Nuclear
Liabilities Fund

Fulfilling our purpose

Annual report and accounts 2022

Nuclear Liabilities Fund Limited
nlf.uk.net

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

Contents

Our purpose

The primary purpose of Nuclear Liabilities Fund Limited is to receive and hold monies, investments and other assets, in order to secure funding for discharging certain liabilities related to the decommissioning of eight nuclear power stations currently operated by EDF Energy Nuclear Generation Limited ('EDF Energy').

Nuclear Liabilities Fund Limited is the operating company for The Nuclear Trust, a Scottish public trust established in March 1996 to set aside and ring-fence decommissioning funds.

Three stations have now ceased generation and have entered the decommissioning phase, which comprises reactor defueling and the deconstruction of station infrastructure. Planning for decommissioning is underway for the other AGR stations. Final site clearance is expected to take over 100 years from end of generation.

EDF Energy's UK nuclear power station sites

Notes:

Hinkley Point B ceased generation on 1 August 2022
Hunterston B ceased generation on 7 January 2022
Dungeness B ceased generation on 7 June 2021

Map kindly produced by EDF Energy, June 2022

Strategic objectives

Maintain sufficiency of the fund
Ensure that the assets of the company are sufficient to meet the costs of discharging relevant liabilities

Discharge liabilities
Make payments for relevant liabilities in accordance with the Nuclear Liabilities Funding Agreement

Achieved through

Setting investment principles see page **12**

Monitoring liabilities see page **13**

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Managing risks see page **16**

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Sufficiency

In discharging the purpose of Nuclear Liabilities Fund Limited, the directors aim to ensure that future generations will not be burdened by costs arising from the benefits of nuclear power enjoyed by earlier generations. In order to meet this aim, the directors work to ensure that the fund has the required level of assets to discharge the relevant liabilities as they arise; where this aim is met it is referred to as 'sufficiency of the fund'.

Liabilities

When 'liabilities' or 'relevant liabilities' are referred to in this report, these are the costs of nuclear liabilities that are to be met by Nuclear Liabilities Fund Limited, being those costs of decommissioning and management of spent fuel defined in the Nuclear Liabilities Funding Agreement between Nuclear Liabilities Fund Limited, EDF Energy and the Secretary of State for Business, Energy and Industrial Strategy.

Chair's statement

Fulfilling our purpose

Richard Wohanka
Chair, retired August 2022

In comparison to recent years, 2021–2022 was relatively undramatic for Nuclear Liabilities Fund Limited. This was despite the continuing impact of COVID-19 and the commencement of decommissioning.

It was a year in which the investment portfolio performed well in virtually all areas. The effect of this, when combined with the contribution received from the Department for Business, Energy and Industrial Strategy ('BEIS'), is that the fund is well positioned to meet the forecast liabilities.

Moreover, recent substantial moves in short term interest rates mean that we can expect an increase in the returns from our investment in the National Loans Fund ('NatLF')[1]. Provided inflation falls back down to the levels implied by the forward inflation curve this will have a lasting positive effect on the total return of the portfolio.

UK Government funding arrangement

An annual funding review mechanism was established in 2020 whereby a review of sufficiency of the fund is conducted by Nuclear Liabilities Fund Limited and reported to HM Treasury and BEIS. This is known as the 'Annual Funding Review' and was started following the end of the fiscal year 2020–21. As noted in last year's report, a contribution to the fund of £5.6bn was agreed. This was paid in March 2022, and a further Annual Funding Review was commenced following the end of the fiscal year 2021–22.

The outcome of this latest review was to conclude that there were no additional contributions from BEIS required or money to be transferred from the NatLF to the actively managed part of the portfolio known as the Mixed Assets Portfolio ('MAP') at this stage.

Investment performance

The year proved a successful one for Nuclear Liabilities Fund Limited. Although the total fund return target was not met, this was because most of the fund is invested in the NatLF to meet relatively near term liabilities. Once more of these have been paid out, and the MAP has grown as a proportion of the total portfolio, the benefit of the MAP generating substantially higher returns will translate into a higher total fund return.

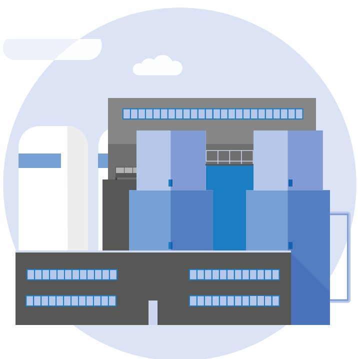
In the past year the MAP has substantially outperformed its benchmark. This was due to the outstanding performance of the illiquid assets in the portfolio. The portfolio is now reaping the benefits of having a mature, fully invested allocation to long-term funds seeking to exploit the opportunity for higher returns offered by illiquid assets. It has taken many years to arrive at this position because deploying such a substantial amount of funds in a combination of different asset classes is a complex process.

