



Pensions Update

For members of the Magnox Group of the Electricity Supply Pension Scheme (ESPS)

Chairman's Welcome

Welcome to the 2015 Pensions Update. This is the first edition of the trustee's newsletter which has been issued since I took over as Chairman and it is with great sadness that the very first thing I need to do is to inform you that Brian Hibdige, whom many of you will have known personally and who was our longest serving trustee, passed away on 23rd October. Many of you will know that Brian has been battling cancer for some time, but sadly lost that struggle. We have included a tribute to Brian, but in fact there is a second tribute in the form of the investment update; this article was written by Brian a few weeks ago.

I would also like to record both the trustee's and my personal thanks to the previous Chairman, Tony Cooper, who retired at the end of July. Tony led our trustee body for 6 years during which we, and the scheme, benefitted from his wise counsel and leadership.

Some of the information in this newsletter is included because we have a legal obligation to provide it on an annual basis, including an update

on the funding of the scheme. We add other information which we think you might find interesting but if there are other matters you would like to see included please let us know by contacting Rachel Hewlett at the address shown under further information. We are currently preparing for the formal triennial review of the funding level of the scheme which is due at 31st March 2016 and the results in this newsletter are based on the less formal interim annual review.

As you will see from the numbers, the fund is very slightly in deficit this year, despite the fact that the assets have increased in value. The deficit has arisen largely because, when we are predicting the amount of money needed to pay all of our members' benefits, we use the yield on Government bonds. As this yield has fallen we have assumed that more money will now be required to cover the cost of benefits. If the formal calculations at March 2016 continue to show a shortfall then we will agree a plan with the company to remove the deficit by payment of additional contributions.

During the year we have continued to monitor and review our investment strategy to ensure it remains appropriate. Much of this work has been carried out by the Trustee's Investment Sub-committee, which has been in place for a number of years. This committee works hard to ensure the assets are well managed.

The obligations on trustees to demonstrate good governance of pension schemes seem to be constantly increasing so during the year we set up a Governance and Audit Sub-committee to concentrate specifically on these aspects. This committee will usually meet four times a year and reviews in detail such things as the administration arrangements, risks which the scheme is exposed to and the annual financial accounts.

I am grateful to my colleagues on the trustee board for their support in looking after the scheme and for the many hours of their time which they commit to this work.

Pension Increases

The rules of the Scheme provide for all pensions to increase from 1st April each year in line with the increase in the Retail Price Index (RPI) in the 12 months ended on the preceding 30th September.

The increase payable from 1st April 2016 is 0.8%. A proportionate increase will be paid to those who have not been retired for a complete year at 1st April 2016.



Best Wishes
Susan Jee



BRIAN HIBDIGE

1947-2015

It is with great sadness that we have to report the death of Brian Hibdige who passed away on 23rd October.

There are thousands of people in Magnox and its predecessor companies who owe Brian a debt of gratitude. He was one of the most formidable trade union representatives of recent times. He had a powerful intellect. His passion and commitment to support members and to uphold ethical standards were reflected in a uniquely robust style which some of us were privileged to experience first-hand. During the period of electricity privatisation and its aftermath, which saw major de-merger activity and the transition from national to company-based collective bargaining structures, Brian was a powerful force in shaping the post-privatisation world. In his trade union role, he became President of the EMA (now Prospect), a role to which he brought the same energy as he did to his collective bargaining role with Nuclear Electric and then Magnox. In the years before his retirement, he managed the Magnox

withdrawal from the Littlebrook site and worked tirelessly to secure good outcomes for the hugely- talented technical team who had been based there.

His most distinguished contribution was arguably made in nearly 20 years as an elected Magnox Trustee. Even after his retirement, and while living in France, his focus and commitment to the role were legendary. This commitment was undiminished even in the last few years when he was far from well. Indeed, at our last meeting on 23rd September Brian played a full and active part.

Brian was justly proud that the Magnox SLC pension scheme is so well funded compared to the vast majority of others. That position is however in no small part due to Brian's contribution. He was a veteran of 5 triennial actuarial valuations during the period, from the turn of the millennium, in which final salary pension schemes generally had to come to terms with and address serial major deficits. As a key member

of the Investment Committee, many of the innovative strategies adopted by the Trustees and the nimbleness with which decisions were made and opportunities taken reflected his leadership qualities. Fund managers in the City were kept on their toes in interviews with Brian in which he would drive down their fees and forensically challenge their performance. All this was, of course, to the great benefit of members. Brian's stature was reflected in the unusual decision to appoint him, as an elected Trustee, as Chairman of the Investment Committee between 2008 and 2011.

