b>2,640.8</b></u>
Cash deposits	17.2				<b>75.4</b>
Other investment balances	3.4				<b>0.8</b>
<b>Net investment assets</b>	<u><u>2,772.8</u></u>				<u><u><b>2,717.0</b></u></u>

\*Since the production of the Group's Annual Report to 31 March 2015 some assets of the SLC section have been reclassified between asset types. This has had no effect on the net investment assets valuation.

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**Change in market value – SLC Section**

	<b>2016</b>	<i>2015</i>
	<b>£ million</b>	<i>£ million</i>
Change in market value shown above	<b>(37.3)</b>	<i>298.2</i>
Exchange gains	<b>22.0</b>	<i>0.1</i>
Change in market value per fund account	<b>(15.3)</b>	<i>298.3</i>

Derivative investments include instruments often with a short duration that are traded regularly, principally forward currency exchange contracts. As a result the purchases and sales figures above are large because they reflect the turnover of such transactions during the course of the year.

**Investment transaction costs**

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation above. Direct transaction costs incurred are analysed as follows:

	Equities £ million	<b>2016</b> £ million	<i>2015</i> £ million
Fees	-	-	-
Commissions	0.1	<b>0.1</b>	<i>0.1</i>
Taxes	-	-	-
<b>2016 total</b>	<b>0.1</b>	<b>0.1</b>	
<i>2015 total</i>	<i>0.1</i>		<i>0.1</i>

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

The funds in which the Group invests have different trading dates and some have notice periods which would have prevented the Group from realising these assets at the year end date. As limited partnerships it is not possible to 'trade' the holdings in the Innisfree and Infrared funds; however, the Group Trustees may transfer the interest to another party with the approval of the general partner. Such a process would likely take at least 3 months however. In a competitive auction process where a good number of parties are brought in to the process, a sale price close to or even above the current valuation might be achieved.

**Investment movements – Cavendish Nuclear Section**

	Value at 01.04.2015 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	Value at 31.03.2016 £ million
Pooled investment vehicles	56.2	39.6	(50.9)	(0.5)	<b>44.4</b>
AVC investments	0.1	0.1	-	0.1	<b>0.3</b>
	<u>56.3</u>	<u>39.7</u>	<u>(50.9)</u>	<u>(0.4)</u>	<u><b>44.7</b></u>
Cash deposits	-				<b>12.0</b>
<b>Net investment assets</b>	<u><u>56.3</u></u>				<u><u><b>56.7</b></u></u>

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**Change in market value – Cavendish Nuclear Section**

	2016 £ million	2015 £ million
Change in market value per fund account	<u>(0.4)</u>	<u>6.0</u>

Transaction costs incurred during the year amounted to £nil (2015: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

**Investment movements – EnergySolutions Section**

	Value at 01.04.2015 £ million	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Change in market value £ million	Value at 31.03.2016 £ million
Equities	1.7	0.2	(1.9)	-	-
Bonds	1.8	44.8	(46.6)	-	-
Pooled investment vehicles	54.4	103.1	(101.8)	(1.0)	54.7
Derivatives – net	-	-	(0.1)	0.1	-
AVC investments	0.9	-	-	-	0.9
	<u>58.8</u>	<u>148.1</u>	<u>(150.4)</u>	<u>(0.9)</u>	<u>55.6</u>
Cash deposits	0.6				3.6
<b>Net investment assets</b>	<u>59.4</u>				<u>59.2</u>

**Change in market value – EnergySolutions Section**

	2016 £ million	2015 £ million
Change in market value shown above	(0.9)	9.4
Exchange gains	1.1	-
Change in market value per fund account	<u>0.2</u>	<u>9.4</u>

Derivative investments include instruments often with a short duration that are traded regularly, principally forward currency exchange contracts.

Transaction costs incurred during the year amounted to £nil (2015: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.



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**Investment movements – NNL Section**

	Value at 01.04.2015 £ million	Purchases at cost £ million	Sales proceeds £ million	Change in market value £ million	Value at 31.03.2016 £ million
Equities	0.3	0.4	(0.3)	-	0.4
Bonds	0.3	0.2	-	-	0.5
Pooled investment vehicles	7.2	2.9	(3.0)	(0.1)	7.0
AVC investments	0.1	-	-	-	0.1
	<u>7.9</u>	<u>3.5</u>	<u>(3.3)</u>	<u>(0.1)</u>	<u>8.0</u>
Cash deposits	0.1				0.4
<b>Net investment assets</b>	<u>8.0</u>				<u>8.4</u>

**Change in market value – NNL Section**

	2016 £ million	2015 £ million
Change in market value shown above	(0.1)	1.2
Exchange gains	0.1	-
Change in market value per fund account	<u>-</u>	<u>1.2</u>

Transaction costs incurred during the year amounted to £nil (2015: £nil). Indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Group Trustees to quantify such indirect transaction costs.

The NNL Section held derivative assets at the year end as detailed in Note 13, however the closing value as well as the values of movements in the year were less than £0.1 million and therefore are not shown in the table above.

**10. Investment management fees**

Investment management fees for Group-specific funds, performance measurement services and investment-related fees of Group advisers, are the responsibility of the Group Trustees. The Scheme Trustee negotiates the custody fees which apply to all portfolios. Investment management and custody fees for Group-specific funds are shown below. For the Unitised Fund these fees are reflected in the net change in market value for each Sector as shown in Note 14.

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	Total 2016 £ million	Total 2015 £ million
Administration and management fees	2.3	-	0.1	-	2.4	2.8
Custody fees	0.1	-	-	-	0.1	0.1
Other advisory fees	0.5	-	-	-	0.5	0.3
	<u>2.9</u>	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>3.0</u>	<u>3.2</u>

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## 11. Taxation

The ESPS is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge within investment income (see Note 8) represents irrecoverable withholding taxes arising on certain classes of investment income.