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

The performance of the managers in our Illiquid Portfolio has been pleasing. In particular the British Patient Capital portfolio has held up extremely well in a period when many start-ups in the technology space have suffered. The strategic allocation has been excellent. Our private equity managers continue to generate exceptional returns. Finally, the lower return but lower volatility allocations to infrastructure and real estate have also met or exceeded their targets.

The liquid portfolio has suffered from the global equity market turmoil that followed the invasion of Ukraine. However, the share of the portfolio invested in equities has been significantly reduced from November 2021 onwards. Moreover, the nature of the portfolio is a balanced one with other assets partially compensating for the volatility of the equity markets.

Over the three year period to March 2022, the MAP has substantially outperformed its target, as has been the case since the inception of the current portfolio strategy in 2014. It is pleasing to note that the portfolio has not registered a year of negative performance during this time, suggesting that the diversification and risk control applied to the portfolio enables it to weather sizeable exogenous shocks.



The sufficiency of the fund was further helped by there being no significant impacts due to unforeseen events. The sharp rise in inflation and the start of decommissioning have not caused sufficiency to be a concern. As explained above, the rise in short term interest rates has greatly improved our returns from the NatLF, counter-balancing the effects of the increase in inflation. Certain investments in the illiquid portion of the MAP, such as infrastructure investments offer some degree of protection against inflation. Finally, as the portfolio has no short or long-term fixed rate assets the rise in rates has not had a material impact.

Decommissioning the AGRs

Last year we reported on the completion of the amended and re-stated Nuclear Liabilities Funding Agreement ('NLFA') which developed the arrangements to deliver the safe, efficient and cost-effective decommissioning of EDF Energy's fleet of seven AGR stations, including how the costs of decommissioning are paid by Nuclear Liabilities Fund Limited.

c£20.6bn

Total fund size as at 31 March 2022

There has been important work undertaken this year to ensure a smooth transition to the new arrangements. We have worked closely with counterparts in BEIS and EDF Energy on these, laying foundations for years to come. The Non-NDA Liabilities Assurance team have played a crucial role in supporting Nuclear Liabilities Fund Limited during this time.

Defueling

Three of the stations have now ceased generation, and defueling is underway. The increased levels of activity meant that Nuclear Liabilities Fund Limited paid out c. £0.2bn in the fiscal year 2021–22 and expects to pay out in excess of £0.4bn in the fiscal year 2022–23 and this will continue to increase. Work over the last year to transition to the new decommissioning arrangements and strengthen our internal controls and processes means that the fund is well placed to deal with increased levels of activity and significantly larger payments.

As Nuclear Liabilities Fund Limited fulfills its purpose, the directors feel very confident that the company is well structured to ensure costs will be funded for the next 100 years. Decommissioning is a long, complex and costly process. That is why it is highly beneficial to have Nuclear Liabilities Fund Limited reliably providing the necessary funding for work to be undertaken over multiple generations.

Board effectiveness review

An external board effectiveness review was carried out shortly after the fiscal year end. The findings were positive and progress was noted since the previous external review. Further detail can be found later in the report on page 21.

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. Towards the end of the fiscal year 2021–22, a further executive joined the team and has proved a valuable addition.

Changes to the board

As mentioned in last year's report, Catherine Cripps stepped down from the board in November 2021. Catherine continued to provide valuable assistance in a consultative capacity until the appointment of the new chair of the investment committee and I would like to thank Catherine for this additional support.