Brian was an amazing individual who made an amazing contribution. It sounds trite, but is nonetheless true, to say that he will be sorely missed. His combination of intellect, diligence and the ability to challenge is literally irreplaceable. The trustees will however continue to work hard to ensure that his legacy continues into the future.

Pension Scams

The Pensions Regulator is concerned to make sure that members of pension schemes are aware of the risk of becoming the victim of a pension scam. Scammers use a range of tactics to tempt members to invest their pension pot with them, including directing them to transfer into small (often one or two member) occupational schemes to avoid scrutiny from regulators.

Usually a scam will require you to transfer your benefits out of the Magnox scheme. If you are already receiving your pension it is not usually possible to transfer your benefits elsewhere and so it is highly unlikely that you will be approached with this type of scam.

For members who are not currently receiving benefits it is possible to transfer your benefits in to other arrangements. If you request a transfer value quotation RPMI EPAL will provide you with leaflet from the Pensions Regulator about potential scams. We would strongly urge you to read this leaflet carefully. You can also find information from the Government's Pensionwise service at www.pensionwise.gov.uk

Trustee Board

The Trustee Board comprises of eleven directors, five of whom are appointed by Magnox Ltd, the Principal Employer to the Scheme, and six who have been elected by members of the Magnox Group of the ESPS.

Company Appointed Directors

Susan Jee

Magnox -
Non-Executive
Director

Member of the
Investment Committee

Chairman of the
Group Trustee



Martin Grafton

Cavendish Fluor
Partnership
Seconded to
Magnox Ltd -
Site Director
Hunterston A

Deputy Chairman
of the Group Trustee



Paul Edwards

Cavendish Fluor
Partnership
Seconded to
Magnox Ltd -
Head of Finance

Chairman of the
Governance and
Audit Committee



Professor Andrew Clare

Independent Trustee

Chairman of the
Investment
Committee



Karen Walkden

Magnox Employee

Head of
Organisational
Change and
HR Projects



Member Appointed Directors

Jim Boyd

Retired Employee -
in receipt of pension
from Scheme

Member of the
Investment Committee



John Jones

Magnox Ltd employee
Wylfa Site

Active member of the
Site Licence Company
Section of the Group



David Openshaw

Retired employee -
in receipt of pension
from the Scheme

Member of the
Governance & Audit
Committee



Fergus Hall

Retired employee - in
receipt of pension
from the Scheme

Member of the
Governance & Audit
Committee



Ceri Davies

Magnox Ltd employee
Berkeley Centre

Active member of the
Site Licence Company
Section of the Group

Member of the
Governance & Audit
Committee



Following the death of Brian Hibdige there are currently five member elected directors.

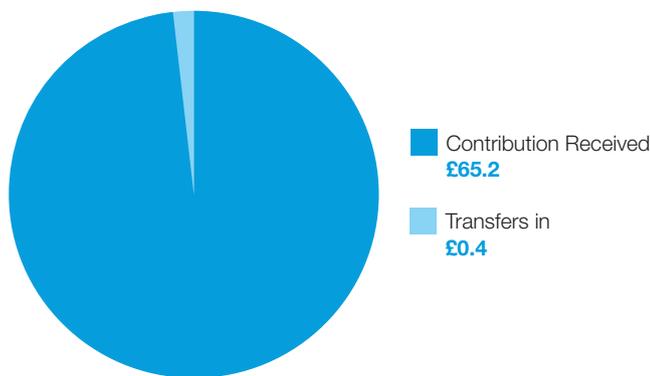
ANNUAL REPORT AND ACCOUNTS

Every year the trustee must produce a comprehensive report, including audited financial statements. This is a formal and lengthy document, but for those who wish to read the full document, it is available electronically on the Magnox Electric Group Trustees (MEGT) Pensions website – www.megtpensions.com. Alternatively, a printed copy is available from Magnox Group Pensions on 01454 422608 or via email: group.pensions@magnoxsites.com

