Nuclear
Liabilities Fund

Fulfilling our purpose

Annual report and accounts 2021

Nuclear Liabilities Fund Limited
nlf.uk.net

The primary objective of the Nuclear Liabilities Fund Limited is to achieve sufficiency of its funds to meet certain costs of decommissioning EDFE's eight nuclear power stations in the UK.

Richard Wohanka
Chair

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Purpose, sufficiency and liabilities

The primary purpose of the Nuclear Liabilities Fund Limited is to receive and hold monies, investments and other assets, in order to secure funding for discharging qualifying decommissioning liabilities related to EDF Energy Nuclear Generation Limited's ('EDFE') UK nuclear power stations which were in existence in 1996, and to make payments for approved costs in accordance with the provisions of the Nuclear Liabilities Funding Agreement ('NLFA') entered into on 14 January 2005, amended and re-stated on 5 January 2009 and on 23 June 2021.

Sufficiency

In pursuing the purpose of the Nuclear Liabilities Fund Limited, the directors' aim is to help ensure that future generations are not burdened by decommissioning costs related to the consumption of nuclear generated energy by the current generation. This aim requires the directors to seek to ensure that the fund has the required level of assets to discharge the liabilities. This is referred to in this report as 'sufficiency' of the fund.

The liabilities

When 'liabilities' are referred to in this report, these are based on the expected future liability obligations as estimated by EDFE in their 2016 Baseline Decommissioning Plan and the 2016 Uncontracted Liabilities Discharge Plan, together referred to as the '2016 Lifetime Plan'. These liabilities have been updated to reflect the Annual Liabilities Report delivered by EDFE under the NLFA as at December 2019, taking account of forecast spend, inflation and reflect revised defuelling assumptions. The arrangements for managing EDFE's liabilities have been revised. This has resulted in the amendment and re-statement of the NLFA on 23 June 2021 (the 'Re-stated NLFA'). EDFE are expected to update their plans for defuelling and decommissioning in late 2021 in accordance with these new arrangements.

Opposite – Torness Power Station.
Photo produced by kind permission of EDFE.

EDFE's UK Nuclear power station sites

There are six Advanced Gas Cooled Reactor (AGR) stations operating. Dungeness B ceased operating and moved into the defuelling phase on 7 June 2021. Sizewell B is a Pressurised Water Reactor (PWR).

Chair's statement

Fulfilling our purpose

We enter into a new phase for the Nuclear Liabilities Fund Limited as the defuelling and decommissioning of the AGR sites commences and the importance of our purpose is ever more apparent. The directors are focussed on the fund's sufficiency and the fiscal year 2020–21 was successful in this respect, and key steps were taken to ensure secure arrangements for future years.

Richard Wohanka
Chair

The Nuclear Liabilities Fund Limited's primary purpose is to invest money entrusted to it to ensure its sufficiency to meet certain costs of decommissioning EDFE's eight nuclear power stations in the UK.

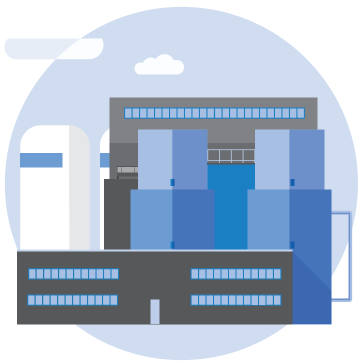
New funding agreement

An important development was the agreement of a new funding mechanism with UK Government. This agreement was reached in June 2020 and reported in last year's report as a post-balance sheet event. This new funding mechanism put the Nuclear Liabilities Fund Limited on a more secure footing in terms of ensuring sufficiency[1]. It also means that the funds held by the Nuclear Liabilities Fund Limited in the National Loans Fund[2] are forecast to not be fully utilised for at least 17 years. This enables an investment strategy that seeks to benefit from a long-term investment horizon, thus benefitting from the illiquidity premium associated with its asset mix.

Investment performance

Whilst it seems strange to describe the fiscal year 2020–21 as orderly when the COVID-19 pandemic has ravaged the world, it is accurate to say that the year has proved a successful one with regards to investment performance for the Nuclear Liabilities Fund Limited. Whilst the overall performance of the fund continued to produce a level below its long-term required return at 2.4% versus a required rate of 4.9%, the return of the Mixed Assets Portfolio (the portion of the fund not invested in the National Loans Fund, and referred to in this report as the 'MAP') at 9.8% exceeded its required return of 7.3%. We are pleased with this result, which is driven by the outperformance of our liquid portfolio. There is a further explanation of this key performance indicator and the performance against it in the Strategic Report. The illiquid investments continued to act as a stabiliser to the more volatile equities portfolio.

Two investments in our illiquid portfolio performed outstandingly, namely the British Patient Capital fund, a diversified portfolio of funds focussing on transformative high-growth companies specialising in digitisation, deep technology and life sciences, and the ICG Strategic



£3bn

As at 31 March 2021 the size of the Mixed Assets Portfolio was approximately £3 billion.

Equity Fund which was able to take advantage of challenges and opportunities thrown up by the COVID-19 pandemic. Both these investments were at the less traditional end of our portfolio and demonstrated the benefit of the innovative and diversified nature of our portfolio. Finally, we completed the roll-out of our Long Term Sustainable Growth Investment portfolio. We look forward to benefitting from this in future years, whilst seeing a contribution to the UN Sustainable Development Goals by the companies within this portfolio.

We remain committed to the balanced and diversified nature of our portfolio which has proved remarkably resilient these last 8 years.

As demonstrated by the re-shaping of our liquid portfolio and the allocation to equity managers with a long-term sustainable growth mandate, the directors are considering carefully our commitment to Environment, Social and Governance ('ESG'). We continue to develop our strategy, governance, risk management and reporting in this area.

On a related theme, transparency is important for the Nuclear Liabilities Fund Limited, and there are several initiatives to be executed in the coming year to optimise this.

Whilst the asset side of our business performed well in very volatile circumstances, the liabilities side proved stable over the course of the year. There were no significant increases to the liabilities.
However, at the time of writing, two subsequent events have substantially impacted the sufficiency of the fund.

Impacts on sufficiency

The first was a post balance sheet event and is the unexpected early closure of Dungeness. This station had been expected to continue generating electricity until 2028, but on 7 June 2021 EDFE announced that it would close with immediate effect and move into the defuelling phase. EDFE has provided an initial indicative estimate of the impact of this early closure (£0.5bn). A detailed assessment will be undertaken as part of the Decommissioning Plan Submission to be submitted in late 2021.

The second event impacted the asset side of our activity. The Chancellor in his budget on 3 March 2021 raised the corporation tax rate from 19% to 25% with effect from 1 April 2023. Nuclear Liabilities Fund Limited is a UK taxpayer and pays tax on its profits from investing. This change has a substantial, negative impact on our future assets.

Annual Funding Review

As described in last year's Annual Report, an annual funding review mechanism was established to compensate the fund for the low returns on the National Loan Fund deposits and to deal with unexpected events impacting either the liabilities to be paid by the fund or the assets of the Nuclear Liabilities Fund Limited. This review of sufficiency of the fund is conducted by the Nuclear Liabilities Fund Limited and reported to HM Treasury and the Department of Business, Energy and Industrial Strategy ('BEIS') under the new funding agreement referred to above. This is known as the Annual Funding Review and starts in March and finishes in October. If the review concludes that additional contributions from BEIS are required or money is to be transferred from the National Loans Fund to the MAP, this is effected no later than 31 March of the following year.

1 Agreement between the Commissioners of Her Majesty's Treasury, the Secretary of State for Business, Energy and Industrial Strategy and Nuclear Liabilities Fund Limited in respect of certain future funding arrangements for the Nuclear Liabilities Fund Limited dated 23 June 2020.

2 The National Loans Fund, established on 1 April 1968 and administered by HM Treasury accounts for government borrowing and lending.

This review has taken place following the end of the fiscal year 2020–21 and BEIS has (subject to parliamentary approval) agreed to contribute £5.61bn to top-up the fund to cover both the impact on liabilities of the imminent Hinkley Point B and Hunterston closures and the negative impact on future asset returns due to the increase in corporation tax paid by the Nuclear Liabilities Fund Limited. This contribution will increase the funds held as deposits in the NatLF. On the basis that this contribution will go ahead as expected, the directors are satisfied that they can deem the fund sufficient to meet the future decommissioning liabilities due to be met by the Nuclear Liabilities Fund Limited.

Improved arrangements have been agreed to safely and efficiently decommission the seven AGRs in the UK.

New arrangements for decommissioning the AGRs

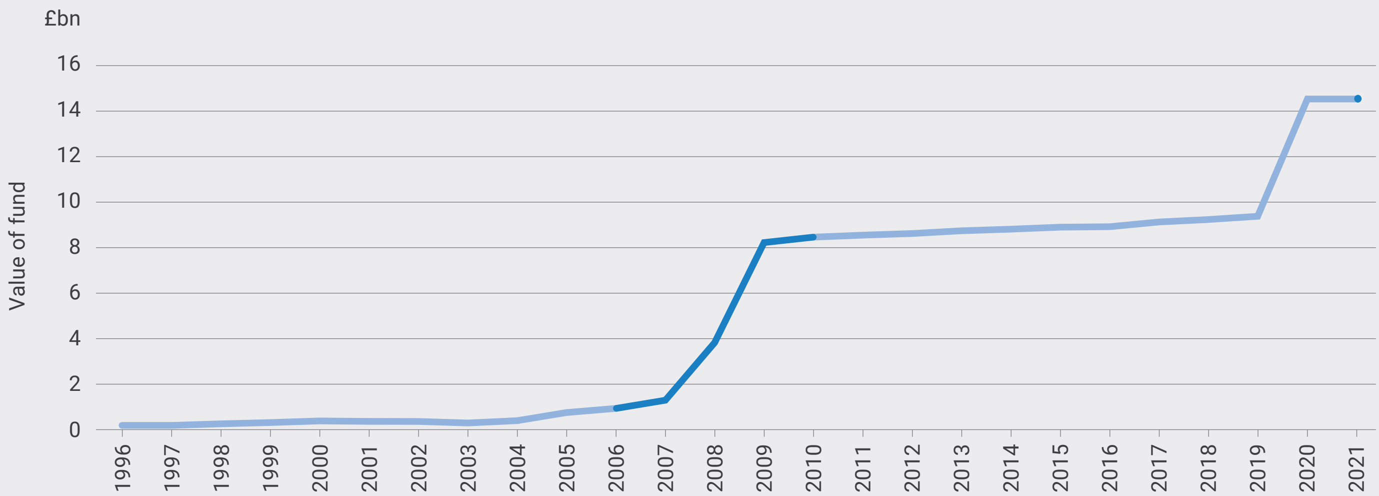
This year has also seen the completion of the amended and re-stated Nuclear Liabilities Funding Agreement (the 'Re-stated NLFA'). This is the agreement that covers the arrangements to deliver the safe, efficient and cost-effective decommissioning of EDFE's fleet of seven AGR stations, including how the costs of decommissioning are paid by the Nuclear Liabilities Fund Limited.

The new arrangements focus on how the AGRs will be defuelled and decommissioned. They do not cover the Sizewell B station, which is a Pressurised Water Reactor rather than an AGR and is due to continue operating until at least 2035.

The negotiations of the Re-stated NLFA have taken approximately two years and have proved very complex; however, the directors are satisfied with the outcome and the co-operation that was shown by all stakeholders during this time. The improved arrangements to safely and efficiently decommission the AGRs were announced on 23 June 2021. The detail of the arrangements is covered in the Strategic Report. Two directors, Mr Robert Armour and Dr Peter Neumann, led the negotiations on behalf of the Nuclear Liabilities Fund Limited. Upon Peter's retirement in November 2020, he was replaced on the board by Dr Martin Grant. Peter continued to provide valuable assistance in a consultative capacity.

I would like to take this opportunity to thank all three of them for the enormous amount of time and effort that they put into the negotiation of the Re-stated NLFA. The work also shows the good relationship that exists between Nuclear Liabilities Fund Limited and its stakeholders. These strong working relationships are essential for the long-term success of the Nuclear Liabilities Fund Limited.

There were significant injections of capital in the years between 2006 and 2010, and in 2020.



Notes:

i. The fund assets have increased over the years.

ii. In 1996 the initial endowment was £223m.

iii. In 2005 the Nuclear Liabilities Fund Limited entered into the Contribution Agreement and the Nuclear Liabilities Funding Agreement. The Contribution Agreement provided for regular contributions to be made by EDFE. In addition an issue of bonds increased fund assets.

iv. Between 2006 and 2009 there were a number of corporate events associated with the restructuring of British Energy. These resulted in a significant increases to fund assets over this period.

v. In June 2020 the Nuclear Liabilities Fund Limited entered into an agreement with HM Treasury and the Secretary of State for Business, Energy and Industrial Strategy with regards to new funding arrangements which included a capital injection of £5.07bn in July 2020.

vi. The investment policy for the Mixed Assets Portfolio has increased the value of the assets, further detail on performance can be seen later in this Report.

Changes to the board

As mentioned, Peter retired from the Nuclear Liabilities Fund Limited in November 2020.

He was replaced on the board and audit committee by Martin. Martin will take Peter's place on the various formal committees that deal with liabilities-related matters under the decommissioning arrangements. I would like to take this opportunity to thank Peter for all his hard work and contributions over these past six years. He has been inspirational in helping the directors work through the complexities of nuclear decommissioning, as well as contributing on a regular and insightful way in the management of our investment portfolio. He has brought to the investment side the rigour and discipline that is the essence of decommissioning a nuclear reactor. This different mindset has been highly complementary to our investment thinking.

Martin brings deep nuclear experience, as well as experience in other energy industries. He has been responsible, for 10 years prior to joining the Nuclear Liabilities Fund Limited, for the Atkins' Energy division which included the company's global engineering activities in the nuclear, oil and gas and renewables industries.

As mentioned in last year's report, Mrs Sally Bridgeland stepped down from the board at the end of her term in April 2020 and was replaced by Mrs Margaret Stephens. I would like to thank Sally for her contribution to the Nuclear Liabilities Fund Limited, especially for her work on the investment risk framework.

Margaret, who was a partner at KPMG for 16 years prior to joining, brings valuable experience in the audit and tax fields. Having had a leading role in KPMG's global infrastructure practice and her more recent experience working with UK Government means Margaret is an excellent addition to the board.

In November 2021 Mrs Catherine Cripps stepped down from the board. I would like to thank Catherine for her time, effort and valuable contributions over the last four years, firstly as chair of the audit committee and secondly as chair of the investment committee. Alongside her valuable input as the chair of both the audit and investment committees, Catherine led the negotiations with British Business Bank and British Patient Capital on behalf of the Nuclear Liabilities Fund Limited which were an important step in the Fund's contribution to the UK Government's principal initiative to support venture capital in the UK. In addition to this Catherine has worked closely with our fiduciary adviser developing optimised reporting and risk analysis in particular in the developing areas of ESG and considering climate risk. Catherine's contributions have been invaluable to the board in a time of change for both the MAP and the wider fund.