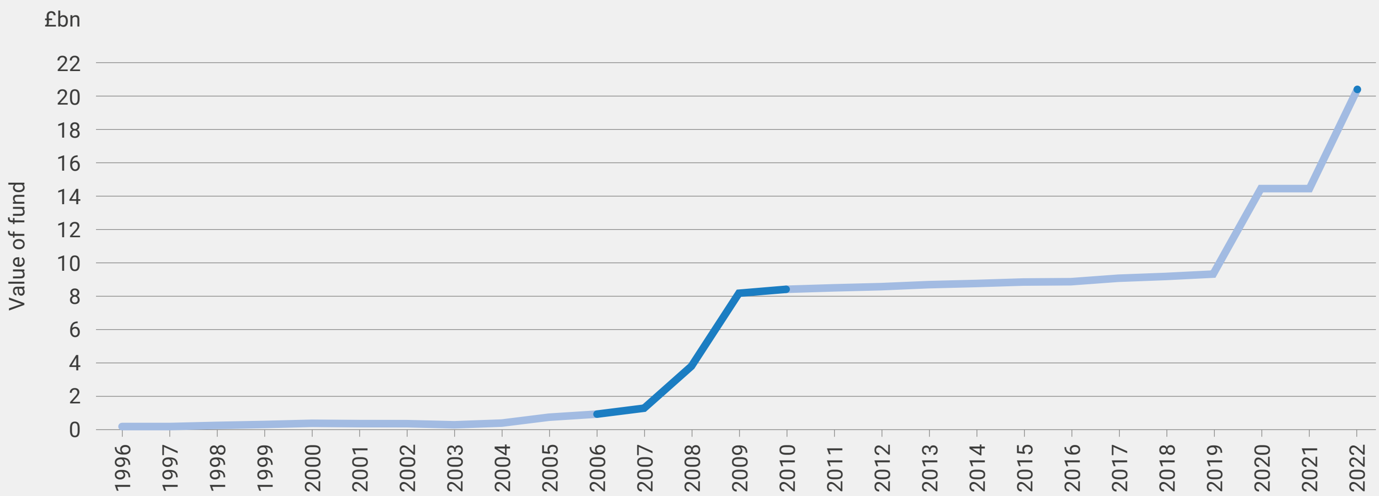
Catherine was replaced on the board on a temporary basis by Chris Heffer. I would like to thank Chris for his valuable contributions during his short time with Nuclear Liabilities Fund Limited.

Following the end of the fiscal year 2021–22, in May, Luke Nunneley joined the board, becoming chair of the investment committee. Luke brings a wealth of investment and board experience having worked for 38 years in the asset management business and has held a number of board positions at a range of businesses and charities.

Robert Armour retired from Nuclear Liabilities Fund Limited in December 2021. He was replaced on the board and the audit committee by Alison McNeil. Alison has also taken Robert'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 Robert for all his hard work and contributions to Nuclear Liabilities Fund Limited. Although Robert became a director in June 2013 he has played an important role since the inception of the Nuclear Trust in March 1996. Most recently, Robert put an enormous amount of time and effort into the NLFA. His depth of knowledge of the nuclear sector and wise counsel across a wide range of legal and other matters will be missed.

Alison is an excellent addition to the board. She brings extensive legal and governance experience having spent 23 years with Shell plc, holding a number of senior legal positions across multiple jurisdictions.

There were significant injections of capital in the years between 2006 and 2010, 2020 and 2022.



Notes:

i. The fund assets have increased over the years.

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

iii. In 2005 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 EDF Energy. 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 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. In March 2022 a capital injection of £5.61bn was received primarily in relation to the increase in Corporation Tax rates.

vii. 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.

A new chair

It is with great sadness that I leave the board of Nuclear Liabilities Fund Limited in August 2022 after more than ten years. It has been a great privilege to work with an excellent stakeholder group. My counterparts at EDF Energy have always been highly supportive and appreciative of the work of the board and executive team. It has been a joy to work with UK Government Investments and then BEIS.

Over the years we have had to weather a series of profound shocks to the fund, both on the assets' and liabilities' sides, but the deep co-operation has meant that solutions to problems have been found. I am very grateful to all my counterparts with whom I have worked over these past ten years for their help and understanding.

The ability to share with our stakeholders the mission of Nuclear Liabilities Fund Limited to fund future decommissioning costs so that they do not fall on future generations has helped the board and executive team enormously. What has been achieved these past ten years could not have been done without this support.

It is with great pleasure that I welcome my successor, Chris Hitchen, to the board as the new chair. Chris has the perfect mix of qualities to lead the board over the next few years. Important challenges lie ahead for him, the board and the executive team, but I am in no doubt that these will be overcome and that the fund will be there over the next 100 years to meet the nuclear liabilities.

The directors formally declare that in their opinion the fund is sufficient to meet the liabilities.

Closing remarks

The importance of the fund, which was established as a Scottish trust with the UK general public as its beneficiaries, of which Nuclear Liabilities Fund Limited is the operating company, remains as great as it ever was. It exists to ensure that funding can be clearly identified and utilised to meet future decommissioning liabilities and to ensure that these do not fall on future taxpayers. The directors of Nuclear Liabilities Fund Limited remain totally committed to ensuring that this is achieved. I am confident that Nuclear Liabilities Fund Limited, in the hands of Chris and his colleagues, will fulfil its purpose.