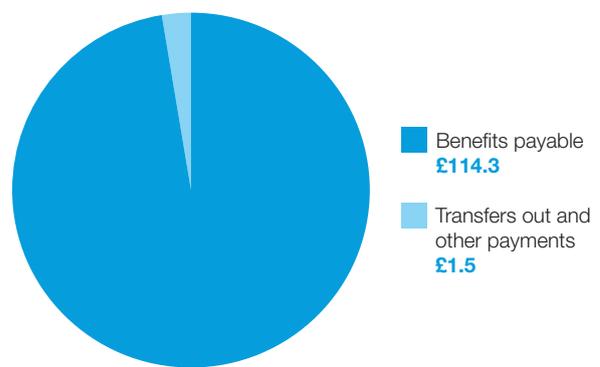
Financials

From the 2014/15 Annual Report and Accounts we have extracted some key statistics for you. For more detailed information download a copy of the report at www.megtpensions.com or request a paper copy from Magnox Group Pensions.

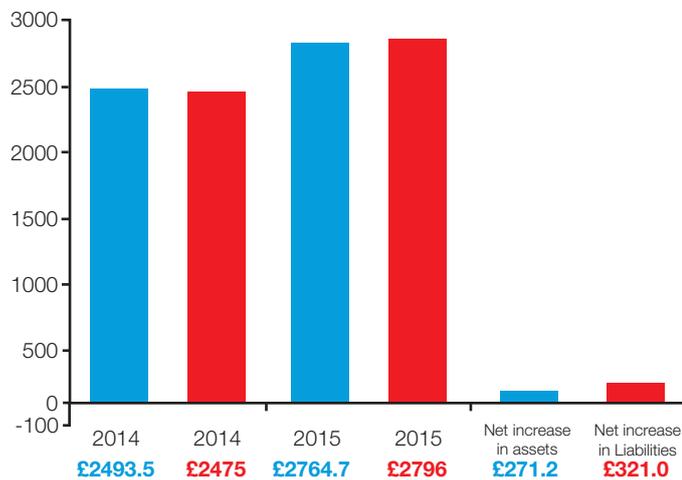
What came in (£millions)



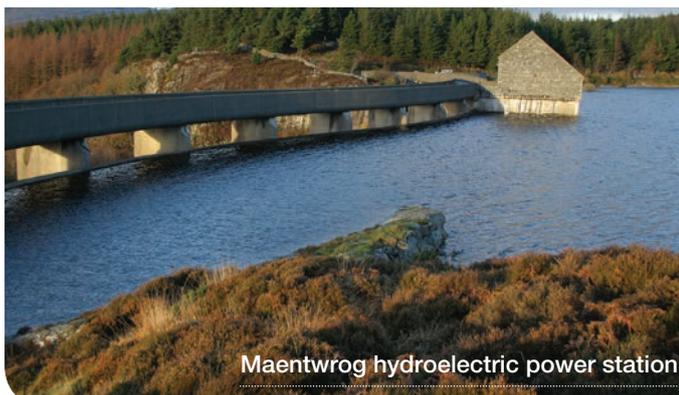
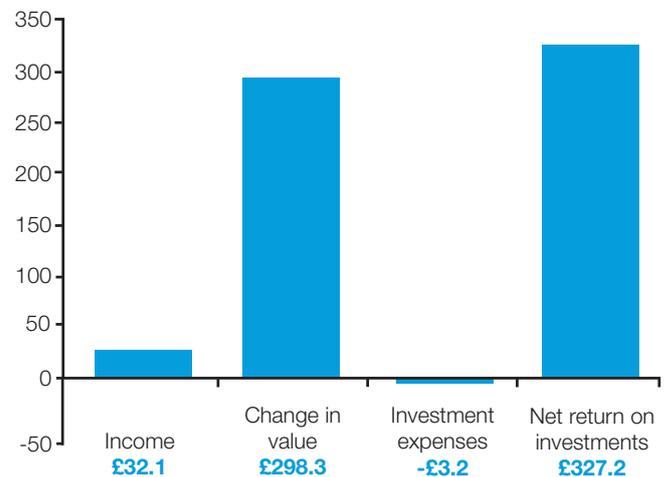
What went out (£millions)



Group Assets/Liabilities (£millions)



Return on investments (£millions)