## 12. Pooled investment vehicles

The **SLC Section's** investment in pooled investment vehicles at the year-end comprised:

	2016 £ million	2015 £ million
Equities	298.4	293.1
Bonds	428.3	409.5
Fund of hedge funds	91.1	89.8
Diversified growth funds	96.0	101.7
Private equity	-	0.3
Infrastructure funds	140.4	128.4
Liability driven investments	643.9	663.6
Cash and other liquid assets	172.3	188.5
	<u>1,870.4</u>	<u>1,874.9</u>

At 31 March 2016 and 31 March 2015 the Section held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in pooled investment vehicles and is specifically tailored for the Section's individual requirements and there are no other investors.

The LDI portfolio has the following investments:

	2016 £ million	2015 £ million
Bonds	972.2	951.3
Swaps – net	(70.8)	(42.0)
Repurchase agreements	(255.6)	(250.9)
Cash and other liquid assets	(1.9)	5.2
	<u>643.9</u>	<u>663.6</u>

The **Cavendish Nuclear Section's** investment in pooled investment vehicles at the year-end comprised:

	2016 £ million	2015 £ million
Equities	5.9	5.8
Bonds	6.3	17.9
Fund of hedge funds	3.3	3.4
Diversified growth funds	3.6	3.9
Liability driven investments	25.2	17.7
Cash and other liquid assets	0.1	7.5
	<u>44.4</u>	<u>56.2</u>

At 31 March 2016 and 31 March 2015 the Section held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in pooled investment vehicles and is specifically tailored for the Section's individual requirements and there are no other investors.

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The LDI portfolio has the following investments:

	2016 £ million	2015 £ million
Bonds	18.4	22.1
Swaps – net	3.6	-
Repurchase agreements	-	(11.7)
Cash and other liquid assets	3.2	7.3
	<u>25.2</u>	<u>17.7</u>

The **EnergySolutions Section's** investment in pooled investment vehicles at the year-end comprised:

	2016 £ million	2015 £ million
Equities	-	0.5
Bonds	-	44.6
Fund of hedge funds	-	2.7
Diversified growth funds	-	5.1
Liability driven investments	54.7	-
Cash and other liquid assets	-	1.5
	<u>54.7</u>	<u>54.4</u>

At 31 March 2016 the Section held a bespoke Liability Driven Investment (LDI) portfolio. The portfolio has been included above in pooled investment vehicles and is specifically tailored for the Section's individual requirements and there are no other investors.

The LDI portfolio has the following investments:

	2016 £ million	2015 £ million
Bonds	23.2	-
Cash and other liquid assets	31.5	-
	<u>54.7</u>	<u>-</u>

The **NNL Section's** investment in pooled investment vehicles at the year-end comprised:

	2016 £ million	2015 £ million
Equities	2.2	2.1
Bonds	3.8	3.8
Diversified growth funds	0.9	0.9
Cash and other liquid assets	0.1	0.4
	<u>7.0</u>	<u>7.2</u>



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### 13. Derivatives

#### Objectives and Policies

The Group Trustees have authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

- **Futures** – Where cash is held for short-term liquidity, the Group Trustees have entered in index-based contracts of equivalent economic value to avoid being “out-of-the-market”.
- **Forward Foreign Currency** – The Group trustees invest in overseas markets and assets denominated in foreign currency in order to construct a suitably diversified investment portfolio.

For the **SLC Section**, outstanding derivative financial instruments at 31 March 2016 and 31 March 2015 are summarised as follows:

	2016 Assets £ million	2016 Liabilities £ million	2016 Total £ million	2015 Assets £ million	2015 Liabilities £ million	2015 Total £ million
<b>Exchange traded</b>						
Futures	-	-	-	0.1	(0.1)	-
<b>Over-the-counter contracts</b>						
Forward foreign currency	0.1	(0.5)	(0.4)	-	(0.9)	(0.9)
	<u>0.1</u>	<u>(0.5)</u>	<u>(0.4)</u>	<u>0.1</u>	<u>(1.0)</u>	<u>(0.9)</u>

Further analysis of the holdings at 31 March 2016 is as follows:

#### Forward foreign currency contracts – SLC Section

Type of contract	Currency	Currency Bought £ million	Currency	Currency Sold £ million	2016 Assets £ million	2016 Liabilities £ million
OTC traded – less than 3 months	GBP	8.3	JPY	(8.8)	-	(0.5)
OTC traded – less than 3 months	GBP	27.3	USD	(27.2)	0.1	-
		<u>35.6</u>		<u>(36.0)</u>	<u>0.1</u>	<u>(0.5)</u>

For the **NNL Section**, outstanding derivative financial instruments at 31 March 2016 and 31 March 2015 are summarised as follows:

	2016 Assets £ million	2016 Liabilities £ million	2016 Total £ million	2015 Assets £ million	2015 Liabilities £ million	2015 Total £ million
<b>Over-the-counter contracts</b>						
Forward foreign currency	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Further analysis of the holdings at 31 March 2016 is as follows:

**Forward foreign currency contracts – NNL Section**

Type of contract	Currency	Currency Bought £ million	Currency Sold £ million	2016 Assets £ million	2016 Liabilities £ million
OTC traded – less than 1 month	GBP	0.1	JPY (0.1)	-	-
OTC traded – less than 2 months	GBP	0.3	USD (0.3)	-	-
		<u>0.4</u>	<u>(0.4)</u>	<u>-</u>	<u>-</u>

**14. Unitised Fund**

The **SLC Section's** interest in the Unitised Fund comprises the notional holdings of accumulation units in the Sectors of the Fund.

Summarised below are aggregate monetary movements in Sectors during the year to 31 March 2016 as well as unit values at the beginning of the year and at the end of the year.

	Opening value £ million	Units issued £ million	Units redeemed £ million	Change in market value £ million	Closing value £ million
UK property	108.0	-	(4.0)	10.0	<b>114.0</b>
UK forestry	42.0	-	(43.9)	1.9	-
<b>Total</b>	<u>150.0</u>	<u>-</u>	<u>(47.9)</u>	<u>11.9</u>	<u><b>114.0</b></u>

**15. AVC investments**

The number of AVC accounts (including "frozen" accounts) for the **SLC Section** as at 31 March 2016 was 559 (2015: 594). In some cases members may have two or more accounts.