Richard Wohanka
Chair, retired 19 August 2022

Chris Hitchen
Incoming chair

Incoming chair's statement

I was delighted to be appointed Chair of Nuclear Liabilities Fund Limited in August 2022.

My fellow directors and the executive team of Nuclear Liabilities Fund Limited have given me a warm welcome to the organisation. I am grateful for their time taken to share insights and for their ongoing support. The level of commitment from each of the board members and the high performance of the executive team was noted in the external board review carried out earlier this year and has been very evident in my first months. The dedication of our stakeholders to achieve safe and efficient decommissioning of the stations is also notable. This is encouraging and is very valuable given the important milestone reached, as the first stations enter the defueling stage.

I would like to pay tribute to my predecessor, Richard Wohanka. His stewardship of Nuclear Liabilities Fund Limited since 2016 has laid a strong platform from which to take the fund into the active stage of fulfilling its purpose. I look forward to working with the board, the executive team, and our stakeholders over the coming years to ensure sufficiency of the fund to meet future decommissioning costs.

Finally, I am pleased to confirm that, as at the date of this report, the directors formally declare that, in their opinion, the fund is sufficient to meet its purpose.

Chris Hitchen
Chair

Strategic report

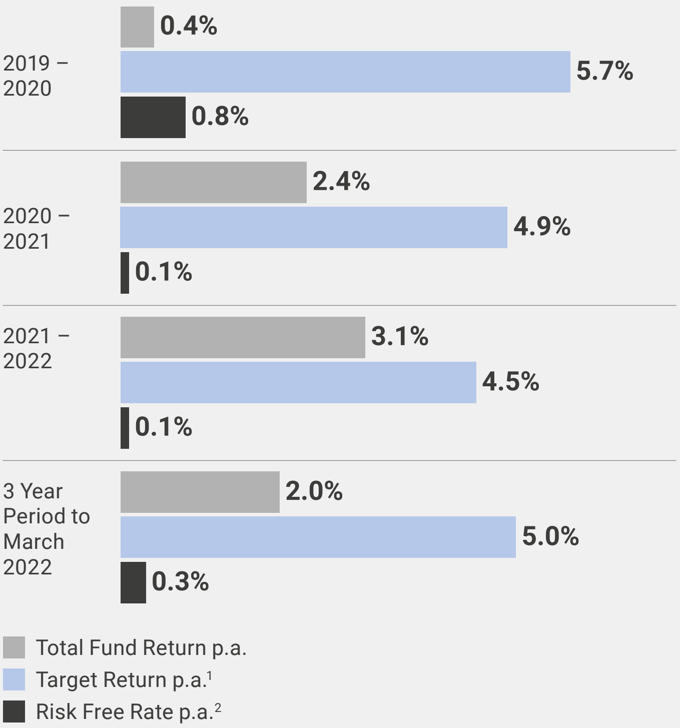
Our key performance indicators

Hunterston Charge Hall.
Photo produced by kind permission of EDF Energy

Nuclear Liabilities Fund Limited's investment performance is assessed using key performance indicators ('KPIs') that were agreed for the fiscal year 2021–22 with 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



▲ 2.0% **Total Portfolio Return**
3-year period to 31 March 2022

The total fund is split between the National Loans Fund ('NatLF') and the actively managed Mixed Assets Portfolio ('MAP'), as further explained at page 11.

The lower returns from the 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.

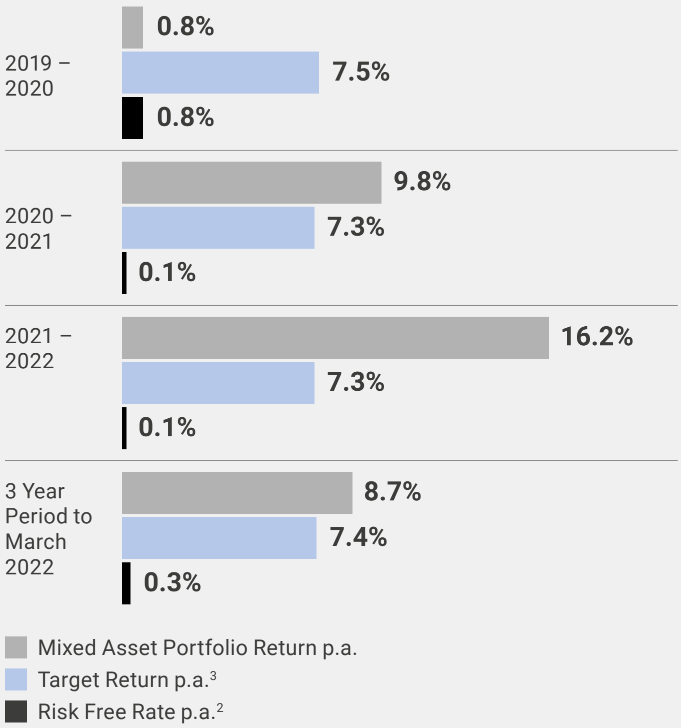
While the weighting of the NatLF remains significant and the returns are low, the higher returns from the MAP performance are subject to a lower weighting. The overall target noted above covers the life of the fund, into the next century as further discussed on page 12.