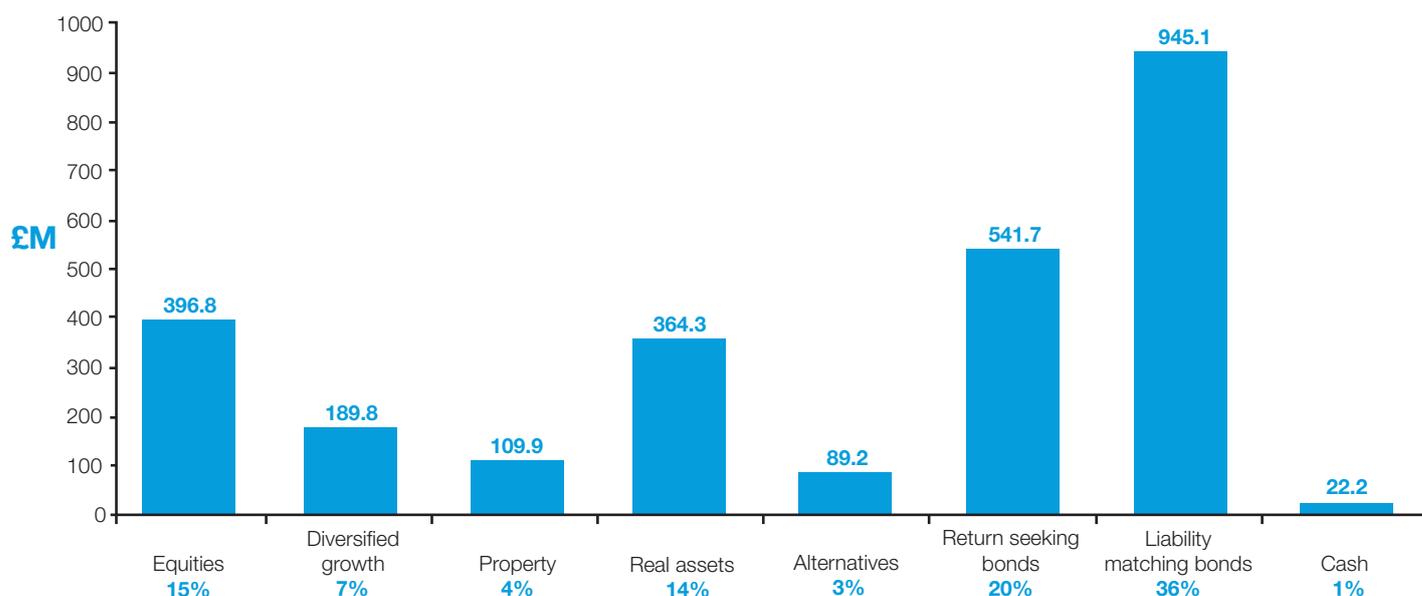
Membership Statistics

31 March 2015

Actives	2069
Pensioners	5252
Dependants	1358
Deferreds	1296
Total	9975

Investment Holdings

SLC Assets



Assets as of 30 Sept 2015

Annual Meetings

Magnox Electric Group Trustee

The Magnox Group Annual Meeting will take place on Thursday 26th November 2015 at Hamfields Leisure, Berkeley, commencing at 1400.

This meeting provides the opportunity for members of all sections to meet with the Trustee Board and its advisers and ask questions. Tea and biscuits will be available.

If you can't attend the meeting but would like to ask a question, please email it to info@megtensions.com or send it to Rachel Hewlett at the address shown under further information.

Electricity Supply Pension Scheme

The Scheme's Annual Meeting will take place on Tuesday 24th November 2015 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose, London, EC2A 2HS starting at 13.00. The purpose of this meeting is to receive the Scheme Annual Report and Financial Statements and the Auditors' Report, receive the report of the Scheme Trustee, and conduct any general business, including the consideration of any resolutions proposed by members.

Details of the agenda, resolutions and notices may be obtained from mid-November by contacting Rachel Hewlett at the address shown under further information.

END OF CONTRACTING-OUT

The Magnox Group of the Electricity Supply Pension Scheme (ESPS) is what is known as a contracted-out pension scheme.

Being a member of a contracted-out scheme has never impacted entitlement to the basic state pension, but does affect entitlement to the second state pension (S2P) which was historically known as the State Earnings Related Pension Scheme.

In short, for the period of membership of a contracted-out pension scheme, members will receive no pension from the S2P. Any contracted-out final salary pension scheme does however have to provide a pension for the period of membership of at least a minimum prescribed level. The rules prescribing the minimum levels of pension have changed over time, but have always broadly provided for the benefits to be at least of the same quality as would have been available under S2P. As a consequence of being in a contracted-out pension scheme members pay National Insurance contributions at a reduced rate.