Executive team

We continue to review the structure of our organisation and how we work with external advisers in order to prepare for the challenges ahead. Following the end of the fiscal year 2020–21, a finance executive has proved a valuable addition to the team.

Responding to the COVID-19 pandemic

Responding to the COVID-19 pandemic has been an important element of the work of the directors and the executive over the fiscal year 2020–21, and we have worked closely with our advisers, including engaging with underlying investment managers where appropriate to understand risks. I am thankful to the board, our executive team and our external advisers for their responsiveness and commitment during this challenging time.

Board Effectiveness Review

The board completed its annual board effectiveness review. This demonstrated the good workings of the board and underlying committees. Next year the review will be an external one as part of the normal three year cycle.

A new phase

The Nuclear Liabilities Fund Limited is entering a new phase in its life with the first closure of a station, and preparations for defuelling well underway. As of the fiscal year 2021–22 it will be paying out substantial sums to meet the costs of the liabilities each year, in excess of £100m in the fiscal year 2021–22 alone. New payment processes and controls have been established in accordance with the Re-stated NLFA and work is underway to ensure there are appropriate processes and controls in place ahead of these significantly larger payments being made.

As the Nuclear Liabilities Fund Limited begins to fulfill its purpose, the directors feel very confident that the company is well structured to ensure the costs will be funded for the next 100 years. Decommissioning is a long and complex problem. It is also costly. That is why it is so essential to have a fund such as the Nuclear Liabilities Fund Limited to provide the necessary funding for this work to be undertaken over multiple generations.

Richard Wohanka
Chair

Strategic report

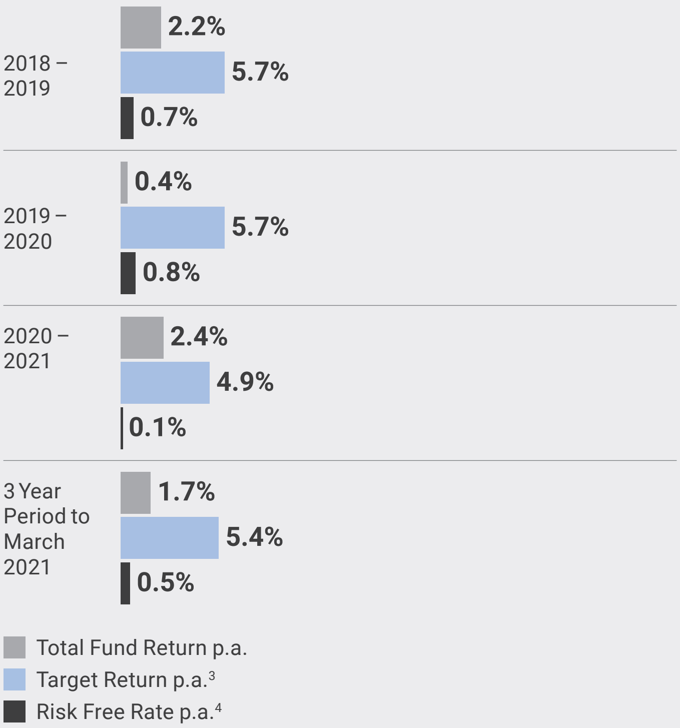
Our key performance indicators

Hunterston Charge Hall.
Photo produced by kind permission of EDFE

The Nuclear Liabilities Fund Limited's investment performance is assessed using key performance indicators ('KPIs') that were agreed for the fiscal year 2020–21 with UKGI acting on behalf of BEIS. The KPIs and investment objectives are established to measure performance against the expected future liability obligations. The aim is to provide a summary of the overall returns of the total fund, and a more detailed view of the returns of the Mixed Assets Portfolio.

The KPIs are discussed in more detail in the Investment Performance section.

KPI 1: Total Fund Return



▲ 1.7 % **Total Portfolio Return**
3-year period to 31 March 2021

The lower returns from the National Loans Fund ('NatLF') remain the primary driver of under-performance at the total fund level. We expect this to continue to be the case until the percentage of the total portfolio invested in the NatLF is substantially reduced.

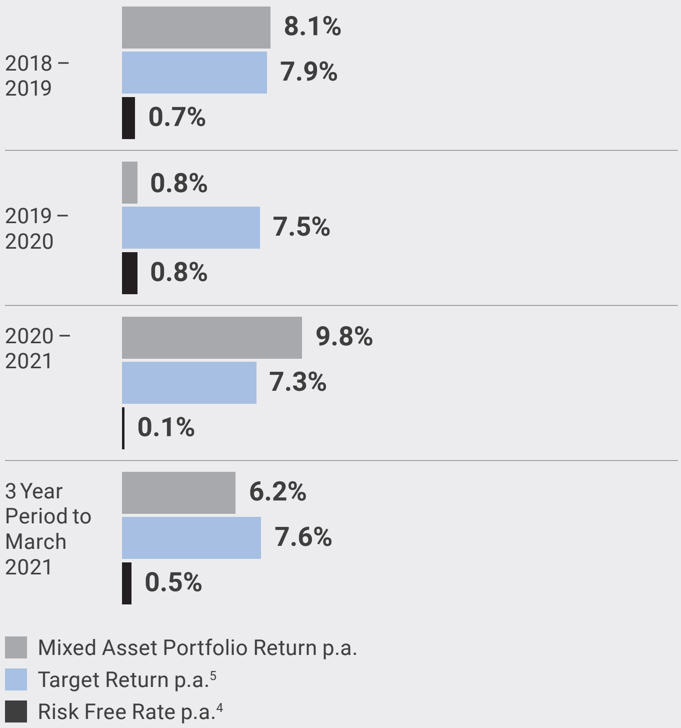
While the weighting of the NatLF remains significant and the returns are low, the higher returns from the MAP performance are subject to a lower weighting. The overall target noted above covers the life of the fund, into the next century.

This KPI illustrates how the whole fund has performed against the Target Return for the 'whole fund'.

The Target Return was calculated as the Required Return on the NatLF and the MAP to meet the liabilities in full assuming the values of the NatLF and the MAP as of each 31 March. Net of fees, net of tax.

All dates run from 1 April to 31 March

KPI 2: Mixed Assets Portfolio Return



▲ 6.2 % **Mixed Assets Portfolio Return**
3-year period to 31 March 2021

The Mixed Asset Portfolio ('MAP') is that portion of the total fund not currently invested in the NatLF.

This KPI illustrates how the MAP part of the fund has performed against the target return for the MAP.

The Target Return for the MAP is the Required Return on the MAP to meet the liabilities in full, calculated assuming returns from the NatLF are in line with future interest rates, as of each 31 March. Net of fees, gross of tax.

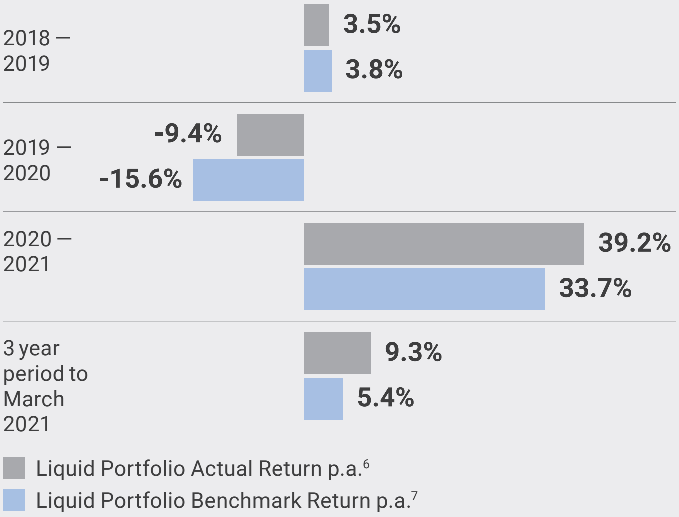
The MAP Return of 9.8% for the year was ahead of the Target return and this was driven by the performance of the liquid portfolio. Further breakdown of Liquid and Illiquid results within the MAP, are shown under KPI 3.

3 This is the required return on the NatLF and the MAP to meet the liabilities assuming the values of the NatLF and the MAP as of each quarter end since inception. Net of fees, net of tax.

4 Source: Bloomberg. Based on UK 3-month Treasury Bill rate.

5 This is the required return on the MAP to meet the liabilities, calculated regarding the assumed returns from the NatLF as of each respective date. Net of fees, gross of tax.

KPI 3: Mixed Assets Portfolio Return Liquid Portfolio Performance

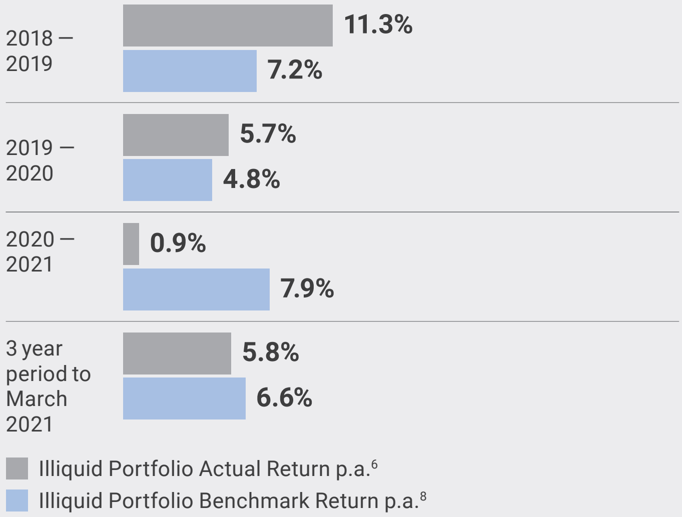


▲9.3% **Liquid Portfolio Return**
3 year period to 31 March 2021

The Liquid Portfolio includes UK equities (both large cap and small cap), global developed equities and emerging markets equities.

This KPI illustrates how managers have performed against a market index for the liquid part of the portfolio.

KPI 3: Mixed Assets Portfolio Return Illiquid Portfolio Performance



▲5.8% **Illiquid Portfolio Return**
3 year period to 31 March 2021

The illiquid portfolio includes allocations to Direct Real Estate, Real Estate Mezzanine Debt, UK Growth Equity, Global Private Equity, Infrastructure Debt and Equity, Renewables, High-yield Credit, and Lifetime Mortgages.

The KPIs for the Liquid and Illiquid Portfolios are a tool to demonstrate the effectiveness of each portfolio against their benchmarks. This is not a measure relative to the liabilities, as is the case for KPI 1 and KPI 2. For KPI 3 the Liquid and Illiquid portfolios the results are produced on a standalone basis and the MAP return takes into account the relative proportions of each portfolio. The performance of and the allocation to each portfolio varied over the three year period.

6 Both Liquid and Illiquid Portfolio performance is net of management fees and gross of tax. Actual Returns of each of the Liquid Portfolio and Illiquid Portfolio have been calculated as the average of the performance of each investment manager's portfolio, weighted to reflect each investment manager's proportion of total assets under management in each respective Portfolio.

7 The Total Liquid Benchmark Return is calculated using the average of the performance of each relevant comparable index, relevant to each investment manager's specific portfolio of investments, weighted to reflect each manager's proportion of total assets under management in the Liquid Portfolio. For reference, relevant benchmark indices for investment managers in the Liquid Portfolio include FTSE All Share, FTSE Custom World Europe ex UK, FTSE Custom Japan, FTSE Custom North America, FTSE Custom Dev Asia Pac ex Japan, Numis Smaller Companies ex Investment Companies (NDR) Index and MSCI Emerging Markets.

8 In previous years the Illiquid Portfolio Benchmark Return has been set as the fiduciary manager's return proxy for the illiquid portfolio as at the start of the financial year. This year this is based on Aon's Capital Market Assumptions as at Q1 2021 and uses the Nuclear Liabilities Fund Limited asset allocation to illiquid assets as at the end of the quarter. The Capital Market Assumptions are "best estimates" of annualized returns – that is, there is a 50/50 chance that actual returns will be above or below the assumptions. The assumptions represent the long term capital market outlook (i.e., 10 years) based on data at the end of the quarter. The Aon Asset Model, calibrated to these Capital Market Assumption, is then used to project simulations of future outcomes for the portfolio (using portfolio weights at the end of the quarter) and the return is taken as the median annualised return over a 10-year period. The Aon Asset Model is a complete, consistent and arbitrage free economic scenario generation model which includes all major markets and asset classes.

Strategic report

Review of the year
Fulfilling our purpose

At the time of writing this report, the first station has ceased generation, and two planned station closures are imminent. With the agreement of the new arrangements to deliver the decommissioning of the AGR stations, the Nuclear Liabilities Fund Limited is entering a new phase. Working closely with our stakeholders, we are moving from planning to execution on the funding of the safe and efficient decommissioning of the AGRs.

Investments

Background

The long term liabilities, the costs of decommissioning, are likely to change over time in line with the costs of labour, materials and evolving technology. The directors estimate the rate of return required to meet the liabilities and design an investment approach which targets this rate of return while managing the risk of significant falls in the value of the assets.

Returns are achieved by investing in a number of different asset types: the attendant risks of investing are reduced by diversifying the investments across different types of asset which are expected to react differently in the range of economic scenarios which may present themselves over the longer term.

As the assets in the MAP are not needed for many years it can benefit from the illiquidity premium which normally exists in capital markets: a higher rate of return on illiquid assets like private assets and infrastructure available to long term investors who do not need to sell assets at short notice. The stability of the investment approach is also key in reducing the impact of the costs of buying and selling investments on its returns.

ESG

Environmental, Social and Governance outcomes are an increasing area of focus for the directors. A new Investment Risk Appetite Statement has been adopted (see page 17), climate change scenario modelling has been undertaken, targeted allocations have been completed in the liquid portfolio and there is ongoing work regarding greater levels of reporting on ESG and specifically climate related disclosures across the fund.

The Mixed Assets Portfolio

The MAP comprises approximately 20% of the total fund and is the actively managed portion of the fund while the other 80% sits in the National Loans Fund. The MAP is made up of liquid and illiquid assets. As at 31 March 2021 the split between liquid and illiquid assets was c.30/70. These assets are managed by a fiduciary manager on behalf of the Nuclear Liabilities Fund Limited.

1 Investment performance over the year

As mentioned in the Chair's statement, the Nuclear Liabilities Fund Limited's assets are divided into two sections:

- cash held in the NatLF and
- investments held in the MAP.

As at 31 March 2021, 80% of the assets of the fund were held in the NatLF and 20% in the MAP. This is a significant change from last year when 68% of assets were held in the NatLF and 32% in the MAP. This seeming reallocation has actually come about because of an increase in the NatLF assets which occurred early in the current financial year as a result of new funding from BEIS, discussed further below.

Cash in the NatLF can be accessed at short notice. It is used to meet the current and shorter-term payments to EDFE in respect of the liabilities and, by dampening the overall volatility of return and providing liquidity, allows the directors greater freedom in investing the MAP.

We assess the fund's investment performance using key performance indicators ('KPIs') which look at the overall returns of the fund as well as focusing in on the investments in the MAP. The KPIs are summarised on pages 9 and 10.