The aggregate values are as follows:

	2016 £ million	2015 £ million
Equitable Life Assurance Society	0.2	0.3
Prudential Assurance Society	15.6	16.7
	<u>15.8</u>	<u>17.0</u>

The number of AVC accounts (including "frozen" accounts) for the **Cavendish Nuclear Section** as at 31 March 2016 was 7 (2015: 6). In some cases members may have two or more accounts.

The aggregate values are as follows:

	2016 £ million	2015 £ million
Prudential Assurance Society	0.3	0.1
	<u>0.3</u>	<u>0.1</u>

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The number of AVC accounts (including "frozen" accounts) for the **EnergySolutions Section** as at 31 March 2016 was 5 (2015: 5). In some cases members may have two or more accounts.

The aggregate values are as follows:

	2016 £ million	2015 £ million
Prudential Assurance Society	0.9	0.9
	<u>0.9</u>	<u>0.9</u>

The number of AVC accounts (including "frozen" accounts) for the **NNL Section** as at 31 March 2016 was 3 (2015: 3). In some cases members may have two or more accounts.

The aggregate values are as follows:

	2016 £ million	2015 £ million
Prudential Assurance Society	0.1	0.1
	<u>0.1</u>	<u>0.1</u>

#### 16. Cash and other net investment balances

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	Total 2016 £ million	Total 2015 £ million
Cash – sterling	75.4	12.0	3.6	0.4	91.4	17.5
Cash – foreign currency	-	-	-	-	-	0.4
Total cash	75.4	12.0	3.6	0.4	91.4	17.9
Accrued interest and dividends	1.1	-	-	-	1.1	3.6
Recoverable income tax	0.1	-	-	-	0.1	-
Other debtors	-	-	-	-	-	0.1
Amounts receivable from sale of investments	1.0	-	-	-	1.0	5.2
Other creditors	(1.4)	-	-	-	(1.4)	(1.2)
Amounts payable for the purchase of investments	-	-	-	-	-	(4.3)
	<u>76.2</u>	<u>12.0</u>	<u>3.6</u>	<u>0.4</u>	<u>92.2</u>	<u>21.3</u>



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## 17. Fair value of investments

The fair value of investments has been determined using the following hierarchy:

- Level 1: Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
- Level 2: Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3: Inputs are unobservable.

Where multiple inputs are involved in determining the fair value of an instrument, the categorisation is based on the lowest level input (i.e. highest number) that is significant.

Pooled investment vehicles which are traded regularly are generally included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair values applies, valuation techniques are adopted and the vehicles are included in level 3 as appropriate.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Group Trustees. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 31 March 2016 or 31 March 2015.

The **SLC Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2016 Total £ million
<b>Investment assets</b>				
Equities	181.6	-	-	181.6
Bonds	340.0	-	-	340.0
Property loan assets	-	-	119.4	119.4
Pooled investment vehicles	5.4	1,634.9	230.1	1,870.4
Unitised fund	-	-	114.0	114.0
Derivatives	-	0.1	-	0.1
AVC investments	-	15.8	-	15.8
Cash	75.4	-	-	75.4
Other investment balances	2.2	-	-	2.2
<b>Investment liabilities</b>				
Derivatives	-	(0.5)	-	(0.5)
Other investment balances	(1.4)	-	-	(1.4)
	603.2	1,650.3	463.5	2,717.0

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Analysis for the prior period end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2015 Total £ million
<b>Investment assets</b>				
Equities	182.4	-	-	182.4
Bonds	490.3	1.5	-	491.8
Property loan assets	-	-	37.0	37.0
Pooled investment vehicles	3.2	1,741.8	129.9	1,874.9
Unitised fund	-	-	150.0	150.0
Derivatives	-	0.1	-	0.1
AVC investments	-	17.0	-	17.0
Cash	17.2	-	-	17.2
Other investment balances	8.9	-	-	8.9
<b>Investment liabilities</b>				
Derivatives	-	(1.0)	-	(1.0)
Other investment balances	(5.5)	-	-	(5.5)
	696.5	1,759.4	316.9	2,772.8

The **Cavendish Nuclear Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2016 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	41.1	3.3	44.4
AVC investments	-	0.3	-	0.3
Cash	12.0	-	-	12.0
	12.0	41.4	3.3	56.7

Analysis for the prior period end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2015 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	52.8	3.4	56.2
AVC investments	-	0.1	-	0.1
	-	52.9	3.4	56.3

The **EnergySolutions Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2016 Total £ million
<b>Investment assets</b>				
Pooled investment vehicles	-	54.7	-	54.7
AVC investments	-	0.9	-	0.9
Cash	3.6	-	-	3.6
	3.6	55.6	-	59.2

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Analysis for the prior period end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2015 Total £ million
<b>Investment assets</b>				
Equities	1.7	-	-	1.7
Bonds	1.8	-	-	1.8
Pooled investment vehicles	0.2	54.2	-	54.4
AVC investments	-	0.9	-	0.9
Cash	0.6	-	-	0.6
	<u>4.3</u>	<u>55.1</u>	<u>-</u>	<u>59.4</u>

The **NNL Section's** investment assets and liabilities have been included at fair value within the categories as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2016 Total £ million
<b>Investment assets</b>				
Equities	0.4	-	-	0.4
Bonds	0.5	-	-	0.5
Pooled investment vehicles	0.1	6.9	-	7.0
AVC investments	-	0.1	-	0.1
Cash	0.4	-	-	0.4
	<u>1.4</u>	<u>7.0</u>	<u>-</u>	<u>8.4</u>

Analysis for the prior period end is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	2015 Total £ million
<b>Investment assets</b>				
Equities	0.3	-	-	0.3
Bonds	0.3	-	-	0.3
Pooled investment vehicles	-	7.2	-	7.2
AVC investments	-	0.1	-	0.1
Cash	0.1	-	-	0.1
	<u>0.7</u>	<u>7.3</u>	<u>-</u>	<u>8.0</u>



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## 18. Investment risks

Financial Reporting Standards (FRS) 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this is the risk that the fair value of future cashflows of a financial investment will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk as follows:
  - Currency risk: this is risk that fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates;
  - Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates; and
  - Other price risk: this is the risk that the fair value or future cash flows of a financial asset 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 individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group Trustees determine their investment strategy after taking advice from a professional investment adviser. The Group has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Group Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are taking into account the Group's strategic investment objectives. These investment objectives and risk limits are implemented through the investment agreements in place with the Group's investment managers and monitored by the Group Trustees by regular reviews of the investment portfolio.