The Government has announced changes to the state benefit system with effect from 6th April 2016 and from that date it will no longer be possible for pension schemes to be contracted-out. As a consequence, active members of the ESPS who are paying National- Insurance contributions will notice an increase in the amount of National Insurance payable. There will be no change to the contributions payable to the ESPS or to the benefits provided by the scheme. There will however be a change to the way Guaranteed Minimum Pension* provided by ESPS and state benefits interact, but this will only affect those who attain State Pension Age after 5th April 2016.

Currently the ESPS provides increases on any Guaranteed Minimum Pension* accumulated between 6th April 1988 and 5th April 1997. Those increases are in line with the increase in the CPI at the previous September, up to a maximum of 3%. There are no guaranteed increases to Guaranteed Minimum Pension* accumulated before 6th April 1988, or to any excess of CPI over 3% for Guaranteed Minimum Pension* accumulated between 6th April 1988 and 5th April 1997. However, until now, the way that the state pension and Guaranteed Minimum Pension* have interacted has meant that any S2P or State Earnings Related Pension that a member receives effectively includes an amount equivalent to increases on the Guaranteed Minimum Pension*. However, under the Government reforms, individuals who reach their state pension age after 6th April 2016 will not receive any S2P or State Earnings Related Pension, which means that the element of those benefits which was equivalent to Guaranteed Minimum Pension* increases will no longer be paid for affected members after 6th April 2016.

* Guaranteed Minimum Pension is the name given to the amount of pension the ESPS is obliged to provide as a result of being contacted-out from 6th April 1978 to 5th April 1997. For most members it is not a significant proportion of the total pension. The biggest part of most members' pensions will continue to be subject to the increases set out in the ESPS rules, as described earlier in this update.

There will be no change to the method of increases for those who are above State Pension Age at 6th April 2016, and the increases to Guaranteed Minimum Pension* that the Scheme is responsible for (up to 3% on Guaranteed Minimum Pension* accumulated between 6th April 1988 and 5th April 1997) are also unaffected.

Pensions increases can be quite complex but RPMI EPAL will continue to provide a statement each year explaining the make-up of any increases.

SLC SECTION OF THE MAGNOX ELECTRIC GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME 2015 SUMMARY FUNDING STATEMENT

In order to comply with a legal requirement (Pensions Act 2004), the Trustee, who looks after the section, is required to provide you with an annual update on the section's funding position.

How the scheme operates

The section is a final salary scheme, or defined benefit scheme, which means that each member's retirement benefits are determined broadly by the amount of their pensionable salary and length of service as a member of the Group when they retire or leave. Contributions which are paid into the section are paid into one common fund which is used to pay for all members benefits. They are not paid into individual accounts which are earmarked to each member.

The trustee obtains regular valuations from an actuary. These calculations place a value on the benefits which the section is obliged to pay, which is then used to agree the rate of contribution needed with the employer.

Actuarial Valuation

An actuarial valuation of the scheme was completed as at 31st March 2013. The results of this valuation showed that (assuming that the section continues into the future) on that date, the funding position was as follows:

Assets of the SLC Section	£2,542.0M
Technical provisions (Amount needed to provide benefits)	£2,552.8M
Funding deficit	£10.8M
Funding level	100%

The trustee agreed with the employer that the deficit shown above would be repaired by an employer contribution of £20.0M payable on 31st July 2014.

The actuary recently provided the trustee with a report setting out details of an approximate update of the funding position as at 31st March 2015. The results of the update are as follows:

Assets	£2,764.7M
Technical provisions	£2,796.0M
Funding deficit	£31.3M
Funding level	99%

The figures in the report were calculated by rolling forward the results of the 31st March 2013 valuation and making allowances for changes in investment market conditions since the date of the valuation. This is not as thorough as a formal valuation – for example, it takes no account for things like changes to membership numbers – but it still gives a useful guide to changes in the funding level.

The funding level has deteriorated slightly since last year. This has arisen despite an increase in the value of the scheme's underlying assets and has been caused largely by the impact of lower yields on Government bonds. The yield on Government bonds is used to estimate the cost of providing benefits under the scheme and as the yield has fallen the cost of providing the scheme's liabilities has increased.