The Total Portfolio Return KPI figure is calculated as an average over the whole lifetime of the fund. Given we have 80% of the total fund held in cash deposits in the NatLF generating low returns the Total Portfolio Return KPI has continued to undershoot the Target Return. As discussed in previous years, we began to address this underperformance with the transfer of £600 million in 2018–19 and a further £250 million in 2019–20 from the NatLF to the MAP and agreed a schedule of transfers over the following years. However, this schedule was not pursued as a new funding mechanism was agreed with BEIS and HM Treasury in June 2020. This new mechanism involved a transfer in of c£5.07 billion by BEIS into the fund's NatLF deposits.

Deposits in the NatLF are reviewed on a monthly basis, balancing immediate cash flow needs and views on interest rates with the aim of maximising the interest which can be earned. Returns on the NatLF have been zero over recent months and the contribution to the total portfolio over the entire year has been minimal. This low interest rate environment looks set to continue for the near future.

We are pleased with how the MAP has performed over the current year, generating 9.8%, on the back of a low but positive return of 0.8% last year. It has significantly outperformed its target return of 7.3% for the year but on a 3 year rolling basis the actual return still lags the target return. The MAP combines both liquid and illiquid investments in a well diversified portfolio.

The liquid portfolio has been materially reshaped this year. It started the year approximately 50% invested in passive global developed equity funds with 20% allocated to actively managed emerging markets equity and the balance in actively managed UK small and mid-cap equities. During the year we reallocated roughly half of the passive global developed equities allocation plus all the active UK equities allocation to a portfolio of six carefully selected active global equity managers with a long term sustainable growth focus absolute return mandate. We are looking to these managers to deliver global equity like returns whilst making a contribution to the United Nations Sustainable Development Goals.

The liquid portfolio outperformed its benchmark both last year (-9.4% vs -15.6%), when markets ended March 2020 significantly down from their previous highs as the COVID-19 pandemic struck and fears of global economic recession were at a peak, as well as this year (+39.2 vs +33.7%) when markets rebounded both in anticipation of a rapid economic recovery as well as in response to unprecedented fiscal stimulus from central banks across the globe driving a huge demand for higher returning equities. In addition, over the 3 year cycle it has outperformed the benchmark. Given the reshaping of the liquid portfolio to have a large allocation to more absolute return focused mandates we expect the volatility of its returns going forward to be rather less than those of the market.

The illiquid portfolio has underperformed its benchmark this year (+0.9% vs +7.9%) as a result of the delayed impact on valuations from the market stress at the end of the last financial year. In line with the directors' aims for the MAP, each part has also been well-diversified across types of asset which are expected to react differently in the range of economic scenarios which may present themselves. Indeed, the performance of the two parts of the portfolio relative to their benchmarks masks considerable variations of performance across the underlying asset types and managers.

Statement of investment principles

The Statement of Investment Principles (the 'SIP') sets out the governance structure for setting the investment objectives for the Nuclear Liabilities Fund Limited. It provides detail on the responsibilities of the directors and the investment objectives and principles which they have set for the MAP. Towards the end of the financial year we circulated the SIP to all of the managers we were invested with and asked them to review this, confirm areas of alignment (or non-alignment) and share their comments. On the whole, there was alignment with the SIP. A number of managers focused on ESG, providing greater detail in this area. A full copy of the SIP is available on the Nuclear Liabilities Fund Limited website.

Target Returns

The target return for the total fund for the fiscal year 2020–21 was 4.9%. For the fiscal year 2021–22 we need to achieve a return of 4.5%. The target return for the MAP for the fiscal year 2020–21 was 7.3%. For the fiscal year 2021–22 it remains at 7.3%. The target returns for the fiscal year 2021–22 are lower than previous years due to the increase in funds held in the National Loans Fund.

The valuation of the illiquid portfolio was less severely impacted in March 2020 partly because the severe market stress occurred late in the quarter and the impact took longer to ascertain in terms of impact on valuations and partly because our illiquid portfolio is not heavily exposed to demand risk and so has broadly been resilient.

The liquid Portfolio three-year return of 9.3% p.a. was above its three-year benchmark return of 5.4% p.a.[9]

9 It should be noted, both the Liquid and Illiquid Portfolios three-year returns are compared to market benchmarks, whereas the MAP and total portfolio three year returns are compared to a target return based on the required return to meet the expected liabilities in full (gross of tax, net of fees).

10 Revalorisation is adjustment for inflation.

Dungeness B Nuclear Power Station

2 Liabilities

In last year's annual report, it was stated that EDFE's update of their Baseline Decommissioning Plan (the 'BDP') and Uncontracted Liabilities Discharge Plan (the 'UCLDP') due in 2019–20 had been deferred due to ongoing negotiations on the revision of the NLFA. This has been further deferred until December 2021. The calculation of the liabilities has therefore been aligned with the reporting methodology used in support of the new Annual Funding Review mechanism (as referred to in the Chair's Statement) which reflects the Annual Liabilities Report delivered by EDFE under the NLFA as at December 2019 and adjusted for forecast spend and inflation and updated to reflect revised defuelling arrangements.

On that basis, during the fiscal year 2020–21 the undiscounted liabilities increased by £0.6bn, from £22.9bn to £23.5bn.

The main factors affecting this change were:

- revalorisation (+£0.7bn)[10]
- discharge of liabilities (-£0.1bn).

In future years, following the coming into force of the Re-stated NLFA with revised reporting schedules, the liabilities referenced in our Annual Report will be based on data provided by EDFE during the reporting year.

In accordance with the requirements of the NLFA, EDFE made a contribution to the fund and its administration of £13m in the fiscal year 2020–21.

The Nuclear Liabilities Fund Limited made payments to EDFE during the year for work carried out in respect of AGR defuelling and decommissioning preparation (£35m), and management of EDFE's uncontracted liabilities (£33m). These amounts were confirmed to the directors as qualifying payments under the NLFA by the Non-NDA Liabilities Assurance team (the 'NLA') prior to payment.

The directors are pleased to report that, after a lengthy negotiation, the Re-stated NLFA was executed by EDFE, BEIS and the Nuclear Liabilities Fund Limited on 23 June 2021. Key aspects of the agreement are:

- Clarification of certain aspects of the original NLFA, including what costs are recoverable by EDFE, and the processes for claiming, validating and paying for qualifying costs to provide greater certainty to all parties
- Incentivisation arrangements which provide EDFE with the opportunity to achieve incentive payments of up to £100m if agreed station and fleet defuelling performance targets are met but balanced by "contra" payments of up to £100m for failure to meet minimum performance targets

- The exercise by BEIS of the option to transfer each of the AGRs to the Nuclear Decommissioning Authority[11] ('NDA') shortly after completion of defuelling at each of the stations, providing clarity that EDFE will be responsible for the AGRs until defuelling and transfer and NDA will assume responsibility for decommissioning thereafter
- Establishment of a cooperation agreement between EDFE and NDA to facilitate exchange of experience and learning from Magnox[12] station defuelling; to promote joint working to realise synergies between the AGR and Magnox fleets; and to promote joint working between EDFE and NDA to optimise defuelling and deliver a seamless transfer of ownership in due course.

During the past year the Nuclear Liabilities Fund Limited has continued to play a role in monitoring EDFE's liabilities through participation in both the Nuclear Liabilities Committee ('NLC') and the Defuelling Steering Panel ('DSP'). These bodies were set up following the 2015 UK Government AGR and PWR Nuclear Liabilities Review and aim to encourage more efficient management of EDFE's defuelling and decommissioning liabilities.

The NLC met once during a year necessarily dominated by negotiations. With those negotiations now successfully completed, the NLC is likely to be replaced by annual meetings with EDFE to review the plans for Sizewell B, the UCLDP and the Decommissioning Plan Submission for station defuelling and decommissioning, and senior stakeholder meetings with EDFE, NDA, BEIS and certain trustees to overview progress and joint working under the cooperation agreement.

During the fiscal year 2020–21 undiscounted liabilities increased by £0.6 billion.

The DSP, which provides governance and oversight over the AGR defuelling development programme, met twice during the year. In addition, EDFE and Sellafield Ltd have continued to provide the Nuclear Liabilities Fund Limited with detailed briefing sessions to allow the board to maintain an appropriate level of understanding of the AGR Operating Programme ('AGROP'). The AGROP is a collaborative programme between EDFE, Sellafield Ltd and Direct Rail Services Ltd which aims to:

- Enable the minimum AGR defuelling timescales
- Ensure best overall value for the UK taxpayer
- Take account of ongoing operational and generation requirements

With the unplanned closure of Dungeness B in June 2021 and planning for the closure of Hunterston B and Hinkley Point B within the coming year, the role of the AGROP assumes increasing importance, especially as it is now moving more towards implementation rather than preparation. The precise arrangements for the various committees under the new decommissioning arrangements are still under discussion.

Due to COVID-19 restrictions the board's planned visit to Dungeness B in September 2020 was deferred. Members of the board had valuable visits to Dungeness A and B in September and October 2021.

A look forward on liabilities

With the Re-stated NLFA having been formally signed on 23 June 2021, the directors will be focussed on working closely with EDFE, NDA and BEIS to ensure that the new arrangements are successfully brought into operation. Throughout the negotiation of the Re-stated NLFA, collaboration between EDFE, BEIS, NLA and the fund was recognised to be a key driver of success in delivering the defuelling and decommissioning programme for the AGRs.

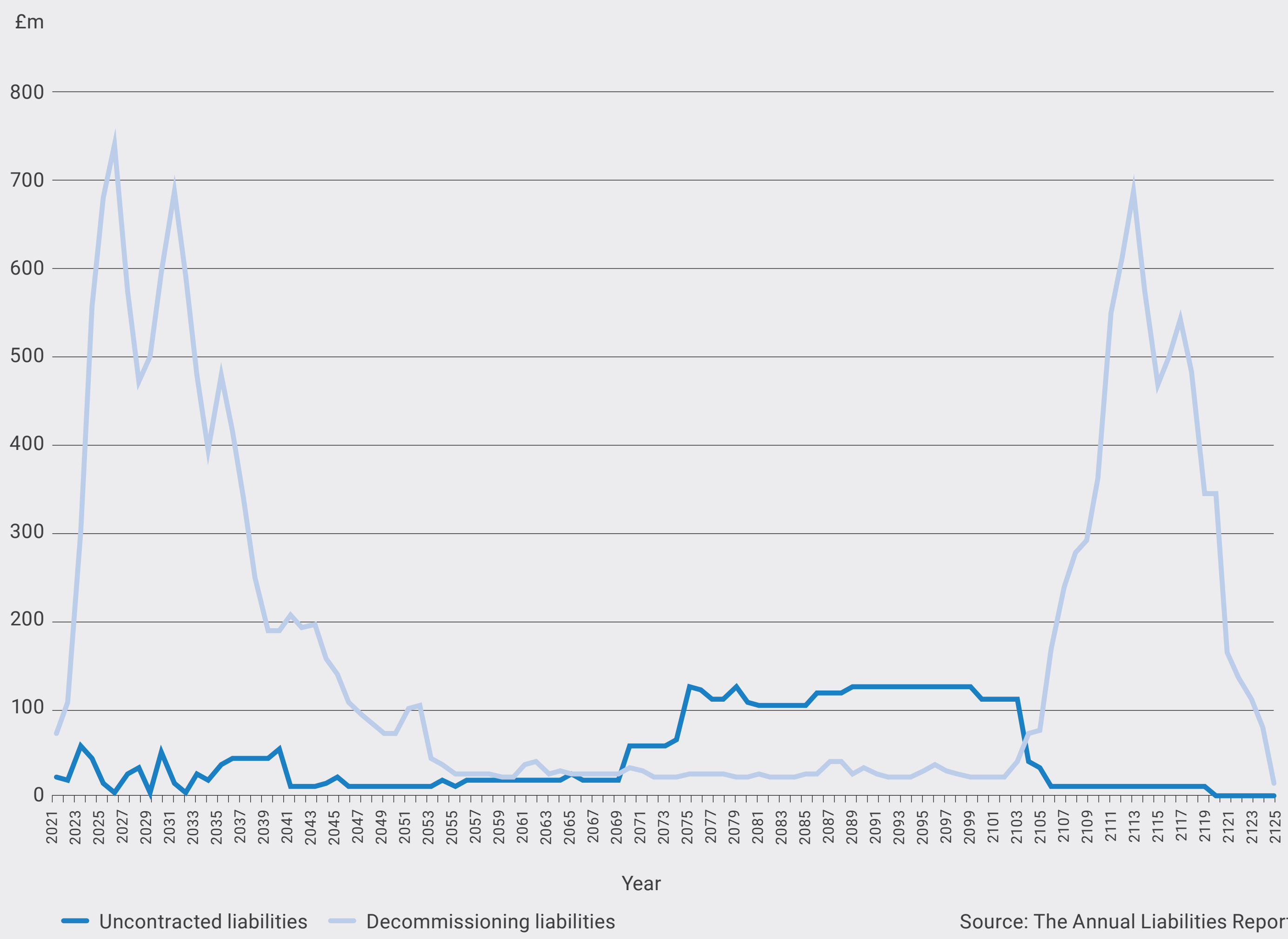
The directors are committed to working with our stakeholders in a fully collaborative manner.

It is recognised that the coming year is a vital one, with the programme entering a new phase as stations cease generation. It was announced by EDFE on 7 June 2021 that Dungeness B had ceased generation and would move immediately into the defuelling phase. Furthermore, EDFE are planning for Hunterston B and Hinkley Point B to cease generation during 2022 and commence defuelling. The costs to be funded by the Nuclear Liabilities Fund Limited will inevitably arise earlier as a result of these stations moving to a defuelling phase. The directors will work closely with NLA and EDFE to ensure that the payment arrangements are executed in line with the revised arrangements as set out in the Re-stated NLFA.

As we enter this new phase, the directors will continue to work with EDFE and constructively challenge the approaches to decommissioning the AGRs through formal routes and by engaging with relevant stakeholders. The other main areas of focus for the Nuclear Liabilities Fund Limited over the next five-year period will be:

- engaging with BEIS to maintain an adequate level of awareness of potential policy changes which might affect the decommissioning liabilities associated with the current EDFE fleet of nuclear stations
- continuing engagement with NDA on decommissioning and in particular developing relationships with NDA and Magnox in light of the planned transfer of ownership of the AGRs to them
- working with all parties to ensure that the potential synergies afforded by the new arrangements are effectively and efficiently brought to fruition.

Projected annual expenditure to discharge the liabilities



Source: The Annual Liabilities Report delivered by EDFE under the NLFA as at December 2019, adjusted for forecast spend and inflation and to reflect revised defuelling arrangements.

Year (2021–2130)	Total (£m)
Uncontracted liabilities	4,922
Decommissioning liabilities	18,584
Total undiscounted liabilities	23,506

Over the course of the fiscal year 2020–21 the defuelling and decommissioning liabilities estimated by EDFE did not materially increase over those reported in last year's Annual Report. However, we expect a revised Decommissioning Plan Submission from EDFE later in 2021 setting out revised arrangements for, and cost impacts of, the defuelling and decommissioning of the AGR fleet taking account of the recently announced move of Dungeness B into the defuelling phase.