Further information on the Group Trustees' approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies or AVC investments as these are not considered significant to the overall investments of the Group.

The following table summarises the extent to which the various classes of investments are affected by financial risk (based on 31 March 2016 asset position):

	Credit risk	Currency	Market risk Interest rate	Other price	2016 £million	2015 £million
Equities	○	●	○	●	181.6	184.4
Bonds	●	○	●	●	340.5	493.9
Pooled investment vehicles*	●	●	●	●	2,095.9	2,029.7
Unitised fund	○	○	○	●	114.0	150.0
Cash and other investment assets	●	○	○	●	92.2	20.4
<b>Total</b>					<b>2,824.2</b>	<b>2,878.4</b>

\* Property loan asset holdings are included under pooled investment vehicles for the purposes of this report.

In the above table, the risk noted affects the asset class [ ● ] significantly, [ ● ] partially or [ ○ ] hardly/not at all.

## **Investment Strategy**

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Group Trustees set the investment strategy taking into account considerations such as the strength of the Employer covenant, the long term liabilities and the funding agreed with the Employer. The investment strategy is set out in the Group's Statement of Investment Principles ("SIP").

The current strategy varies by section:

### **SLC Section**

The strategy aims to protect against certain levels of risk and still provide additional returns to reduce the overall cost of pension provision. The current target hedge ratios are 45.4% of liability interest rate risk and 75% of liability inflation risk (on a gilts +0.5% basis). The Section holds sufficient investments that move in line with the long term liabilities to maintain the target hedge ratios. The investments are referred to as LDI and comprise UK government bonds, interest rate swaps, inflation swaps and repurchase agreements, the purpose of which is to hedge against the impact interest rates and inflation have on the movement on long term liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term, as well as in some instances provide matching characteristics. As at 31 March 2016 these return seeking assets accounted for 61.3% of the overall portfolio for the SLC Section.

### **Cavendish Nuclear Section**

The strategy aims to protect against certain levels of risk and still provide additional returns to reduce the overall cost of pension provision. The current target hedge ratios are 75% of liability interest rate risk and 100% of liability inflation risk (on a gilts +0.5% basis). The Section holds sufficient investments that move in line with the long term liabilities to maintain these target hedge ratios. The investments are referred to as LDI and comprise UK government and corporate bonds, inflation swaps and repurchase agreements, the purpose of which is to hedge against the impact interest rates and inflation have on the movement on long term liabilities.

The remainder of the assets are invested to provide an expected return above the liabilities over the long term. As at 31 March 2016 these return seeking assets accounted for 22.8% of the overall portfolio for the Cavendish Nuclear Section.

### **EnergySolutions EU Section**

The assets are entirely held in investments that move in line with the long term liabilities of the Section. This is referred to as LDI and comprises UK government bonds and repurchase agreements, the purpose of which is to hedge against the impact interest rates and inflation have on the movement on long term liabilities. The current target hedge ratios are 100% of liability interest rate risk and 100% of liability inflation risk (on a gilts +0% basis).



### **National Nuclear Laboratory Section**

47% of the assets are bond funds that move broadly in line with the long term liabilities of the Section. The bond funds held are selected in order to give a broad inflation and duration match to the liabilities. 53% is held in return seeking investments comprising UK and overseas equities, diversified growth and hedge funds.

### **Credit Risk**

The Group is subject to credit risk because the Group directly invests in bonds and has cash balances. The Group also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Group is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated a least investment grade. Although the Group's mandate with Ruffer enables sub-investment grade bonds to be held, there is currently no direct allocation to these. The Group Trustees consider financial instruments or counterparties to be of investment grade if they are rated BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Credit risk arising from derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Group is subject to risk of failure of the counterparty.

Cash is held within financial institutions which are at least investment grade credit rated.

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 the investments amongst a number of pooled arrangements. The Group Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager. Pooled investment arrangements used by the Group comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in pooled investment vehicles such as credit, derivatives and repos. These risks are mitigated by the Group Trustees through investing in pooled vehicles mainly invested in government and investment grade credit and having explicit mandates with investment managers outlining the permitted investment instruments and creditworthiness of counterparties.

The value of the properties held in the Property Sector of the Unitised Fund derives largely from the rental income, therefore, there is some credit risk exposure to the commercial tenants. The Sector's advisers review this risk as part of their ongoing monitoring of the Sector.



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The information about exposures to and mitigation of credit risk above applied at both the current and previous year end. A summary of exposures to credit risk is given in the following table.

	<b>2016</b> <b>£million</b>	<b>2015</b> <b>£million</b>
Bonds	340.5	493.9
Pooled investment vehicles	2,095.9	2,029.7
Unitised fund	114.0	150.0
Cash and other net investment assets	92.2	20.4
	<b>2,642.6</b>	<b>2,694.0</b>

### **Currency Risk**

The Group is subject to currency risk because some of the Group's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure).

All of the Unitised Fund's investments are denominated in Sterling, and therefore, there is no currency risk.

The Group Trustees consider currency risk as part of the overall determination of the investment strategy, therefore no further mitigation is deemed necessary.