As part of the valuation calculations, the actuary also estimated what the position would have been if the trustee had wound the scheme up and secured all members', including pensioners' benefits at that time through individual policies with an insurance company. The calculations revealed that at 31st March 2013, 72% of the section's liabilities could have been secured in this way. **Please note that it is a legal requirement to provide this information – the Company has no intentions of winding up the section.** It is also worth noting that a solvent employer can only wind up a scheme if 100% of the benefits can be secured with an insurance company. In addition, further protection for members may be provided by legislation, including the Electricity Act 1989 and the Energy Act 2004.

Use of personal data

In providing actuarial services to the Trustees, including preparing this Summary Funding Statement, the Trustees, their adviser Aon Hewitt and the Scheme Actuary require access to personal data about members and their dependants. The Data Protection Act governs how the Trustees, Aon Hewitt and the Scheme Actuary use and store personal data. Members can find out more information about how their personal information is used in the provision of actuarial services at www.aonhewitt.co.uk/privacy-statement

Should a member have further questions regarding the processing of their personal information, they should contact the Trustees in the first instance through Rachel Hewlett at the address shown under further information. General guidance is also available from the Information Commissioner's website at www.ico.org.uk

What is the scheme invested in

The trustee's policy is to invest in a broad range of assets which are designed to ensure that the investment objectives of the scheme are met. A summary of the asset allocation at 31st March 2015 is given below:

Manager	£m	%
BMO	663.6	24.1
SSgA	295.7	10.7
PIMCO Europe Ltd	219.2	8.0
Legal & General Investment Management Limited	207.8	7.5
Babson Capital	185.9	6.7
BlackRock Investment Management (UK) Limited	178.3	6.5
EPTL Unitised Fund	150.0	5.4
Lindsell Train Ltd	148.1	5.4
M&G Asset Management	143.5	5.2
Schroder Investment Management Limited	101.7	3.7
Ruffer LLP	98.5	3.6
JP Morgan Asset Management Ltd*	88.4	3.2
Innisfree Ltd*	84.1	3.1
Genesis Asset Managers*	58.2	2.1
Trilogy Global Advisers	47.3	1.7
Infrared Captial Partners*	44.3	1.6
Renshaw Bay*	24.1	0.9
Green Oak*	14.0	0.5
ICG Longbow*	2.8	0.1
Goldman Sachs Opportunities Partners*	0.3	-
Total	2,755.80	100.0

*Values as of 31 March 2015 for these managers are estimates only due to reporting lags.

Additional Documents

Provided automatically:

- An annual benefit statement for current employees.
- The guide to the main provisions of the Magnox Group of the Electricity Supply Pension Scheme (provided on joining the scheme)

Available on request from Rachel Hewlett at the address shown under the further information section:

- The Annual Report and Accounts of the Magnox Group of the Electricity Supply Pension Scheme, which provides details of the income and expenditure of the scheme over the year to 31st March 2015.
- The full report on the Actuarial Valuation which was completed at 31st March 2013.
- The Annual Actuarial Report which was completed at 31st March 2015.
- The Schedule of Contributions, which shows how much money, is being paid in to the scheme.
- The Statement of Investment Principles, which gives details of how the trustees invest the money which is paid in to the scheme.

Pension Protection Fund (PPF)

As has been described in the section headed “Actuarial Valuation”, if the scheme was to be wound up, there may not be enough money in the fund to secure all members’ benefits with an insurance company. It has also been explained that solvent employers cannot wind up schemes unless they ensure that enough money is paid to the insurer to provide 100% of all members’ benefits. If however the scheme was to be wound up because the employer had become insolvent the PPF, which has been established by the Government, may be able to take over the scheme and pay compensation to members. This compensation is subject to a cap.

Information on the PPF can be found on its website at www.pensionprotectionfund.org.uk. Alternatively you can write to the Pension Protection Fund, Knolly’s House, 17 Addiscombe Road, Croydon, Surrey, CRO 6SR.

Given that pension costs are met by the Nuclear Decommissioning Authority (NDA) it is extremely unlikely that the employer will ever become insolvent and the benefits subsequently transferred to the PPF. This information has been included as it is a legal requirement to do so.

Other Legal Requirements

The Pensions Act 2004 requires the trustee to provide members with the following information. This information would be of particular importance on schemes where The Pensions Regulator has intervened on the running of the scheme, which they might do if they have concerns about the security of members’ benefits. No such intervention has occurred under the Magnox Group of the Electricity Supply Pension Scheme.