This development, following the end of the fiscal year 2020–21, will increase liabilities but by how much is currently uncertain.

11 The Nuclear Decommissioning Authority was established through the Energy Act 2004 and reports to BEIS. https://www.gov.uk/government/organisations/nuclear-decommissioning-authority.

12 Magnox Limited is a wholly-owned subsidiary of the NDA and is responsible for the safe and secure clean-up of twelve nuclear sites around the UK on behalf of the NDA.

Strategic report

Principal risks and uncertainties

The Nuclear Liabilities Fund Limited faces technical, investment, governance and operational risks.

During the previous financial year work was undertaken to split the risk register into three areas:

- liability risk register
- investment risk register
- operational and governance risk register.

The new arrangements have bedded in and a bi-annual risk review process has been established. Responsibility for the risk registers is delegated to committees and certain directors; however the consideration of risk is a matter for the board.

Technical risks

The Nuclear Liabilities Fund Limited maintains its own technical decommissioning risk register, which contains those risks which the board considers might impact EDFE's costs of decommissioning over the next 100 years. These risks are identified by maintaining a dialogue with EDFE, BEIS, NLA and NDA. Reports on the most significant risks are presented to the board bi-annually, and where necessary, further work is commissioned to understand better the potential impact of particular risks on fund sufficiency.

The first planned station shutdown for decommissioning is now less than a year away and the first unplanned station shut down was announced after the 2020–21 year end, on 7 June 2021. As the stations come nearer to end of life there is a higher risk of early closure due to technical challenges arising late in life. The planning process and updates to the decommissioning plans including the estimates of the liabilities are becoming more detailed, and under the new arrangements there is ongoing co-operation between EDFE and the NDA to seek efficiencies and to facilitate the handover of the stations to the NDA at the end of the defuelling stage.

Entry to the decommissioning phase will bring a major change in activity levels and Nuclear Liabilities Fund Limited cash flows. There is a risk of the liabilities increasing as EDFE's work programme for decommissioning evolves from provisioning estimates into executable plans. Decisions taken by external bodies such as the Office for Nuclear Regulation and the UK Government regarding the timescales or requirements for decommissioning may also affect the liabilities. Contact is maintained regularly with the various organisations which can impact on the size of the liabilities.

Investment risks

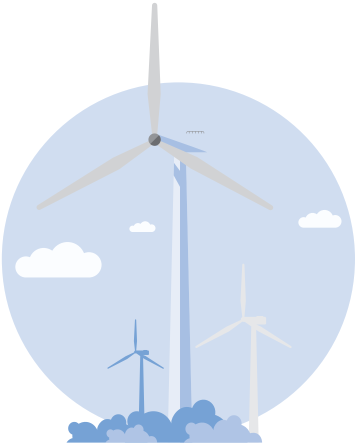
The most important challenge for the directors has been the need to invest the fund so that it will produce sufficient returns to fulfil its purpose.

The fund is a long-term investor and the directors aim to balance the desire to maximise the returns from the MAP with a professional investment approach which manages risks.

The approach is set out in Note 13 'Financial Risk Management' to the financial statements.

The Investment Risk Appetite Statements support this approach. They provide guidelines for the fiduciary manager to establish how the asset allocation of the Nuclear Liabilities Fund Limited will develop in the future.

The Investment Risk Appetite Statements were reviewed during the year and are set out on the following page. Statement 2 was amended to reflect the board's desire to deliver positive ESG outcomes. In addition scenario modelling was undertaken in early 2021 to better understand climate change risks that might impact the portfolio. This modelling exercise will be completed on an annual basis going forward. The board and investment committee



work together, with advice from our fiduciary manager, to set and implement the Nuclear Liabilities Fund Limited's investment strategy within this Risk Appetite Framework.

Governance and Operational Risks

Governance and operational risks are split into a separate risk register enabling an increased focus. The directors strive to uphold a high standard of internal governance and carefully monitor governance risks which may arise from external influence or intervention.

Operational risk management centres around the Nuclear Liabilities Fund Limited's organisational structure and how we work on day-to-day business matters. As a number of key operations are outsourced, management of service provider relationships is an important aspect of operational risk management. There is ongoing work to monitor service providers' operational policies and approach to ESG. The key operational risks are managed through oversight provided by the audit and investment committees.

The audit committee is responsible for the management of the Nuclear Liabilities Fund Limited's governance and operational risk registers.

Investment Risk Appetite Statements

The board has a:

1. High appetite to take a level of investment risk that maximises the probability of the fund's sufficiency but within the bounds of prudence.
2. High appetite for investments selected to deliver positive Environmental, Social and Governance outcomes, as well as to have a high degree of awareness of the United Nation's Sustainable Development Goals.
3. Low appetite for the failure of the Mixed Assets Portfolio to meet its return target in the next 3 years.
4. Low appetite for concentration of risk positions in the Mixed Assets Portfolio, while making meaningful allocation to each type of asset.
5. High appetite for illiquidity in the Mixed Assets portfolio whilst there is a material allocation of assets to the liquid National Loans Fund.
6. Low appetite for embarrassment and reputational risk, reflecting the desired standards of a public body.
7. Medium appetite to focus fund investments in the UK, supporting the UK Government.
8. High appetite for transparency and understanding, and a low appetite for operational complexity (including taxation treatment).

The most important challenge to the directors has been the need to invest the fund so that it will produce sufficient returns to fulfil its purpose.

Directors' report

For the year ended 31 March 2021

The directors present their Annual Report together with the financial statements and auditor's report for the year ended 31 March 2021.

Results

In the fiscal year 2020–21 Nuclear Liabilities Fund Limited's assets held to meet the qualifying liabilities increased by £5,397,364,179 to £14,771,621,447 (in the fiscal year 2019–20 the decrease was (£28,741,439) to £9,374,257,268).

At this early stage in the Nuclear Liabilities Fund Limited's life, the directors cannot be sufficiently assured of sufficiency to consider paying dividends for some time. No dividends have been paid or proposed for this year or the prior year.

Presentation of financial statements

The directors are bound by the Companies Act 2006 and International Financial Reporting Standards in the presentation of the financial statements. However, the purpose of the Nuclear Liabilities Fund Limited is to receive and hold monies, investments and other assets, so as to secure funding for discharging qualifying liabilities relating to existing stations ('the Stations') of EDFE at 29 March 1996 and to make payments for such approved costs in accordance with provisions of the NLFA and, following the end of the fiscal year 2020–21, the Re-stated NLFA. Accordingly, in the directors' opinion, a more meaningful method of presenting the financial statements would be to use a fund account approach as follows:

	2021 £	2020 £
Assets less liabilities held to meet qualifying liabilities – value at start of the year	9,374,257,268	9,402,998,707
Contributions from EDFE	13,025,610	22,478,275
Amounts payable to EDFE	(65,150,439)	(58,099,388)
Funding from BEIS	5,070,000,000	-
Operating profit on ordinary activities before tax	428,768,473	16,924,964
Tax on profit on ordinary activities	(49,279,465)	(10,045,290)
Assets less liabilities held to meet qualifying liabilities – value at end of the year	14,771,621,447	9,374,257,268

Principal activity and review of business

The principal activities of the Nuclear Liabilities Fund Limited are to provide arrangements for funding the costs of decommissioning the stations and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. The Chair's statement and the Strategic Review provide further detail on the fund's activities during the course of the fiscal year 2020–21, both from the investment and the liabilities perspectives. An indication of likely future developments with regards to liabilities is provided on page 14. Furthermore, the key technical and investment risks facing the fund and the Risk Appetite Statements are covered in the Principal Risks and Uncertainties section on page 16.

The directors consider the result for the fiscal year 2020–21 to be consistent with the objectives set out in the Articles of Association of the Fund as amended by Special Resolutions approved on 14 January 2005 and further amended by Special Resolutions approved on 23 June 2021.

Directors

The following directors served during the year:

Mr R Wohanka

Mr R Armour

Mrs S Bridgeland (retired April 2020)

Mrs C Cripps (retired November 2021)

Dr M Grant (appointed December 2020)

Dr P Neumann (retired November 2020)

Mrs M Stephens (appointed April 2020)

In their capacity as trustees of the Nuclear Trust (a public trust established under Scots Law by a deed dated 27 March 1996 between EDFE and the Secretary of State for BEIS, as amended by a deed dated 12 January 2005, and as further amended by a deed dated 23 June 2021), the trustees jointly have a legal interest in 98 Ordinary Shares of £1 each in the Nuclear Liabilities Fund Limited.

Appointments

In April 2020, Mrs Sally Bridgeland stepped down from the board at the end of her term and Mrs Margaret Stephens was appointed as director in April 2020. Dr Peter Neumann stepped down from the board at the end of his term in November 2020 and Dr Martin Grant was appointed as director in December 2020. Mrs Catherine Cripps stepped down from the board in November 2021. The process to appoint Catherine's successor is underway.

Company Secretary

Mrs Melissa Hope served as company secretary during the year.

Audit information

Each of the persons who is a director at the date of approval of this annual report confirms that:

— so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware

— the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Grant Thornton UK LLP has been reappointed as the company's auditor for the financial year ending 31 March 2021.

Donations

The Nuclear Liabilities Fund Limited has not made any political or charitable donations or incurred any political expenditure during the financial year.

Energy and Carbon Reporting

There is no energy and carbon usage reporting in this report. The Nuclear Liabilities Fund Limited is categorised as a 'low energy user' under the Streamlined Energy and Carbon Reporting Guidance (March 2019) as consumption was less than 40MWh during the fiscal year 2020–21, therefore there is no requirement to report.

Directors' report

Governance

The directors are committed to high standards of corporate governance to ensure that the Nuclear Liabilities Fund Limited is appropriately set up and prepared for future challenges.

The UK Corporate Governance Code 2018

The Nuclear Liabilities Fund Limited is expected to comply with the UK Corporate Governance Code 2018 (the 'Code'), or to specify and explain any non-compliance in this Report. The directors believe that the adoption of the Code, so far as it is relevant to the Nuclear Liabilities Fund Limited, is a means of embedding best practice in corporate governance. The directors consider that for the fiscal year 2020–21 Nuclear Liabilities Fund Limited was compliant with the Code so far as it is relevant to a non traded public sector company.

Section 172 Statement

S172 Directors' Duties

The directors have regard to the interests of the Nuclear Liabilities Fund Limited's stakeholders and the impact of decisions on the environment, on the British public, on taxpayers, on the Government and on the confidence in the nuclear industry. The directors, acting fairly and in good faith, consider what is most likely to promote the success of the company in the long term.

— Read about stakeholder engagement on page 7.
— Read about how we manage risks on pages 16 and 17.
— Read about our governance on pages 20 and 21.

Corporate governance

In addition to the Code (see box), the directors refer to the Wates Principles where applicable to a non-listed entity, the Corporate Governance Code for Central Government Departments and the Code of Conduct for board Members of Public Bodies where these are relevant for a public trust such as the Nuclear Trust and its subsidiary the Nuclear Liabilities Fund Limited.

Appointment and removal of Directors

The three A directors of the Nuclear Liabilities Fund Limited are the three trustees of the Nuclear Trust appointed by BEIS. The two B directors are the two trustees of the Nuclear Trust appointed by EDFE. Under the Articles of Association BEIS may remove any of the A directors and EDFE may remove any of the B directors.

The board has three committees: Audit, Investment, and Remuneration and Nomination. These committees ensure appropriate oversight in each area and report to the board. The board and the committees receive appropriate information in order for the board to form judgements, this includes:

— updates on financial performance
— updates on the Nuclear Liabilities Fund Limited's financial position, including expenditure to date and forecasts against budget
— from time to time, briefings on relevant topics (investment or liabilities related)

The board takes note of the targets and objectives which were for the fiscal year 2020–21 given to it by UKGI, acting on behalf of BEIS. This was in the annual letter issued to the chair setting out objectives and priorities. These objectives cover the areas of: asset investment and management; stewardship of the board; strategic liability challenge; and stakeholder engagement. Key performance indicators are set to help monitor and assess performance. Investment key performance indicators are reported on pages 9 and 10.

The board also takes note of the need to present a fair, balanced and understandable assessment of the Nuclear Liabilities Fund Limited's position and prospects. It takes note of the guidance from the Sharman Report that going concern considerations should be considered taking an appropriately prudent view of future prospects.

The board has put in place arrangements to manage any conflicts of interest. As part of this each director has disclosed, at the outset of their term as director and again prior to each board meeting, any direct or indirect conflicts of interest. The directors' key outside interests are noted in their biographies on pages 25, 26 and 27.

Each of the directors has been granted an indemnity in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors to the extent permitted by law and the company's Articles of Association.

Board effectiveness review

In Spring 2021 an internally facilitated review of board effectiveness was carried out. All members of the board, key advisers and stakeholders were asked to respond to a series of questions. The review found that the board gets the balance right between focusing on investment and liabilities and has good communication and engagement with its key stakeholders. The board continues to benefit from a diverse membership both in terms of gender and experience. The directors collectively have a wide range of skillsets and expertise in financial services, the investment sector, accountancy, legal, governance, nuclear engineering and pensions management. During the course of the fiscal year 2020–21 they were supplemented by the board's investment adviser, Nigel Webber and the board's technical adviser, Paul Crow. Following the financial year end a further adviser, Ian Moffat, has provided additional support with regards to financial controls as we have worked to implement the new payment processes under the Re-stated NLFA.

The 2021 review noted the continued commitment of the directors to the Nuclear Liabilities Fund Limited, in particular noting efforts on the negotiations of the Re-stated NLFA. Although the executive resource has increased since the financial year end, with the addition of a finance executive, further consideration will be given to the resource and internal structure of the fund. Given the higher level of payments and incumbent responsibilities of managing public funds, ensuring optimal structures (both in terms of internal resource and use of advisers) and facilitating excellence in independent oversight will be a priority.

In the area of reporting, whilst it was acknowledged that improvements have been made, further steps will be taken to ensure consistent reporting for all relevant areas.

The transition to the new decommissioning arrangements is a key area, and the associated stakeholder activity is crucial to the success of the new arrangements, and more widely to the long term success of the Nuclear Liabilities Fund Limited.

Board Effectiveness Review 2021

The review highlighted the following key areas:

i. Stakeholder management in the changing environment continues to be an important focus
ii. Enhancing board reporting to reflect areas of increased activity
iii. Further executive resource for the fund is to be considered.

The Investment Committee

Until the retirement of Sally Bridgeland in April 2020, the investment committee comprised three directors: Sally Bridgeland, Catherine Cripps and Richard Wohanka. Upon Sally's retiral from the board and the investment committee in April 2020 Margaret Stephens joined the investment committee. Catherine was chair. During the fiscal year 2020–21, due to the changes to the investment committee and the importance of ongoing discussions on sufficiency and investment policy, Robert Armour and Peter Neumann joined the investment committee, meaning that the committee comprised the entire board. Robert stepped down from the investment committee at the end of 2020, at the time of Peter's retirement from the board and following the agreement of the funding arrangements with UK Government.