### **Interest Rate Risk**

The Group is subject to interest rate risk because some of the Group's investments are held in bonds and interest rate swaps (either as segregated investments or through pooled investment vehicles), and cash. The Group Trustees have set specific target benchmarks for each Section in relation to the total investment in bonds and interest rate swaps in order to mitigate the interest rate risk relative to the liabilities. For each Section, with the exception of the NNL Section, the target benchmark is defined as part of their LDI investment strategy in terms of the amount of liability interest rate and inflation risk hedged. For the NNL Section, the target benchmark is defined as a selection of bonds that provide a broad inflation and duration match to the liabilities.

Under an LDI strategy, if interest rates fall, the value of the LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. For the SLC Section, the LDI assets have the same exposure to interest rate as 45.4% of the liabilities (measured on a gilts +0.5% basis).

The Property assets held in the Property Sector of the Unitised Fund are not valued by using discounted cash flow models, and nor do they make use of financial instruments, therefore, there is no interest rate risk.

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## Other Price Risk

Other price risk arises principally in relation to the Group's return seeking portfolio which includes directly held equities as well as equities, unconstrained credit, global loans, diversified growth funds, hedge funds, infrastructure, inflation linked opportunities and property debt all held in pooled vehicles, and UK property held in a unitised fund. The Group has different target asset allocations of investments being held in return seeking investments for each Section in accordance with the investment strategies outlined earlier in the report. For the SLC Section, the return seeking portfolio at the year-end represented 61.3% of the total investment portfolio (2015: 57.6%).

The Property Sector is exposed to idiosyncratic property risks, however, it is well diversified both geographically across the UK, and by commercial sector.

The Group manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

## 19. Concentration of investments

Investments exceeding 5% of the value of the **SLC Section's** net assets as at 31 March 2016 or 31 March 2015 are detailed below:

Investment	Value at 31.03.16 £ million	%	Value at 31.03.15 £ million	%
F&C LDI Private Sub Fund	643.9	23.7	664.0	23.9
PIMCO Global Diversified Income Fund	209.6	7.7	219.0	7.9
Babson Capital Global Loan Fund	175.8	6.5	185.9	6.7
M&G Inflation Opportunities III Fund	174.3	6.4	143.5	5.2
L&G UK Equity Index	-	-	178.0	6.4

Investments exceeding 5% of the value of the **Cavendish Nuclear Section's** net assets as at 31 March 2016 or 31 March 2015 are detailed below:

Investment	Value at 31.03.16 £ million	%	Value at 31.03.15 £ million	%
BlackRock ICS Institutional Sterling Liquidity Heritage Fund	12.0	21.2	7.5	13.2
PIMCO UK Long Term Corporate Bond Fund	6.3	11.1	6.3	11.2
CF Lindsell Train UK Equity	6.1	10.7	5.8	10.2
F&C Leveraged Nov 2047 Index-Linked Gilt sub-fund	5.3	9.3	-	-
F&C Leveraged Nov 2037 Index-Linked Gilt sub-fund	3.9	6.9	-	-
Schroder Life Diversified Growth Fund	3.6	6.4	3.9	6.8
JP Morgan Class C-A Series 05-06	3.3	5.8	3.4	5.9
F&C Leveraged Mar 2062 Index-Linked Gilt sub-fund	3.2	5.7	-	-
F&C Sterling Liquidity Fund	3.1	5.6	-	-
PIMCO UK Sterling Linked Fund	-	-	11.6	20.4
BlackRock Asset Management Ireland - Liability MTC Leverage 2050	-	-	-	-
Index Linked Gilt Fnd	-	-	6.5	11.4
BlackRock Liability Solutions Fund - GBP Cash Fund	-	-	6.4	11.3



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Investments exceeding 5% of the value of the **EnergySolutions** Section's net assets as at 31 March 2016 or 31 March 2015 are detailed below:

Investment	Value at 31.03.16 £ million	%	Value at 31.03.15 £ million	%
F&C Sterling Liquidity Fund	31.5	53.2	-	-
F&C Leveraged Nov 2047 Index-Linked Gilt sub-fund	6.4	10.9	-	-
F&C Leveraged Nov 2037 Index-Linked Gilt sub-fund	5.1	8.6	-	-
F&C Leveraged Nov 2055 Index-Linked Gilt sub-fund	3.7	6.2	-	-
BlackRock ICS Institutional Sterling Liquidity Heritage Fund	3.6	6.0	-	-
F&C Leveraged Mar 2062 Index-Linked Gilt sub-fund	3.2	5.5	-	-
L&G Over 5 Year Index Linked Gilts Index	-	-	14.7	24.7
PIMCO UK Long Term Corporate Bond Fund	-	-	12.1	20.3
PIMCO UK Sterling Linked Fund	-	-	10.3	17.3
Schroder Life Diversified Growth Fund	-	-	5.1	8.6
L&G 2055 Index Linked Gilt	-	-	4.7	7.8
JP Morgan Class C-A Series 05-06	-	-	2.6	4.5

Investments exceeding 5% of the value of the **NNL** Section's net assets as at 31 March 2016 or 31 March 2015 are detailed below:

Investment	Value at 31.03.16 £ million	%	Value at 31.03.15 £ million	%
PIMCO UK Sterling Linked Fund	-	-	2.6	31.8
PIMCO UK Long Term Corporate Bond Fund	1.1	13.5	1.1	13.8
CF Lindsell Train UK Equity	1.2	13.8	1.1	13.4
L&G UK Equity Index	0.9	10.8	0.9	11.4
Schroder Life Diversified Growth Fund	0.9	10.5	0.9	11.4
L&G Over 5 Years Index-Linked Gilts Index	2.6	31.2	-	-

## 20. Employer related investments

The Investment Regulations limits employer related investments by occupational pension schemes. These investments include shares, loan stocks, debentures and other securities issued by the employers participating in the scheme and their associated companies, together with loans made to the employers, and any properties or land owned by the scheme and occupied by the employers.

The Regulations apply separately to each Group within the Scheme, by reference to the investments of the Group Trustees in the Employers participating in their Group and their associated companies, and provide that such employer-related investments must not exceed 5% of the market value of the Group's assets.