- The Pensions Regulator has not acted to change the way benefits are earned in future.
- The Pensions Regulator has not given any directions as to how the amount needed to provide benefits (known as technical provisions) should be calculated, or the length of time over which the funding deficit must be repaired.
- The Pensions Regulator has not imposed a Schedule of Contributions
- There have not been any payments from the scheme to either Magnox Limited or any other participating employer of the scheme during the last twelve months.

Further Information

If you would like details of, or have any queries concerning, your benefits, options or pension in payment please contact RPMI EPAL who deal with the administration of the scheme.

Please note RPMI EPAL's new address. All other contact details remain the same.

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

+44 (0) 24 76 47 2582

enquiries@rpmico.uk



Requests for other information should be sent to

Rachel Hewlett
Magnox Ltd
Sizewell Room
Oldbury Technical Centre
Oldbury Naite
South Gloucestershire
BS35 1RQ

rachel.l.hewlett@magnoxsites.com

Tel: 01454 422608

This is a new postal address and telephone number for the Magnox pensions team and applies from 1st November 2015. Email addresses are unchanged.

Investment Update

We are currently in the process of running an election for three trustees and those members who are eligible to vote received an information pack. That information included an update on some of our investments. For the benefit of those members who did not receive the election notice we have included the investment update again.

The Trustees would like to update you on a few points within our overall Investment Portfolio but before doing so we want to make it clear to you that the scheme is in a very strong position. An illustration of this is that the SLC section (which holds 98% of the members) has been approximately fully funded (98-104%) since January 2013. We believe that this places us in the top 5% of large Final Salary schemes within the UK.

We turn now to a few specific areas in which our fund has been invested:

Infrastructure

Background - For those of you who are not clear about this asset class it refers to the mechanism where investors, such as pension schemes, ensure the provision of the capital and expertise to enable the building and operation of large capital projects (Hospitals, Prisons, Schools, Roads etc.) through contractual arrangements with builders, banks and operators. In return the Investor usually has a contractual entitlement to index-linked cashflows over periods of 25 to 35 years and it is this feature that makes these investments attractive to pension funds.

Our Investment – The SLC section started investing relatively small amounts through specialist managers in 2007 and to date our total commitment in this area is about £153m (5.6% of our current assets) across 4 different funds.

The Good News – Three of our funds (2 operated by Innisfree and 1 by Infrared) have delivered in exactly the manner we expected and have provided, or are expected to provide, returns at the higher end of our expectations, even in the current low yield environment. To put some numbers to this we are looking at very long term returns of about RPI + 5 to 9%.

The Bad News – In 2007 we invested £25m in a new Infrastructure fund (Total fund size £573m with 28 investors) being raised by Henderson Global Investors.

There has been a great deal of interaction between Henderson and Investors since that time as many of us have been critical of the way in which the Manager launched and operated the fund but unfortunately we are precluded from going into detail.

The Fund has now been closed out and the result for us is a total loss of the £25m we invested, and no income over the 8 year term of the investment. The other 27 Investors (mainly other large pension funds) find themselves in the same position. Perhaps the most galling part of this bad outcome is that whilst the Investors have in total have lost £573m, Henderson have earned nearly £60m in fees. We recently met the Chairman of Henderson and made it clear that whatever the legal status, this was morally indefensible and carried considerable reputational risk.

Forestry

For many years Magnox had a relatively small holding in ESPS forests in Southern Scotland and Northern England. In March 2010 the opportunity arose to add to this, and the Trustees decided to increase their allocation to, a still relatively modest, £14.2m.

Since then some windfarm assets on some of these sites have been commissioned whilst others have received permissions/connections. At the same time timber prices have recovered and investors have favoured, so called, “real” assets at a time when bond yields have been historically low. Accordingly the valuation grew at over 20% per annum but, whilst they realised they might forgo further short term gains, the Trustee decided to sell their entire holding to avoid perceived longer term risks.

In the event the sale took place on 30th June 2015 at a price £43.9m, representing a profit of almost £30m in just over 5 years.

Overview

We have highlighted to you the performance of five of our holdings, with four doing very well and one disastrously. Perhaps more important than either of these extremes is the performance of the total of the fund which now stands at £2700m.

We are pleased to report that over the last three years the fund has returned 0.8% p.a. above expected (benchmark) returns making 8.6% p.a. in total. In the last year the comparable figures are 1.1% and 13.5% respectively. The simple maths are that 1% outperformance represents £27m.

Please let us know if you would like a larger print version of this document by telephoning 01454 422608