The committee is supported by an independent investment adviser who provides an additional layer of challenge and scrutiny, both to the investment activities of the Nuclear Liabilities Fund Limited and its incumbent advisers. As the primary purpose of the fund is to receive and hold monies, investments and other assets, all material investment matters, including changes to investment strategy and asset classes, approval of the SIP and appointment of advisers, are reserved to the board for determination.

The purpose of the investment committee is to conduct the detailed monitoring of the MAP, deal with the re-investments in the NatLF, meet the fiduciary manager on a regular basis, and perform the initial analysis and information gathering required to provide recommendations to the board on key investment decisions. The investment committee meets at least six times during the year and holds ad hoc meetings in response to emerging events, both internal and external, affecting fund returns and prospects.

The Audit Committee

At the start of the fiscal year 2020–21 the audit committee comprised Robert Armour, Catherine Cripps and Peter Neumann. Catherine stepped down from the committee upon the appointment of Margaret Stephens to the board and the audit committee in April 2020. Robert was chair on an interim basis until Margaret became chair in July 2020.

The board considers that the members of the audit committee have sufficient recent and relevant experience in order for it to perform its functions effectively, noting in particular that Catherine and Margaret are qualified chartered accountants and have relevant financial expertise and experience in other organisations of service on audit committees. The committee met four times during the year and also held additional separate meetings on accounting and audit matters. The Nuclear Liabilities Fund Limited outsources accounting and book-keeping to BDO LLP ('BDO'). BDO are overseen by the audit committee and representatives of BDO attend the audit committee meetings. From time to time the external auditor also attends meetings to report on the quality of accounting procedures and their findings in connection with the statutory audit.

The audit committee is responsible for monitoring the integrity of the Nuclear Liabilities Fund Limited's financial reporting and management accounts, and for reviewing and making recommendations to the board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by Grant Thornton UK LLP, the external auditor. The most material matters which the committee considered in connection with the Nuclear Liabilities Fund Limited's financial statements include portfolio valuation and materiality. Consequently, the audit committee has undertaken steps to satisfy itself, and the board, as to the robustness of the audit procedures around the verification of the portfolio valuations used in the Nuclear Liabilities Fund Limited's financial statements. It relies on the investment committee overseeing the process whereby the fund managers are selected and monitored. The fiduciary manager performs operational due diligence on these fund managers which includes a review of the valuation policy they have in place.

Throughout the year the audit committee considers payment processes, controls, policies and monitors service provider performance.

The Remuneration and Nomination Committee

The remuneration and nomination committee comprises the whole board, reflecting the need for unanimity of outcomes and the comparative infrequency of meetings. The committee met twice during the financial year. The committee's role is to make recommendations to the board and the Special Shareholders on the composition of the board, the skills mix required for potential candidates, plan for succession and to monitor remuneration arrangements for both directors and Nuclear Liabilities Fund Limited employees. Looking forward, as the transition to the new decommissioning arrangements is completed and EDFE commences the defuelling of the first stations to cease operations, the demands on the directors and current executive will increase and the committee is considering the appropriate executive resource to cover the Nuclear Liabilities Fund Limited's activities.

The board

The directors meet regularly to review the overall affairs of the Nuclear Liabilities Fund Limited and to consider business specifically reserved for the board's decision. Seven board meetings were held during the course of the year (in addition to matters discussed by conference call) together with many other meetings between various board members, advisers, officials from UKGI, BEIS, NDA, EDFE and others. The directors meet regularly with their advisers and keep in frequent contact with industry bodies, technical specialists and regulators as appropriate. In order to form judgements, the directors receive extensive data ahead of each board meeting. This includes (but is not limited to):

- portfolio performance data provided by the fund's fiduciary manager;
- the investment risk dashboard;
- risk registers (bi-annually); and
- quarterly management accounts.

The attendance of directors at formal meetings of the board, the investment committee, audit committee, and remuneration and nomination committee in the year is set out in the table opposite.

Mr Robert Armour, Mrs Sally Bridgeland, Mrs Catherine Cripps, Dr Martin Grant, Dr Peter Neumann and Mrs Margaret Stephens were engaged as directors during the fiscal year 2020–21 and each received £28,500 per annum pro-rata on a monthly basis and Mr Richard Wohanka was employed as chair during the fiscal year and received £31,200 per annum. Two directors were awarded an additional £15,000 in recognition of extra work undertaken in relation to the negotiations for the Re-stated NLFA.

	Board Meetings – 7	Investment Committee Meetings – 7	Audit Committee Meetings – 4	Remuneration & Nomination Committee Meetings – 2
Mr R Wohanka	7	7		2
Mr R Armour	7	3 (6)	4	2
Mrs C Cripps	7	7		2
Mrs M Stephens	7	6 (6)	4	2
Dr M Grant	3 (3)		1 (1)	1 (1)
Dr P Neumann	4 (4)	2 (5)	3 (3)	1 (1)

Notes:

Where there is a 2nd number in brackets, this denotes the maximum number of meetings the individual could have attended during their term on a committee or the board. Where there is no 2nd number in brackets, that individual attended all meetings held in the fiscal year. Mr R Wohanka and Mrs C Cripps each attended an Audit Committee meeting, although were not members.

Mr R Armour and Dr P Neumann joined the Investment Committee from January to November 2020. Non-investment committee members of the board attend a number of but not all investment committee meetings. For example Mr R Armour and Dr M Grant attended Investment Committee meetings in December 2020 and February 2021 but these are not shown on the table above.

Mrs S Bridgeland retired on 21 April 2021, so did not attend any board or committee meetings in the fiscal year 2020–21.

Internal financial controls

The directors have overall responsibility for the internal financial control systems of the Nuclear Liabilities Fund Limited. These systems aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which decisions are made, and that the assets of the fund are safeguarded.

They are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The board oversees the operation of these financial controls mainly through the monitoring of the investment strategy and regular reviews of the financial results and investment performance. The board has contractually delegated to external agencies, including the fiduciary manager who oversees the investment managers and the management of the investment portfolio. Custodial services (which include the safeguarding of the assets), and the day to day expense management and accounting and certain company secretarial requirements are also outsourced.

The fiduciary manager oversees the investment and operational performance of the investment managers, through pre-investment and ongoing due diligence. It is expected that the investment managers have established internal control frameworks to provide reasonable assurance on the effectiveness of their internal financial controls. The effectiveness of the internal financial controls is assessed by the investment managers' compliance and internal audit departments on an ongoing basis.

The investment committee receives updates from the fiduciary manager regarding the quality and effectiveness of the accounting records and management information maintained on behalf of the Nuclear Liabilities Fund Limited and any issues are escalated to the board. The board reviews the quarterly and annual accounts. The audit committee reviews the nature, scope and findings of the external audit, with material issues being highlighted to the board.

The directors continually review the key commercial and financial risks that might affect the Nuclear Liabilities Fund Limited. Further details on financial risk management are stated in note 13 to the financial statements.

Going concern

The principal purpose of the Nuclear Liabilities Fund Limited is to provide arrangements for funding certain long term costs of decommissioning the nuclear power stations of EDFE existing at 20 March 1996 and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. Based on the liability cashflows used in the Annual Funding Review, the expected outflows to cover the decommissioning liabilities over the next three years amount to c.£1.1bn. The Nuclear Liabilities Fund Limited is well placed to meet these costs over the next three years as it has considerable cash resources available to it. In accordance with the NLFA (and the Re-stated NLFA), UK Government will be responsible for meeting these costs and liabilities to the extent that the fund does not have sufficient assets available to it. The directors are satisfied that it is appropriate to prepare the annual report and accounts on a going concern basis.

This report was approved by the board and signed on its behalf.

Richard Wohanka
Chair

Citypoint
65 Haymarket Terrace
Edinburgh EH12 5HD

15 November 2021

Directors

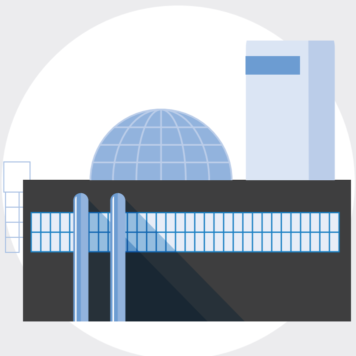
Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

— properly select and apply accounting policies
— present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
— provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
— make an assessment of the company's ability to continue as a going concern.



The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of our knowledge:

— the financial statements, prepared in accordance with IFRS as adopted by the United Kingdom, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
— the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the board and signed on its behalf by:

Richard Wohanka
Chair

15 November 2021

The directors of the Nuclear Liabilities Fund Limited for the fiscal year ending 31 March 2021 were the five trustees of 'The Nuclear Trust'.

Richard Wohanka, CBE

Director

Chairman

Chair of the Remuneration and Nomination Committee

Member of Investment Committee

Richard Wohanka was appointed by HM Government, in January 2012 and assumed chairmanship of the fund in November 2016.

Richard is currently chairman of the board of trustees of the Pension Super Fund and is a member of the Board of Trustees of the James Neill pension plan. He also sits on boards, as a non-executive director of ICG and the Ransom Group of Companies.

Richard was awarded a CBE for services to the nuclear industry in 2020.

With more than twenty years' experience in asset management, Richard has an impressive track record of successfully growing the businesses he ran.

A specialist in international finance, he was CEO of Asset Management and Alternative Investments at Union Bancaire Privée, CEO of Fortis Investment Management from 2001 to 2009 and CEO of WestLB Asset Management from 1998 to 2001. Before this, he worked for thirteen years with Banque Paribas, three of which he spent as CEO of Asset Management.

Richard is multilingual and is an economic history graduate of both Harvard and Cambridge.

Robert Armour, OBE

Director

Member of Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Nuclear Liabilities Committee

Robert Armour was appointed as a director and trustee in June 2013, having been nominated by EDF Energy.

Robert holds a number of non-executive appointments including Brockwell Energy Group, Eneus Energy, Opportuneo and International Futures Foundation. He is a senior counsel at Gowlings UK LLP, an international legal practice.

Previously, Robert was deputy chairman of Nugen, Chair of the Scottish Council for Development and Industry and Smarter Grid Solutions, General Counsel at British Energy Group and its predecessor companies (1990–2009) and was formerly a member of the board of the Oil and Gas Authority. He was awarded an OBE for services to the electricity industry in 2007.

Catherine Cripps

Director (retired in November 2021)

Chair of Investment Committee

Member of the Remuneration and Nomination Committee

Catherine Cripps was appointed as a director and trustee by HM Government in November 2017.

Catherine has had a lengthy career in financial services, qualifying as a Chartered Accountant (ICAEW) in 1989.

Currently, Catherine is a non-executive director of Goldman Sachs International and Goldman Sachs International Bank and sits on the board Risk Committee for both. She was a non-executive director of CQS Management Ltd., a c$18bn credit-focused multi-strategy asset manager, where she was chair of the Remuneration Committee and sat on the Audit Committee. She was also a non-executive director of Merian Global Investors Ltd. and Merian Global Investors Holdings Ltd. which was sold to Jupiter Fund Management plc in July 2020.

Catherine was an Investment Director at GAM from 2006 to 2011 where she was Head of Research for the Multi-Manager team and Head of the Segregated Accounts Business. Prior to GAM, Catherine was CEO of a multi-strategy fund of hedge fund manager, Aida Capital Limited, which she joined shortly after its inception in 2001.

Previously, she held various positions in equity derivatives trading, risk management and product control at different investment banks, including Credit Suisse and Bankers Trust. Between 1995 and 1998 Catherine was based in Asia, both Hong Kong and Singapore.

Catherine holds an MA in Physics from Oxford University and recently completed postgraduate research at Imperial College, London, specialising in Quantum Information.

Margaret Stephens

Director (appointed in April 2020)

Chair of the Audit Committee

Member of the Investment Committee

Member of the Remuneration and Nomination Committee

Margaret Stephens was appointed as a director and trustee by HM Government in April 2020.

Margaret had a 28 year career with KPMG LLP. She was a partner specialising in taxation and infrastructure investment for 16 years. She had a leading role in building the firm's $1bn pa. global infrastructure practice. She was responsible for leading UK and international tax due diligence and tax structuring services on major M&A transactions and public private partnerships. She founded KPMG's global Sovereign Wealth, Pension and Infrastructure Funds group and facilitated its discussions with OECD and country tax authorities. She has also held senior UK management roles, and was responsible for HR and partner development, performance and engagement.

Currently, Margaret is a non-executive director and is Chair of the Audit Committee of VH Global Sustainable Energy Opportunities Fund plc. She is also a non-executive director and is Chair of the Remuneration and Nomination Committee of AVI Japan Opportunity Trust plc. She is a member of the Advisory Committee of the Infrastructure Forum.

Margaret was a non-executive board member and Chair of the Audit and Risk Committee of the Department for Exiting the European Union from 2017 until its closure in 2020. She was also a Trustee and Chair of the Audit Committee of The London School of Architecture until 2020.

She is a member of the Institute of Chartered Accountants of Scotland, qualified in 1988. She has an MA (Hons) in History from Edinburgh University.

Dr Martin Grant, FREng

Director (appointed in December 2020)

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Nuclear Liabilities Committee and the Defuelling Steering Panel

Martin Grant was appointed as a director and trustee in December 2020, having been nominated by EDF Energy.

Martin has 35 years' experience in the energy sector having spent his career largely with Atkins plc, the engineering consultant, until retiring in 2020. Martin was CEO of Atkins' Energy Division for 10 years and as such was responsible for the company's global engineering activities in the nuclear, oil and gas and renewables industries. He has a particular interest in the operation and decommissioning of late life facilities in the energy sector.

Currently he is a non-executive director with Future Biogas, a company that operates anaerobic digestion plant and is Chair of Indigo&, an early stage company developing a social values procurement platform. He was a Trustee of the Royal Academy of Engineering between 2018 and 2021.

Martin has a first degree in engineering from Edinburgh University and a PhD in fluid mechanics from The City University, London. He is a Fellow of the Royal Academy of Engineering and also the Institution of Mechanical Engineers.

Melissa Hope

Executive Secretary

Melissa Hope was appointed as Company Secretary and executive for the fund by the directors in November 2017.

Melissa is a qualified lawyer, starting out in private practice. Prior to joining the Nuclear Liabilities Fund she held a variety of roles, both legal and commercial, at SSE plc. Melissa spent 4 years in SSE's venture capital team. This included working on the formation of and SSE's ongoing involvement in two clean energy funds managed by Scottish Equity Partners. Melissa has wide energy industry experience, in particular working on high value, complex commercial transactions and managing diverse stakeholder interests.

Independent auditor's report

Independent auditor's report to the members of Nuclear Liabilities Fund Limited

Opinion

We have audited the financial statements of Nuclear Liabilities Fund Limited (the 'company') for the year ended 31 March 2021, which comprise Statement of comprehensive income, Statement of financial position, Statements of changes in equity, Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the company and industry in which it operates. We determined that the following laws and regulations were most significant
  - The Companies Act 2006
  - International Financial Reporting Standards

- We understood how the company is complying with those legal and regulatory frameworks by making inquiries to members and those responsible for legal and compliance procedures as to whether they had knowledge of any actual, suspected or alleged fraud.
- We corroborated our inquiries through our review of Board minutes, policies and procedures relating to;
  - detecting and responding to the risks of fraud; and
  - internal controls established to mitigate risks related to fraud.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - identifying and testing journal entries: in particular manual journal entries made at year end including significant estimates for financial statement preparation;
  - review of financial statement disclosures and testing supporting documentation to assess compliance with applicable laws and regulations;
  - obtaining third party confirmations where relevant
  - assessing revenue recognition policy and their consistent application;
  - Discussions were held among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. The engagement team includes staff who have an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation, and this experience was relevant to the discussion about where fraud risks may arise.