As at 31 March 2016 the Magnox Electric Group of the Electricity Supply Pension Scheme Group had minimal exposure to Magnox Electric Limited and its associated companies and was well within the 5% limit prescribed by the Regulations. The Group Trustees review the exposure to Magnox Electric Limited and its associated companies on an annual basis and take into consideration the 5% limit when setting the investment strategy.



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## 21. Additional analysis of investments

The Occupational Pension Schemes (Requirement to obtain audited accounts and a statement from the auditor) Regulations 1996 requires additional analysis of the Group's investments, which are set out in the following tables:

### SLC Section

	2016 UK £ million	2016 Overseas £ million	2016 Total £ million	2015 UK £ million	2015 Overseas £ million	2015 Total £ million
Equities	138.6	43.0	181.6	135.3	47.1	182.4
Bonds	317.5	22.5	340.0	406.2	85.6	491.8
Property loan assets	119.4	-	119.4	37.0	-	37.0
Pooled investment vehicles	692.6	1,177.8	1,870.4	589.9	1,285.0	1,874.9

### Cavendish Nuclear Section

	2016 UK £ million	2016 Overseas £ million	2016 Total £ million	2015 UK £ million	2015 Overseas £ million	2015 Total £ million
Pooled investment vehicles	41.1	3.3	44.4	18.2	38.0	56.2

### EnergySolutions Section

	2016 UK £ million	2016 Overseas £ million	2016 Total £ million	2015 UK £ million	2015 Overseas £ million	2015 Total £ million
Pooled investment vehicles	54.7	-	54.7	39.8	14.6	54.4

### NNL Section

	2016 UK £ million	2016 Overseas £ million	2016 Total £ million	2015 UK £ million	2015 Overseas £ million	2015 Total £ million
Equities	0.1	0.3	0.4	0.1	0.2	0.3
Bonds	0.3	0.2	0.5	0.2	0.1	0.3
Pooled investment vehicles	6.9	0.1	7.0	4.2	3.0	7.2

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**22. Current assets**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Contributions due in respect of:						
Employers	9.8	-	-	-	<b>9.8</b>	<i>8.7</i>
Cash balances	0.1	0.1	-	-	<b>0.2</b>	<i>1.1</i>
	<u>9.9</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<b>10.0</b>	<i>9.8</i>

All contributions due to the Group at 31 March 2016 and 31 March 2015 relate to March 2016 and March 2015 respectively and were subsequently paid in full to the Group in accordance with the Schedule of Contributions.

**23. Current liabilities**

	SLC Section 2016 £ million	CN Section 2016 £ million	ES Section 2016 £ million	NNL Section 2016 £ million	<b>Total 2016 £ million</b>	<i>Total 2015 £ million</i>
Benefits payable	(4.8)	-	-	-	<b>(4.8)</b>	<i>(0.2)</i>
Administrative expenses payable	(0.1)	-	-	-	<b>(0.1)</b>	<i>-</i>
	<u>(4.9)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>(4.9)</b>	<i>(0.2)</i>

**24. Related party transactions**

Related party transactions and balances comprise:

Contributions and contributions receivable in respect of two Group Trustees and pensions paid in respect of four Group Trustees.

All administrative expenses of the Group incurred during the year to 31 March 2016, and not directly related to the management of the investment portfolios, were met by the Employers.

Fees and expenses of £94,923 (2015: £81,724) were paid to certain Group Trustees in the year.

**25. Contingencies and commitments**

In the opinion of the Group Trustees the Group had no contingent liabilities or contractual commitments entered into which are not provided for in these financial statements.

The Group has £210 million of funds committed to three investment managers - Longbow Real Estate Capital LLP, Renshaw Bay LLP and GreenOak Real Estate Advisors LLP. As at 31 March 2016, approximately £92.2 million is yet to be drawdown and represents a capital commitment at that date.

**26. Subsequent events**

There were no subsequent events requiring disclosure in the financial statements.



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**Appendix 1 – Analysis of Membership Statistics by Section**

**Site Licence Company Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2015</b>	<b>2,069</b>	<b>5,252</b>	<b>1,358</b>	<b>1,296</b>	<b>9,975</b>
Adjustments to opening balance	(6)	(1)	(1)	2	(6)
<b>Sub Total</b>	<b>2,063</b>	<b>5,251</b>	<b>1,357</b>	<b>1,298</b>	<b>9,969</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	306	68	113	487
Pensions sharing orders and new EPB pensioners in payment	-	1	-	1	2
<b>Sub Total</b>	<b>-</b>	<b>307</b>	<b>68</b>	<b>114</b>	<b>489</b>
<b>Reductions</b>					
Contributors/ deferred pensioners retiring	(229)	-	-	(77)	(306)
Deaths	(1)	(121)	(71)	(1)	(194)
Leavers with deferred pensions	(113)	-	-	-	(113)
Leavers with refunds of contributions/ transfers to other schemes/cessation of child allowances	-	-	(5)	(7)	(12)
Transfers to other ESPS Groups	-	-	-	-	-
<b>Sub Total</b>	<b>(343)</b>	<b>(121)</b>	<b>(76)</b>	<b>(85)</b>	<b>(625)</b>
<b>At 31 March 2016</b>	<b>1,720</b>	<b>5,437</b>	<b>1,349</b>	<b>1,327</b>	<b>9,833</b>

**Cavendish Nuclear Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2015</b>	<b>65</b>	<b>26</b>	<b>1</b>	<b>38</b>	<b>130</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	-	-	3	3
Pensions sharing orders and new EPB pensioners in payment	-	-	-	2	2
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>5</b>
<b>Reductions</b>					
Leavers with deferred pensions	(3)	-	-	-	(3)
Leavers with refunds of contributions/ transfers to other schemes/cessation of child allowances	-	-	-	(1)	(1)
<b>Sub Total</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(4)</b>
<b>At 31 March 2016</b>	<b>62</b>	<b>26</b>	<b>1</b>	<b>42</b>	<b>131</b>