We did not identify any matters relating to non-compliance with laws and regulation or relating to fraud.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Paul Flatley
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP Statutory Auditor, Chartered Accountants

London

15 November 2021

Financial statements

Statement of comprehensive income for the year ended 31 March 2021

	Notes	2021 £	2020 £
Investment income	2	32,872,763	77,905,589
Realised and unrealised gains/(losses) on financial assets at fair value through profit and loss	8	413,247,298	(45,378,201)
Realised and unrealised losses on investment properties	7	(3,728,967)	(5,223,508)
Net foreign exchange losses		(3,198,659)	(697,066)
Investment expenses	3	(8,869,475)	(8,614,520)
Administrative expenses		(1,554,487)	(1,067,330)
Operating profit on ordinary activities before qualifying liabilities provision and taxation	4	428,768,473	16,924,964
Transfer to qualifying liabilities provision	14	(379,489,008)	(6,879,674)
Profit on ordinary activities before tax		49,279,465	10,045,290
Tax on profit on ordinary activities	6	(49,279,465)	(10,045,290)
Financial result and total comprehensive income for the year		-	-

The accompanying notes and accounting policies on pages 36 to 58 form an integral part of these financial statements.

Financial statements

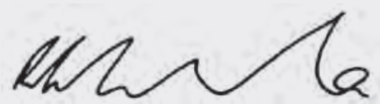
Statement of financial position at 31 March 2021

	Notes	2021 £	2020 £
ASSETS			
Non-current assets			
Investment properties	7	107,250,000	104,325,000
Financial assets at fair value through profit and loss	8	2,749,460,163	2,743,933,740
		2,856,710,163	2,848,258,740
CURRENT ASSETS			
Other receivables	9	85,519,803	34,091,632
Cash and cash equivalents	10	11,878,911,297	6,529,065,152
		11,964,431,100	6,563,156,784
LIABILITIES			
Current liabilities			
Trade and other payables	11	(27,324,373)	(34,681,598)
		(27,324,373)	(34,681,598)
TOTAL ASSETS LESS CURRENT LIABILITIES	12	14,793,816,890	9,376,733,926
NON-CURRENT LIABILITIES			
Qualifying liabilities provision	14	(14,771,621,447)	(9,374,257,268)
Deferred tax provision	14	(22,195,343)	(2,476,558)
		(14,793,816,790)	(9,376,733,826)
NET ASSETS		100	100
Equity attributable to owners of the fund			
Ordinary shares	15	100	100
Total equity (including £2 non-equity interest)		100	100

The accompanying notes and accounting policies on pages 36 to 58 form an integral part of these financial statements.

The financial statements for the company with registered number SC164685 were approved and authorised for issue by the Board on 15 November 2021

Signed on behalf of the Board of Directors.



Richard Wohanka
Chair

Financial statements

Statement of changes in equity for the year ended 31 March 2021

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2020	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2021	100	100
BALANCE AT 1 APRIL 2019	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2020	100	100

The accompanying notes and accounting policies on pages 36 to 58 form an integral part of these financial statements.

Financial statements

Statement of cash flows for the year ended 31 March 2021

	2021 £	2020 £
Cash flows from operating activities		
Operating profit on ordinary activities before qualifying liabilities provision and taxation	428,768,473	16,924,964
Adjustments for:		
Realised and unrealised (gains)/losses on financial assets at fair value through profit and loss	(413,247,298)	45,378,201
Realised and unrealised losses on investment properties	3,728,967	5,223,508
Increase in other receivables	(55,343,833)	(6,692,865)
(Decrease)/increase in trade and other payables	(4,742,514)	5,209,206
Cash (used)/generated from operations	(40,836,205)	66,043,014
Income taxes paid	(25,645,018)	(40,928,246)
Net cash (used)/generated from operating activities	(66,481,223)	25,114,768
Cash flows from investing activities		
Payments to acquire investment properties	(6,653,967)	(5,308,508)
Proceeds from the sale of investment properties	-	2,540,000
Payments to acquire financial assets held at fair value through profit and loss	(901,508,107)	(639,087,499)
Proceeds from the sale of financial assets held at fair value through profit and loss	1,309,228,982	390,217,595
Net cash generated/(used) in investing activities	401,066,908	(251,638,412)
Cash flows from financing activities		
Funding from BEIS	5,070,000,000	-
Contributions from EDFE	13,025,610	22,478,275
Payments to EDFE in respect of qualifying liabilities	(67,765,150)	(36,667,273)
Net cash received/(used) for financing activities	5,015,260,460	(14,188,998)
Net increase/(decrease) in cash and cash equivalents	5,349,846,145	(240,712,642)
Cash and cash equivalents at start of the year	6,529,065,152	6,769,777,794
Cash and cash equivalents at end of the year (note 10)	11,878,911,297	6,529,065,152

The accompanying notes and accounting policies on pages 36 to 58 form an integral part of these financial statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2021

General information

Nuclear Liabilities Fund Limited is a private company, limited by shares, incorporated in Scotland under the Companies Act 2006. The address of the registered office is Citypoint, 65 Haymarket Terrace, Edinburgh, EH12 5HD.

1 Accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom.

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

The preparation of financial statements in conformity with IFRS requires directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The directors consider the value of investment properties and financial assets at fair value through profit and loss to be subject to significant assumptions and estimates. Actual results may differ from estimates. Relevant disclosures for these are provided in notes 1(g), 7 and 8 to these financial statements.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

— Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

— Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

— Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Fund is an investment entity and, as such, does not consolidate its subsidiaries. Instead, interests in subsidiaries are classified as fair value through profit or loss, and measured at fair value. Investments in associates are also classified as fair value through profit or loss, and measured at fair value.

Assessment as investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are as follows:

— an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;

— an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and

— an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund invests in equities, fixed income securities, infrastructure asset-backed funds and property investments for the purpose of returns in the form of investment income and capital appreciation.

The Fund reports on a fair value basis. All investments are reported at fair value to the extent allowed by IFRS in the Fund's annual reports. The Fund has a clearly documented exit strategy for all of its investments.

The Board has concluded that the Fund meets the additional characteristics of an investment entity, in that it has more than one investment and the investments are predominantly in the form of properties, equities and similar securities. This conclusion will be reassessed on an annual basis, if any of these criteria or characteristics change.

(a) Going concern

The principal purpose of the Fund is to provide arrangements for funding certain long-term costs of decommissioning the nuclear power stations of EDFE existing at 20 March 1996 and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. Based on the latest cash flow forecasts produced by EDFE and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £1.1bn. The Fund is well placed to meet these liabilities over the next three years as it has considerable cash resources available to it. In accordance with the NLFA, HM Government will be responsible for meeting these costs and liabilities to the extent that the Fund does not have sufficient assets available to it. The Fund has assets of £14.8bn, the majority of which are cash and cash equivalents and it has minimal current liabilities. Accordingly, the directors are satisfied that it is appropriate to prepare the annual report and accounts on a going concern basis.

(b) Qualifying liabilities

In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the qualifying liabilities of EDFE. The funding of these qualifying liabilities is limited to the assets of the Fund for the time being, after providing for all other liabilities and charges, and making such reserve out of those assets for any contingent liabilities as the directors shall reasonably determine.

The Contribution Agreement, as amended on 5 January 2009, provides for the making of contributions to the Fund from EDFE by way of the following: a contribution of £150k adjusted to RPI for every tonne of uranium loaded into Sizewell B reactor power station and a quarterly contribution in the sum of £3m (2020: £3m), stated in March 2003 monetary values and indexed to RPI subject to certain conditions. The Fund also receives an annual contribution from EDFE for administration costs. This contribution is £1m adjusted to RPI and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA EDFE Team are deducted. Accordingly, these contributions from EDFE represent an increase in the qualifying liabilities provisions as set out in note 14, not an accretion to shareholders' funds.

(c) Investment income

Dividends are recognised as income on the date that the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Fund's right to receive payment is established. Where the Fund has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income.

For financial assets not categorised at fair value through profit and loss, interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition, except for short-term receivables when the recognition of interest would be immaterial.
The Fund's rental income is derived from operating leases and this income is credited to the statement of comprehensive income on a straight-line basis over the lease term. Benefits allowed and allowable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term.

(d) Investment expenses

Investment expenses relating to properties, listed investments and fiduciary services are accounted for on an accruals basis. Investment expenses relating to un-listed pooled investments are not separately identifiable as these are charged directly to the investment funds and are therefore included within realised and unrealised gains and losses on financial assets at fair value through profit and loss.

(e) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Differences arising on translation are dealt with in the statement of comprehensive income. Income and expenditure arising in foreign currencies have been converted to sterling at the rates ruling at the dates of the transactions.

Financial statements

Notes to the financial statements for the year ended 31 March 2021

(f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from operating profit on ordinary activities before qualifying liabilities provision and taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

(g) Non-current assets

Investment properties

Investment properties comprise non-owner occupied buildings held to earn rental income and capital appreciation. Investment properties are included in the statement of financial position at fair value at the close of business in London and are not depreciated. Changes in fair values are recognised in the statement of comprehensive income in the year in which the change arises. Investment properties are held to be leased out under operating leases.

Financial instruments

Financial assets and financial liabilities are recognised in the Fund's statement of financial position when the Fund becomes a party to the contractual provisions of the instrument.

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories, financial assets 'at fair value through profit or loss' (FVTPL) and 'amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the Fund is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL comprise listed and unlisted asset-backed investments managed by external fund managers on behalf of the Fund. The unlisted asset-backed investments include investments in subsidiaries and investment in associates.

- Investment in subsidiaries: In accordance with the exemption under IFRS 10 Consolidated Financial Statements, the Fund does not consolidate subsidiaries in the financial statements. Investments in subsidiaries are accounted for as financial assets at fair value through profit or loss.
- Investments in associates and joint ventures: In accordance with the exemption within IAS 28 Investments in Associates and Joint Ventures, the Fund does not account for its investment in associates and joint ventures using the equity method. Instead, investments in associates and joint ventures are accounted for as financial assets at fair value through profit or loss.

Valuation techniques
Financial assets at FVTPL for listed investments are valued at bid market value (fair value) at the close of business in London. Movements in fair values are taken directly to the statement of comprehensive income. Financial assets at FVTPL for unlisted asset-backed investments, for which there is no currently active market, are calculated using a valuation model which is accepted in the industry. The model uses discounted cash flow analysis which incorporates both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest. Unobservable inputs include assumptions regarding expected future default rates and market liquidity discounts. Movements in fair values are taken directly to the statement of comprehensive income.

Amortised cost
Trade receivables and other receivables have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks, short-term cash investments held in financial institutions with high credit ratings and the National Loans Fund.

(i) Financial liabilities

Financial liabilities are classified according to the substance of the contractual agreements entered into and are recorded on the date on which the Fund becomes party to the contractual requirements of the financial liability.

The Fund's financial liabilities measured at amortised cost include trade and other payables and other short-term monetary liabilities which are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

A financial liability (in whole or in part) is derecognised when the Fund has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the Statement of Comprehensive Income.

(j) Defined contribution pension costs

The Fund pays fixed contributions into a separately held defined contribution pension plan. Once the contributions have been paid, the Fund has no further payment obligations. The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Fund in independently administered funds.

(k) New accounting standards

There were no changes to accounting standards that had a significant impact on these financial statements.

The Fund does not consider that any relevant standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2021

2 Investment income

	2021 £	2020 £
Interest on cash, short-term cash and loan investments	18,432,825	57,408,911
Income from listed investments	8,248,347	14,406,383
Rent receivable	6,191,591	6,090,295
	32,872,763	77,905,589

3 Investment expenses

	2021 £	2020 £
Investment management charges	7,578,431	8,255,889
Other investment expenses	1,291,044	358,631
	8,869,475	8,614,520

Other investment expenses of £1,291,044 for the year ended 31 March 2021 included £824,893 in respect of bad and doubtful debts relating to amounts receivable from tenants.

4 Operating profit on ordinary activities before qualifying liabilities provision and taxation

The operating profit on ordinary activities before qualifying liabilities provision and taxation is stated after charging the following:

	2021 £	2020 £
Staff salaries and directors' emoluments	332,750	276,976
Auditor's remuneration – audit fees	61,500	52,000
Defined contribution pension cost	13,103	19,046

5 Staff costs

Staff costs, comprising of directors' emoluments, were as follows:

	2021 £	2020 £
Wages and salaries	332,750	276,976
Social security costs	35,467	30,118
Defined contribution pension cost	13,103	19,046
	381,320	326,140

Wages and salaries comprise staff salaries of £157,550 (2020 £131,776) and directors' emoluments of £175,200 (2020: £145,200). The average number of persons acting as directors during the year was five (2019: five). There were two employees during the fiscal year 2020-21 (2019-20: two). Directors' emoluments of £175,200 (2020: £145,200) comprised £145,200 (2020: £145,200) in respect of normal annual board duties and £30,000 (2020: £Nil) for ex-gratia payments awarded to two directors in recognition for extra work on the NLFA negotiations.

6 Tax on profit on ordinary activities

a. Analysis of charge in year

	2021 £	2020 £
Current tax		
UK corporation tax at 19% (2020: 19%)	27,929,649	19,048,770
Adjustments in respect of prior periods	1,631,031	(1,470,264)
Total current tax	29,560,680	17,578,506
Origination and reversal of temporary differences	19,718,785	(7,533,216)
Total deferred tax movement	19,718,785	(7,533,216)
Tax on profit on ordinary activities	49,279,465	10,045,290

b. Factors affecting tax charge for year

The tax assessed for the year is lower (2020: higher) than the standard rate of corporation tax in the UK – 19% (2020: 19%). The differences are explained below:

	2021 £	2020 £
Operating profit on ordinary activities before qualifying liabilities provision and taxation	428,768,473	16,924,964
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	81,466,010	3,215,743
Effects of:		
Income not taxable for tax purposes	(22,054,005)	(7,898,914)
Difference between accounting and taxable gains on unrealised gains and losses	228,191	2,400,199
Deferred tax not recognised	(12,620,905)	13,798,526
Adjustments to tax charge in respect of previous periods	1,631,031	(1,470,264)
Expenses not deductible for tax purposes	629,143	-
Total tax charge for year	49,279,465	10,045,290

The effective tax rate in 2021 is 11.5% (2020: 59.4%). Although there is an expectation of the effective tax rate being lower than the standard rate of corporation tax due to the UK tax exemption on dividend income, other factors can result in this effective tax rate being volatile. The differing results in the effective tax rate between 2020 and 2021 are an example of this. Due to the impacts of COVID-19 around the accounting year end in 2020, the 2020 charge was higher than the standard rate of corporation tax due to not recognising a deferred tax asset for realised and unrealised investment losses. As the investment values have recovered in 2021, this has subsequently been recognised and resulted in a lower effective tax rate.

There is no allowable deduction for the provision for qualifying liabilities. The Fund is not, in the view of HM Revenue & Customs, carrying on any form of trading activity and hence the provision for the payment of decommissioning costs is not allowable for taxation purposes. The Fund is a company with investment business as defined in Section 1218 CTA 2009.

Financial statements

Notes to the financial statements for the year ended 31 March 2021

6 Tax on profit on ordinary activities (continued)

c. Factors that may affect future tax charges

The UK corporation tax rate remained unchanged at 19% throughout the year ended 31 March 2021.

The Chancellor's Budget on 3 March 2021 announced a UK corporation tax rate increase from 19% to 25%, effective from 1 April 2023. As this rate change was not substantively enacted as at 31 March 2021, deferred tax assets and liabilities in these financial statements continue to be measured at 19%, the enacted rate at which they are expected to reverse.

7 Investment properties

Fair value model

The fair values of the investment properties as at 31 March 2021 were determined by CBRE Limited (2020: CBRE Limited). CBRE Limited is a firm of chartered surveyors and independent valuers with recognised professional qualifications. Their valuation conforms to the valuation standards of Royal Institution of Chartered Surveyors.

Amounts recognised in statement of comprehensive income:

	2021 £	**2020 £**
Rental income	6,191,591	6,090,295
Direct operating expenses on properties that generated rental income	671,621	663,873
Direct operating expenses on properties that did not generate rental income	138,332	80,098

Reconciliation of carrying amounts:

	Freehold Under Construction	**Freehold £**	**Total 2021 £**	**Total 2020 £**
Valuation				
At start of the year	4,550,000	99,775,000	104,325,000	106,780,000
Additions	6,637,911	16,056	6,653,967	5,308,508
Disposal proceeds	-	-	-	(2,540,000)
Realised and unrealised gains/(losses)*	912,089	(4,641,056)	(3,728,967)	(5,223,508)
At end of the year	12,100,000	95,150,000	107,250,000	104,325,000

* The realised and unrealised gains/(losses) are included in the statement of comprehensive income on page 32 and comprise: net realised losses of £Nil (2020: realised losses £1,945,730) and net unrealised losses of £3,728,967 (2020: unrealised losses £3,277,778).

On the historical cost basis, freehold investment properties would have been included as follows:

	Freehold Under Construction	Freehold £	Total 2021 £	Total 2020 £
Cost				
At start of the year	4,920,330	90,842,574	95,762,904	94,940,126
Additions	6,637,910	16,057	6,653,967	5,308,508
Disposals	-	-	-	(4,485,730)
At end of the year	11,558,240	90,858,631	102,416,871	95,762,904

8 Financial assets at fair value through profit and loss

	2021 £	2020 £
Valuation		
At start of the year	2,743,933,740	2,540,442,037
Additions	901,508,107	639,087,499
Disposals proceeds	(1,309,228,982)	(390,217,595)
Realised and unrealised gains/(losses)**	413,247,298	(45,378,201)
At end of the year	2,749,460,163	2,743,933,740

** The realised and unrealised gains/losses are included in the statement of comprehensive income on page 32 and include: net realised gains of £176,335,380 (2020: £6,090,267) and net unrealised gains of £236,911,918 (2020: unrealised losses £51,468,468).

On the historical cost basis, financial assets at fair value through profit and loss would have been included as follows:

	2021 £	2020 £
Cost		
At start of the year	2,606,696,852	2,351,736,682
Additions	901,508,107	639,087,499
Disposals	(1,132,893,602)	(384,127,329)
At end of the year	2,375,311,357	2,606,696,852

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Notes to the financial statements for the year ended 31 March 2021

8 Financial assets at fair value through profit and loss (continued)

Financial assets at fair value through profit and loss comprise the following:

Investments listed on recognised stock exchanges

	2021 £	2020 £
Level 1 fair value measurements (note 13)		
UK pooled funds	234,877,399	381,808,590
UK equities	34,151,163	192,737,772
Overseas equities:		
North America	246,417,304	23,327,665
Europe	124,339,492	24,023,079
Japan	13,971,158	1,063,993
Pacific	36,431,690	23,099,428
Africa	16,172,308	5,373,863
Asia	147,590,842	79,773,043
	853,951,356	731,207,433
Unlisted investments		
Level 3 fair value measurements (note 13)		
Loan to British Business Bank Plc	135,000,000	525,000,000
Investments in subsidiaries (see below)	958,358,493	848,349,593
Investments in associates and joint ventures – ownership interest of greater than 20% (see below)	274,530,636	244,289,789
Investments in associates and joint ventures – ownership interest of less than 20%	527,619,678	395,086,925
	1,895,508,807	2,012,726,307
	2,749,460,163	2,743,933,740

The Fund meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but rather, it recognises them as investments at fair value through profit or loss.

Associates and joint ventures have been recognised at fair value through profit or loss as permitted by IAS 28 "Investments in Associates and Joint Ventures".

Investments in subsidiaries

	2021 £	2020 £
Adams Street UK Mid-Market Solutions LP	281,236,940	237,477,337
Equitix MA 1 LP	456,593,940	428,325,480
London Wall Capital Investments LLP Hodge 2016-1	-	84,734,557
HarbourVest 2017 Global AIF LP	78,966,126	49,105,201
ICG Strategic Equity Side Car II LP	141,561,487	48,707,018
	958,358,493	848,349,593

Summary of unconsolidated subsidiaries

		Ownership Interest	
	Registered in	2021	2020
Adams Street UK Mid-Market Solutions LP	Scotland	99.99%	99.99%
Equitix MA 1 LP	England and Wales	99.00%	99.00%
London Wall Capital Investments LLP Hodge 2016-1	England and Wales	-	100.00%
HarbourVest 2017 Global AIF LP	Scotland	52.50%	52.50%
ICG Strategic Equity Side Car II LP	Cayman Islands	99.80%	99.80%

Adams Street UK Mid-Market Solutions LP invests in high growth equity investments in UK mid market private companies via primaries, secondaries and co-investments. The Fund's total commitment is £240,000,000 of which £202,905,357 (2020: £202,665,357) was drawn as at the year-end.

Equitix MA 1 LP invests principally in the equity and shareholder loans in PPP projects and social infrastructure projects including, but not limited to: hospitals and health projects, schools and education projects, waste projects, university accommodation, utility related infrastructure and highways' projects. The Fund's total commitment is £400,000,000 of which £387,482,915 (2020: £316,776,559) was drawn as at the year-end.

London Wall Capital Investments LLP Hodge 2016-1 invests in the UK residential mortgage sector. The Fund sold its entire investment during the year for £74,443,924.00. As at 31 March 2020, the Fund's total commitment was £100,000,000 of which £78,500,000 was drawn.

HarbourVest 2017 Global AIF LP invests in all types of high quality private equity funds including venture capital and leveraged buyout funds across geographies with an emphasis on North America and Europe. The Fund's total commitment is US $125,000,000 of which US $71,473,995 (£51,807,767) (2020: US $64,375,000 – £44,873,721) was drawn as at the year-end.

ICG Strategic Equity Side Car II LP, invests in long-term private equity funds through a portfolio of direct or indirect investments in various sectors such as healthcare, retail, consumer products, energy, information technology and financial services. The Fund's total commitment is US $260,000,000 of which US $130,374,694 (£102,113,001) (2020: US $53,682,893 – £43,897,827) was drawn as at the year-end.

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Notes to the financial statements for the year ended 31 March 2021

8 Financial assets at fair value through profit and loss (continued)

Investments in associates and joint ventures – ownership interest of greater than 20%

	2021 £	2020 £
Macquarie Private Debt Funds ICAV	126,456,980	109,231,573
Alcentra UK Direct Lending No 1 LP	34,796,932	86,198,394
HarbourVest 2018 Global Feeder AIF LP	101,996,200	48,859,822
AEW UK Urban Real Estate Fund LP	11,280,524	-
	274,530,636	244,289,789

Summary of associates and joint ventures – ownership interest of greater than 20%

		Ownership Interest	
	Registered in	2021	2020
Macquarie Private Debt Funds ICAV	Ireland	34.22%	35.05%
Alcentra UK Direct Lending No 1 LP	England and Wales	50.00%	50.00%
HarbourVest 2018 Global Feeder AIF LP	Scotland	45.35%	45.35%
AEW UK Urban Real Estate Fund LP	England and Wales	38.69%	-

Macquarie Private Debt Funds ICAV, an Irish Collective Asset-management Vehicle with variable capital and limited liability, invests in the infrastructure sector across a range of OECD countries. The Fund's total commitment is EUR 215,000,000 of which EUR 144,020,340 (£126,804,840) (2020: EUR 120,670,002 – £105,791,705) was drawn as at the year-end.

Alcentra UK Direct Lending No 1 LP invests in secured loans comprising 1st lien senior, unitranche, mezzanine and mezzanine-related and equity investments in high-quality, middle-market, sponsored and unsponsored leveraged transactions in the UK. The Fund's total commitment is £150,000,000 of which £54,103,267 (2020: £104,178,661) was drawn as at the year-end.

HarbourVest 2018 Global Feeder AIF LP invests in all types of high quality private equity funds including venture capital and leveraged buyout funds across geographies with an emphasis on North America and Europe. The Fund's total commitment is US $185,000,000 of which US $99,677,908 (£77,705,512) (2020: US $61,050,000 – £47,765,070) was drawn as at the year-end.

AEW UK Urban Real Estate Fund LP invests in multi sector portfolio of commercial property assets throughout the United Kingdom. The Fund's total commitment is £20,000,000 of which £12,381,213 (2020: £Nil) was drawn as at the year-end.

The following table gives information about how the fair values for unlisted financial assets are determined in particular, the valuation technique and inputs used.

Financial assets	Fair value as at 31 March 2021	Fair value hierarchy
Investments in subsidiaries	£958,358,493 (2020: £848,349,593)	Level 3
Investments in associates and joint ventures – ownership interest of greater than 20%	£274,530,636 (2020: £244,289,789)	Level 3
Investments in associates and joint ventures – ownership interest of less than 20%	£527,619,678 (2020: £395,086,925)	Level 3
Loan to British Business Bank Plc	£135,000,000 (2020: £525,000,000)	Level 3

Valuation technique and key inputs

Valuation is based on a discounted cash flow model which incorporates both observable and nonobservable data. Observable inputs include assumptions regarding current rates of interest.

Significant unobservable inputs

Unobservable inputs include assumptions regarding expected future default rates and market liquidity discounts.

Relationship of unobservable inputs to fair value

Movements in fair values are taken directly to statement of comprehensive income.

9 Current assets

	2021 £	2020 £
Other receivables		
Other debtors	77,293,894	1,275,969
Accrued income	1,946,089	22,620,181
Corporation tax recoverable	6,279,820	10,195,482
	85,519,803	34,091,632

Other debtors of £77,293,894 includes £74,443,924 for disposal proceeds received in April 2021 relating to the investment in London Wall Capital Investments LLP Hodge 2016-1 which was sold on 31 March 2021.

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Notes to the financial statements for the year ended 31 March 2021

10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks, short-term cash investments held in financial institutions with high credit ratings and the National Loans Fund. Cash and cash equivalents included in the statement of cash flows and the statement of financial position comprise the following:

	2021 £	2020 £
Cash balances with banks	14,395,303	14,778,491
Short-term cash investments	11,864,515,994	6,514,286,661
	11,878,911,297	6,529,065,152

11 Trade and other payables

	2021 £	2020 £
Trade creditors	130,880	482,408
Other tax and social security	22,182	11,685
Other creditors	352,975	4,618,576
Accruals and deferred income	26,818,336	29,568,929
	27,324,373	34,681,598

12 Currency classification of total assets less current liabilities

Total assets less current liabilities as at 31 March 2021 are analysed by currency as follows:

Currency	Non-current £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	1,508,710,291	11,875,584,771	84,732,266	(27,324,373)	13,441,702,955
US Dollar	871,964,072	1,337,906	15,319	-	873,317,297
Canadian Dollar	2,836,180	14,515	-	-	2,850,695
Euro	215,669,029	254,037	-	-	215,923,066
Arab Emirate Dirham	963,428	34,740	-	-	998,168
Norwegian Krone	5,603,599	9,023	-	-	5,612,622
Swedish Krona	19,621,704	-	-	-	19,621,704
Danish Krone	14,130,421	112,490	-	-	14,242,911
Brazilian Real	10,506,204	345,120	37,721	-	10,889,045
South African Rand	11,503,283	49,382	44,003	-	11,596,668
New Taiwan Dollar	38,417,908	749,621	53,231	-	39,220,760
Turkish Lira	1,084,112	-	-	-	1,084,112
Swiss Franc	7,720,377	101,226	-	-	7,821,603
Mexican Peso	1,846,693	-	-	-	1,846,693
Hungarian Forint	2,212,454	-	-	-	2,212,454
Kenyan Shilling	2,778,430	25,829	-	-	2,804,259
Polish Zloty	734,487	-	-	-	734,487
Thai Baht	988,024	-	-	-	988,024
Japanese Yen	35,815,780	6,344	3,214	-	35,825,338
South Korean Won	31,734,670	-	612,887	-	32,347,557
Indonesian Rupiah	4,782,150	-	21,162	-	4,803,312
Hong Kong Dollar	55,634,753	285,851	-	-	55,920,604
Australian Dollar	10,027,691	442	-	-	10,028,133
New Zealand Dollar	1,424,423	-	-	-	1,424,423
	2,856,710,163	11,878,911,297	85,519,803	(27,324,373)	14,793,816,890

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Notes to the financial statements for the year ended 31 March 2021

12 Currency classification of total assets less current liabilities (continued)

Total assets less current liabilities as at 31 March 2020 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	2,041,803,219	6,520,407,059	33,491,054	(34,681,598)	8,561,019,734
US Dollar	480,316,539	743,861	145,805	-	481,206,205
Canadian Dollar	11,745,789	-	-	-	11,745,789
Euro	146,338,444	3,449,788	84,325	-	149,872,557
Arab Emirate Dirham	1,075,811	-	40,759	-	1,116,570
Norwegian Krone	644,029	8,161	-	-	652,190
Swedish Krona	3,091,401	-	-	-	3,091,401
Danish Krone	2,543,511	488	-	-	2,543,999
Brazilian Real	6,607,572	866,872	32,750	-	7,507,194
South African Rand	3,041,015	172,111	-	-	3,213,126
New Taiwan Dollar	21,562,490	1,166,474	63,175	-	22,792,139
Turkish Lira	2,688,358	-	-	-	2,688,358
Swiss Franc	12,058,949	111,241	-	-	12,170,190
Czech Koruna	48,526	-	-	-	48,526
Hungarian Forint	2,857,063	-	-	-	2,857,063
Malaysian Ringgit	634,725	-	-	-	634,725
Polish Zloty	2,723,019	141,289	-	-	2,864,308
Thai Baht	681,900	69,949	-	-	751,849
Japanese Yen	37,493,940	812	-	-	37,494,752
South Korean Won	23,920,189	1,927,047	233,764	-	26,081,000
Singapore Dollar	880,787	-	-	-	880,787
Hong Kong Dollar	40,502,123	-	-	-	40,502,123
Australian Dollar	4,768,220	-	-	-	4,768,220
New Zealand Dollar	231,121	-	-	-	231,121
	2,848,258,740	6,529,065,152	34,091,632	(34,681,598)	9,376,733,926

13 Financial instruments and financial risk management

Categories of financial instruments as at 31 March 2021:

	Financial assets measured at amortised cost £	Financial liabilities measured at amortised cost £	Assets at fair value through profit and loss £
Financial assets			
Financial assets at fair value through profit and loss	-	-	2,749,460,163
Other debtors	77,293,894	-	-
Accrued income	1,946,089	-	-
Cash balances with banks	14,395,303	-	-
Short-term cash investments	11,864,515,994	-	-
Financial liabilities			
Trade and other payables	-	27,302,191	-

Categories of financial instruments as at 31 March 2020:

	Financial assets measured at amortised cost £	Financial liabilities measured at amortised cost £	Assets at fair value through profit and loss £
Financial assets			
Financial assets at fair value through profit and loss	-	-	2,743,933,740
Other debtors	1,275,969	-	-
Accrued income	22,620,181	-	-
Cash balances with banks	14,778,491	-	-
Short-term cash investments	6,514,286,661	-	-
Financial liabilities			
Trade and other payables	-	34,669,913	-

All non-current financial assets are categorised as financial assets at fair value through profit and loss. Those items that are not at fair value through profit and loss have been deemed to have a carrying value that is materially equal to fair value.