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**EnergySolutions Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2015</b>	<b>11</b>	<b>20</b>	<b>-</b>	<b>17</b>	<b>48</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	1	-	6	7
<b>Sub Total</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>6</b>	<b>7</b>
<b>Reductions</b>					
Contributors/ deferred pensioners retiring	-	-	-	(1)	(1)
Leavers with deferred pensions	(6)	-	-	-	(6)
<b>Sub Total</b>	<b>(6)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(7)</b>
<b>At 31 March 2016</b>	<b>5</b>	<b>21</b>	<b>-</b>	<b>22</b>	<b>48</b>

**National Nuclear Laboratories Section**

	Contributors	Pensioners	Dependants	Deferred pensioners	Total
<b>At 1 April 2015</b>	<b>6</b>	<b>5</b>	<b>-</b>	<b>2</b>	<b>13</b>
<b>Increases</b>					
Contributors/pensioners/dependants/deferred pensioners	-	-	1	-	1
<b>Sub Total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Reductions</b>					
Deaths	-	(1)	-	-	(1)
<b>Sub Total</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
<b>At 31 March 2016</b>	<b>6</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>13</b>

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**Appendix 2 – Glossary of Terms**

Listed below are brief explanations of terms used within the Report & Financial Statements that may not be familiar to all members.

<b>Pension glossary</b>	
Bulk transfers	The transfer of a number of members from one occupational pension scheme to another or from one Group of the ESPS to another. Generally this will occur if there has been a merger, sale or purchase of a business and the new Employer wishes to amalgamate pension arrangements.
Commutation	The exchange of expected pension benefits for a cash lump sum.
Deficit repair payments	A single payment or a series of payments made by the Employer in order to make good the actuarial shortfall caused by projected pension liabilities being in excess of assets.
Discontinuance funding ratio	This shows the Actuary's estimate of the proportion which the value of the Group's assets represent of the costs of buying out the accrued benefits with an insurance company.
Money Purchase basis	The calculation of an individual member's benefits by reference to the value of the contributions paid into a pension scheme in respect of that member.
Rule 32 Payment	The payment of special contributions (whether in relation to benefits, contributions or otherwise) by the [Principal] Employer, without limitation, in respect of Back Service Credits and/or Added Years to or in respect of one or more individuals (excluding Enhanced Protection Members).
State Second Pension	Additional pension benefits purchased through National Insurance Contributions to enhance the Basic State Pension by those people not "Contracted Out" through membership of a private or company pension scheme. This was formerly known as the State Earnings Related Pension Scheme (SERPS) and was re-named from 6 April 2002.
State Graduated Pension Scheme	The State Graduated Pension Scheme which commenced on 3 April 1961 and terminated on 5 April 1975 being replaced by SERPS.
Supplementary pensions funding	Contributions made by Employers or members to provide additional or "top-up" pension benefits.
Transfer Values received	Transfers of monies from another pension scheme, so that a member can augment their pension benefits from the ESPS.



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Investment glossary	
Derivative	<p>A derivative is a financial contract between two parties whose value is derived from an underlying asset's price or an index based on asset prices. Underlying assets are typically equities, bonds, interest rates, exchange rates and stock market indices. The main types of derivatives used by pension schemes are:</p> <ul style="list-style-type: none"> <li>- futures contracts</li> <li>- forward foreign exchange contracts</li> <li>- options</li> <li>- swaps</li> </ul> <p>A derivative can be exchange traded or traded over the counter.</p>
Exchange traded	An exchange traded security is purchased or sold through a registered exchange (e.g. a stock exchange) which provides trading facilities.
Forward foreign currency contract (FFX)	A forward foreign exchange contract is an over the counter transaction whereby two parties agree to exchange two different currencies at an agreed rate of exchange on a specific date in the future.
Futures Contract	A contract which legally binds two parties to complete a sale or purchase of an asset at a specified future date and at a price which is fixed at the time the contract is agreed.
Initial Margin	Before entering into a futures contract, a deposit is required which is referred to as the initial margin. This deposit may be in the form of cash or other assets, such as securities. The margin is required to protect parties against possible losses arising from the futures contract.
IPD	Investment Property Databank is an independent organisation that collates and publishes information about performance of the commercial property sector. The IPD provides a benchmark against which the performance of property assets can be monitored.
LIBID	London Inter-Bank Bid Rate. This is the rate of interest at which banks are willing to pay to borrow from each other for a specified period – normally one day. The rate fluctuates dependent on the supply and demand of funds.
Managed Funds	A managed fund is an investment contract which offers participation in one or more funds operated on similar lines to unit trusts. The range of managed funds available includes gilts, index-linked securities, equities, cash deposits, property and mixed funds. Typically managed funds relate only to a unitised fund under a policy of assurance from a life assurance company.
Options	An option is a contract which give the purchaser the right, but not the obligation, to buy (call option) or sell (put option) a standard specified nominal amount of an asset at a specific date or range of dates in the future at a specified price. Options may be exchange traded or OTC.

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Over the counter (OTC)	An over the counter (OTC) security is traded between two individual counterparties rather than on an exchange. There is no standardisation of contract specifications so the size of the contract, the settlement date and price are all negotiable.
Pooled investment vehicles	A fund in which several investors participate. The assets are not held directly in the name of individual clients but form part of a "pool". Unit trusts are a common example of a pooled investment vehicle. Investors hold units in the pooled fund. The value of individual units is determined by the value of the underlying assets of the fund.
Segregated Funds	In the ESPS, investment portfolios which are specific to a particular Group and may be comprised of individual securities or take the form of a pooled investment vehicle.
Stock lending	The temporary transfer of securities by a lender to a borrower, with an agreement that the borrower will return equivalent securities to the lender either on a pre-agreed future date or on demand. In return the lender receives a fee for making the securities available to the borrower.
Swaps	A swap is an OTC transaction whereby the parties to the contract agree to exchange cash flows according to the terms agreed at the outset of the swap. The amount of the cash flows is generally determined by reference to an underlying asset, index, instrument or notional amount.
Unitised Fund	The Unitised Fund is a pooled investment vehicle that is only available to Groups within the ESPS and comprises three Sectors: UK Property, UK Forestry and Cash.
Variation Margin	Amounts payable under futures contracts - to ensure that deposits/(margins) are maintained at contractually agreed levels as the value of the underlying asset changes.