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Notes to the financial statements for the year ended 31 March 2021

13 Financial instruments and financial risk management (continued)

Fair value measurements recognised in the statement of financial position

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. All listed investments as at 31 March 2021 amounting to £853,951,356 (2020: £731,207,433) are grouped as Level 1 and disclosed as "Financial assets at fair value through profit and loss" (note 8). All financial liabilities are measured at amortised cost;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). None of the financial assets or liabilities as at 31 March 2021 (2020: £Nil) were grouped under Level 2; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). All unlisted investments as at 31 March 2021 amounting to £1,895,508,807 (2020: £2,012,726,307) are grouped as Level 3 and disclosed as "Financial assets at fair value through profit and loss" (note 8).

Valuation process for Level 3 valuations

Valuations are the responsibility of the board of directors of the Fund. The valuation of unlisted equity and debt is performed by the valuation department of the investment manager and reviewed by the investment committee of the investment manager on a quarterly basis.

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 (note 8) between the beginning and the end of the reporting year:

	2021 £	2020 £
Valuation		
At start of the year	2,012,726,307	1,812,904,431
Additions	246,999,983	155,912,539
Disposal proceeds	(464,443,924)	-
Realised and unrealised gains***	100,226,441	43,909,337
At end of the year	1,895,508,807	2,012,726,307

*** These realised and unrealised gains are included in the statement of comprehensive income on page 32 and include: net realised gains of £6,943,924 (2020: £Nil) and net unrealised gains of £93,282,517 (2020: £43,909,337).

During the year the Fund received profit distributions from the above Level 3 investments amounting to £53,784,168 (2020: £27,023,405).

In pursuing its investment objective, the Fund faces risks to both assets and revenue. These risks, and the directors' approach to the management of the risks, are as follows:

Financial risk management

The directors manage financial risks by ensuring full and timely access to relevant information from respective managers. The directors meet regularly and at each meeting review investment performance and financial results. They monitor compliance with the Fund's objectives and are directly responsible for ensuring that investment strategy and asset allocation is in accordance with the objectives of the Fund.

Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfil its contractual obligations. The Fund is exposed to credit risk in respect of cash balances with banks and short-term cash investments. The Fund invests in high quality liquid market investments held with financial institutions with high credit ratings and the National Loans Fund on a short-term basis usually recoverable within six months. Therefore, no significant credit risks are associated with these investments.

Liquidity risk

The Fund maintains sufficient cash and readily realisable securities to meet its current liabilities. On the basis that most of the Fund's qualifying liabilities will not fall due for payment for a number of years and on the basis that HM Government will be responsible for meeting these liabilities to the extent that the Fund does not have sufficient assets available to it, the directors consider that liquidity is not a significant risk to the Fund. The qualifying liabilities that are expected to fall upon the Fund over the next three years amount to approximately £1.1bn (2020: £0.4bn). The future long-term liability of the Fund in respect of these qualifying liabilities will at all times be limited to the assets available to it.

Price risk

Price risk is defined as the risk that the fair value of a financial instrument held by the Fund will fluctuate. Investments are measured at fair value through profit or loss. The prices of the Fund's listed investments are determined by market forces. This risk is managed by diversifying the Fund's investment portfolio. Fluctuations in the market prices of listed investments are not hedged. The unlisted investments are valued on an unlevered, discounted cash flow basis. Therefore, the value of these investments will be (amongst other risk factors) a function of the discounted value of their expected cash flows and, as such, will vary with movements in interest rates and competition for such assets. The discount factors are subjective and therefore it is feasible that a reasonable alternative assumption may be used resulting in a different valuation for these unlisted investments.

	2021 £	2020 £
Listed investments price risk sensitivity analysis		
If there was a 10% (2020: 10%) increase or decrease in the fair values, the value of financial assets at fair value through profit and loss would increase or decrease by:	85,395,135	73,120,743

The impact of a 10% (2020: 10%) change has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement.

	2021 £	2020 £
Unlisted investments price risk sensitivity analysis		
If there was a 10% (2020: 10%) increase or decrease in the fair values, the value of financial assets at fair value through profit and loss would increase or decrease by:	189,550,881	201,272,631

The Board considers a movement of 10% (2020: 10%) in the fair values to be within a reasonable expected range based on their understanding of market transactions for these unlisted investments.

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Notes to the financial statements for the year ended 31 March 2021

13 Financial instruments and financial risk management (continued)

Interest rate risk

The Fund is exposed to interest rate risk due to its investments in interest bearing assets which are categorised as follows:

Assets earning interest as at 31 March 2021:

	Value subject to fixed rate £	Value subject to variable rate £
Loans to British Business Bank Plc	135,000,000	-
Cash balances with banks	-	14,395,303
Short-term cash investments	11,790,601,867	73,914,127

Assets earning interest as at 31 March 2020:

	Value subject to fixed rate £	Value subject to variable rate £
Loans to British Business Bank Plc	525,000,000	-
Cash balances with banks	-	14,778,491
Short-term cash investments	6,431,536,818	82,749,843

The average annual rate of return before tax for short-term cash investments was 0.22% (2020: 0.64%) and the annual rate of return before tax for British Business Bank Plc loan was 2% (2020: 2%).

Interest rate risk sensitivity analysis

	2021 £	2020 £
If there was a 0.50% (2020: 0.50%) increase or decrease in variable interest rates with all other variables held constant, the value of variable interest bearing assets would increase or decrease by	441,547	487,642

In the current financial environment, the interest rates in the UK are likely to remain below 1% in the coming period. Therefore, a sensitivity of 0.50% (2020: 0.50%) has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

Currency risk

The Fund is exposed to currency risk due to its investments in some of the assets being denominated in currencies other than sterling. An analysis of assets that are held in various currencies is provided in note 12 to these financial statements.

Currency risk sensitivity analysis

	2021 £	2020 £
If there was a 10% (2020: 10%) increase or decrease in foreign currency exchange rates with all other variables held constant, the value of assets held in the following currencies would increase or decrease by:		
US Dollar	87,331,730	48,120,620
Euro	21,592,307	14,987,256
Japanese Yen	3,582,534	3,749,475
Other currencies	22,704,823	14,714,068

A sensitivity of 10% (2020: 10%) has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement in respect of these foreign currencies.

14 Non-current liabilities

	Deferred tax provision £	Qualifying liabilities provision £	Total 2021 £	Total 2020 £
At 1 April	2,476,558	9,374,257,268	9,376,733,826	9,413,008,481
BEIS funding	-	5,070,000,000	5,070,000,000	-
EDFE contributions	-	13,025,610	13,025,610	22,478,275
Transfer from statement of comprehensive income	-	379,489,008	379,489,008	6,879,674
Payable to EDFE	-	(65,150,439)	(65,150,439)	(58,099,388)
Deferred tax movement	19,718,785	-	19,718,785	(7,533,216)
At 31 March	22,195,343	14,771,621,447	14,793,816,790	9,376,733,826

Deferred tax balance consists of:

	2021 £	2020 £
Accelerated capital allowances	1,901,074	2,476,558
Unrealised gains/(losses) on investments	19,954,593	(286,667)
Unrealised gains on properties	339,676	286,667
	22,195,343	2,476,558

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Notes to the financial statements for the year ended 31 March 2021

14 Non-current liabilities (continued)

Qualifying liabilities provision

On 21 July 2020, BEIS provided funding of £5.07bn to the Fund. The purpose of the funding was to increase the Fund's public sector assets, by making £5.07bn available to the Fund in the form of cash deposits in the National Loans Fund. The Trustee Directors of the Fund have a fiduciary duty to seek to ensure that the Fund remains on track to be sufficient to meet its obligations to pay for future decommissioning liabilities. Following an increase in the estimated costs of discharging liabilities by £2.4bn and with the possibility that these costs will increase further in the future, this contribution offered an alternative investment opportunity to the Fund, which would otherwise have had to re-allocate monies from its deposits in the National Loans Fund into investments in the MAP. Such re-allocation would have increased Public Sector Net Debt, and so this alternative funding arrangement avoided an immediate negative fiscal impact for the Government.

In accordance with the Contribution Agreement, fixed contributions are received quarterly from EDFE in the sum of £2m (2020: £2m), stated in March 2003 monetary values and indexed to RPI together with £150k, which is also indexed to RPI, for every tonne of uranium loaded into the Sizewell B reactor power station. The Fund also receives an annual contribution from EDFE for administration costs. This contribution is £1m adjusted to RPI and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA EDFE Team are deducted. In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the qualifying liabilities of EDFE, as represented by the payments to EDFE in the above table.

The amount shown under qualifying liabilities provision represents the Fund's future potential liability to the Licensee (EDFE) at the date of the statement of financial position. In accordance with the NLFA, the liability of the Fund in respect of qualifying liabilities will at all times be limited to the assets available to it. The Secretary of State for the Department for Business, Energy and Industrial Strategy has undertaken that HM Government will be responsible for meeting qualifying liabilities to the extent that the Fund does not have sufficient assets available to it. The directors have considered it appropriate to set the provision so that the total provisions for qualifying liabilities equal the total net assets less current liabilities and called up share capital of the Fund.

The process by which EDFE determines its qualifying liabilities is prescribed by the NLFA. Under its terms, EDFE is required to prepare and update full life plans for decommissioning their power stations every five years, or three years prior to station closure, or in the event legislation or government policy changes, whichever occurs first. These plans are required to contain the most recent estimates of the costs of decommissioning.

Additionally, EDFE is required to prepare an initial high level plan for the discharge of its uncontracted liabilities which are intended to be paid by the Fund. Unlike the decommissioning plans the NLFA does not require EDFE to update this plan although EDFE has told the NDA that it will do so if it is justified.

The NDA is required to review the above plans with a view to approving them (or otherwise). Once they are approved the costs are reported in EDFE's audited accounts.

Deferred tax

Deferred tax provision takes account of deferred tax payable on the sale of investment properties and financial assets at fair value through profit and loss account to the extent that proceeds exceed cost, adjusted by indexation allowance.

15 Share capital

At 31 March 2020 and 31 March 2021

	Authorised	Allotted, called up and fully paid	
	£	No.	£
98 Ordinary shares of £1 each	98	98	98
1 A Special rights redeemable preference share of £1 ("the A special share")	1	1	1
1 B Special rights redeemable preference share of £1 ("the B special share")	1	1	1
	100	100	100

The Fund's authorised and issued share capital is £100, divided into 98 ordinary shares of £1 each, which are held by the Trustees of the Nuclear Trust in their capacity as such, one A special rights redeemable preference share of £1 ("the A special share") held by the Secretary of State for the Department for Business, Energy and Industrial Strategy ("the holder of the A special share") and one B special rights redeemable preference share of £1 ("the B special share"), which is jointly held by EDF Energy Nuclear Generation Limited and British Energy Generation (UK) Limited (together "the holder of the B special share").

The A and B special share rights require the consent of the holders of the A and B special shares for certain matters, including for an alteration of the Fund's memorandum and articles of association, a change to its share capital or any transfers of shares in the Fund. On a winding up, the holder of the A special share and the holder of the B special share shall be entitled to repayment of the capital paid on the A special share and the B special share respectively in priority to any repayment of capital on the ordinary shares, but the A special share and the B special share shall carry no other right to participate in the capital of the Fund. Neither the A special share nor the B special share enjoy voting rights nor do they carry any right to participate in profits.

16 Operating lease receivables

As a lessor, the Fund had rent receivables as at 31 March 2021 under non-cancellable operating leases as follows:

	2021 £	2020 £
Within one year	6,028,429	5,893,747
Between two and five years	21,055,413	21,598,804
In more than five years	27,869,561	31,023,619

No contingent rentals were recognised in income.

As at 31 March 2021 the Fund held a total of 54 leases, 19 of which expire within five years of the statement of financial position date, with the remaining 35 due to expire beyond five years. The majority of the leases have five yearly rent reviews, with the yearly rental value being adjusted to the market value at this time. A small number of the leases also contain options to break early.

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Notes to the financial statements for the year ended 31 March 2021

17 Related parties and controlling interest

The Fund's main shareholder (98%) is the Nuclear Trust, a public trust established under Scots law by British Energy plc and the Secretary of State for the Department for Business, Energy and Industrial Strategy. The trustees of the Nuclear Trust are the directors of the Fund. Details of payments to directors are set out in note 5. There was no balance due to the directors as at 31 March 2021 (2020 £Nil).

The Fund considers the Secretary of State for the Department for Business, Energy and Industrial Strategy ('BEIS') also to be a related party. During the year, a sum of £114,945 (2020: £146,353) was paid by the Fund to BEIS for their services in administering the NLFA. As at the year-end, there was a debit balance of £1,400,000 (2020: credit balance of £4,600,000) with BEIS in respect of investment transactions relating to BPC funds. This amount, which is included in other debtors (2020: other creditors), is interest-free and has arisen because the Fund makes payments in £5m tranches for all BPC investments acquired on behalf of the Fund.

18 Capital management

The Fund's strategy is to effectively manage the capital in accordance with the prescribed investment policy and, within the confines of that policy, to seek to maximise long-term returns to fulfil the Fund's purpose of discharging qualifying decommissioning and waste management liabilities.

Company information

Directors
Mr R Armour
Mrs S Bridgeland (until 20 April 2020)
Mrs C Cripps (until 4 November 2021)
Dr M Grant (from 1 December 2020)
Dr P Neumann (until 30 November 2020)
Mrs M Stephens (from 21 April 2020)
Mr R Wohanka

Secretary
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