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**Appendix 3 – Advisers and Service Providers**

**Group Actuary**

Chris Vaughan-Williams FIA  
of Aon Hewitt Limited

Carries out valuations and other funding updates of the Group as required by the Scheme Rules and Statute, provides all tables and factors for the application of Scheme Rules and options, and advises on all matters relating to pension funding.

**Independent Group Auditor**

PricewaterhouseCoopers LLP

Reports on the audit of the Group Financial Statements.

**Scheme Custodian**

The Bank of New York Mellon

Maintains safe custody of the Scheme's assets.

**Investment Adviser**

Andy McKinnell  
of Aon Hewitt Limited

Advises the Group Trustees on all investment matters including the Statement of Investment Principles.

**Legal Adviser**

Mark Greenlees  
of Sacker and Partners LLP

Advises on legislative requirements and application of the provisions of the Group in particular circumstances.

**Performance Measurer**

Andy McKinnell  
of Aon Hewitt Limited

Provides the Group Trustees with a measurement service for their investments relative to the strategic benchmark and on the performance of the investment managers.

**Benefits Administration and Accounting**

RPMI EPAL  
2 Rye Hill Office Park  
Birmingham Road  
Allesley  
Coventry  
CV5 9AB

Tel: 02476 472582

**Group Administrator**

Rachel Hewlett  
Magnox Ltd  
Berkeley Centre  
Berkeley  
Gloucestershire  
GL13 9PB

Tel: 01453 813115



**Group Appointed Fund Managers**

Babson Capital  
BlackRock Investment Management (UK) Limited  
F&C Investment Management  
Genesis Asset Managers  
Goldman Sachs Opportunities Partners  
GreenOak Real Estate Advisors LLP  
Henderson Global Investors  
Infrared Capital Partners  
Innisfree Ltd  
JP Morgan Asset Management Ltd  
Legal & General Investment Management Limited  
Lindsell Train Ltd  
Longbow Real Estate Capital LLP  
M&G Asset Management  
PIMCO Europe Ltd  
Renshaw Bay LLP  
Ruffer LLP  
Schroder Investment Management Limited  
State Street Global Advisors  
Trilogy Global Advisers (Group fully disinvested holdings in July 2015)

**Unitised Fund Managers**

The fund managers appointed by EPTL to manage the Unitised Fund Sectors used by the Group during the year were:

Bidwells – UK Forestry Sector (Group fully disinvested from this sector in July 2015)  
CB Richard Ellis Investors Limited – UK Property Sector

**Additional Voluntary Contributions (AVCs) Providers**

Phoenix Life Assurance Limited  
Equitable Life Assurance Society Limited  
The Prudential Assurance Company Limited

#### **Appendix 4 – Names and Addresses of External Bodies**

##### **The Pensions Advisory Service**

The Pensions Advisory Service is an independent organisation which can help members of the public resolve any difficulties they may have encountered with their pension scheme, free of charge. The Pensions Advisory Service may assist a person in taking their complaint through the Group's dispute resolution procedure.

The Pensions Advisory Service can be contacted at:

The Pensions Advisory Service  
11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0300 123 1047

Website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

##### **Pensions Ombudsman**

In cases where a complaint or dispute has not been resolved to the complainant's satisfaction, an application can be made to the Pensions Ombudsman. The Pensions Ombudsman can investigate and determine any complaint of maladministration or dispute of fact or law involving personal and occupational pension schemes. The Pensions Ombudsman's decisions are final and binding on the parties.

The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman  
11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0207 630 2200

E-mail: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

## **The Pensions Regulator**

The Pensions Regulator is the UK regulator of work-based pension schemes.

The Pensions Regulator has statutory objectives to protect members' benefits, to reduce the risk of calls on the Pension Protection Fund, to promote good administration, to maximise employers' compliance with their new duties in relation to automatic enrolment and to minimise any adverse impact on sustainable growth of an employer' when exercising its functions under the scheme funding legislation.

The Pensions Regulator has wide ranging powers set out in statute. For example, the Pensions Regulator can prohibit or disqualify trustees if they are not fit and proper persons for the role or for acting unlawfully and can impose fines on wrongdoers.

The Pensions Regulator can be contacted at:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

Telephone: 0845 600 0707

E-mail: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

## **Pension Wise**

From 6 April 2015 there are more options when it comes to accessing money purchase pension savings, such as AVCs under the Group. Pension Wise is a new Government service which provides free and impartial guidance on the new pension options to people over age 50.

Website: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

## **The Department for Work and Pensions (DWP) Pension Tracing Service**

The purpose of the DWP's Pension Tracing Service is to provide a tracing service for members and their dependants who believe they have a pension entitlement in a pension scheme of a previous employer that they have lost touch with. The ESPS is registered with the DWP under scheme reference number 10200656.

The contact details for the Pension Tracing Service are as follows:

The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

Telephone: 0345 600 2537

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)



### **The Pension Protection Fund**

The Pension Protection Fund was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

The contact details of the Pension Protection Fund are as follows:

Pension Protection Fund  
Renaissance  
12 Dingwall Road  
Croydon  
CRO 2NA

Telephone: 0845 600 2541

Website: [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

**Appendix 5 – Address for Enquiries**

Further information about the Scheme and enquiries relating to specific benefit entitlements should be addressed to:

RPMI EPAL  
2 Rye Hill Office Park  
Birmingham Road  
Allesley  
Coventry  
CV5 9AB

Telephone: 02476 472 582  
E-mail: [enquiries@rpmi.co.uk](mailto:enquiries@rpmi.co.uk)