This KPI illustrates how the whole fund has performed against the Target Return for the whole fund over its life.

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



▲ 8.7% **Mixed Assets Portfolio Return**
3-year period to 31 March 2022

The 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.

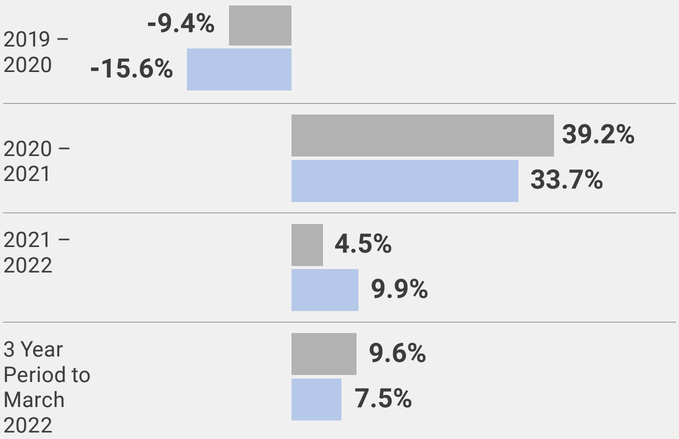
The MAP Return of 16.2% for the year was ahead of the Target return and this was driven by the performance of the illiquid portfolio. Further breakdown of Liquid and Illiquid results within the MAP, are shown under KPI 3.

1 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.

2 The risk-free rate is calculated as the geometric average of the UK Gilts 3-month index ('GUKG3M') at the start of each quarter.

3 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



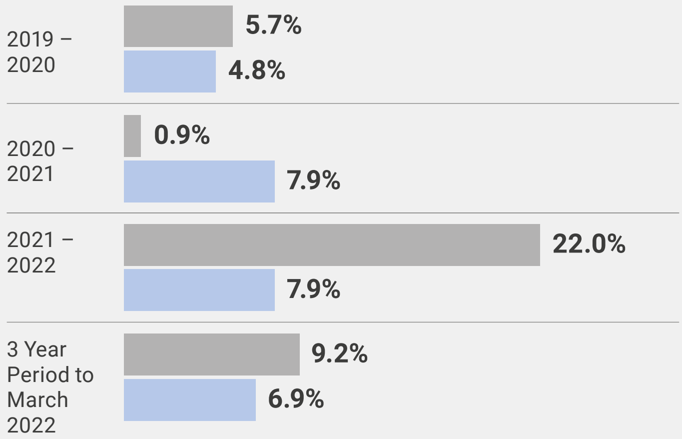
Liquid Portfolio Actual Return p.a.[4]
Liquid Portfolio Benchmark Return p.a.[5]

▲ 9.6% **Liquid Portfolio Return**
3 year period to 31 March 2022

The Liquid Portfolio includes long term sustainable growth portfolio, synthetic equity 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



Illiquid Portfolio Actual Return p.a.[4]
Illiquid Portfolio Benchmark Return p.a.[6]

▲ 9.2% **Illiquid Portfolio Return**
3 year period to 31 March 2022

The Illiquid Portfolio includes allocations to Global Real Estate, High Yield Illiquid Credit, UK Growth Equity, Global Private Equity, Infrastructure Debt and Equity, a BBB Loan and Cash.

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 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.

4 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.

5 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 are MSCI All-Countries World Index, MSCI Emerging Markets Index, MSCI World Index and SONIA.

6 This is based on Aon's Capital Market Assumptions and uses 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, three stations have ceased generation. Nuclear Liabilities Fund Limited is now fulfilling its purpose by funding the safe and efficient defueling of these stations.

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.

The Mixed Assets Portfolio

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.

The MAP comprises approximately 17% of the total fund and is the actively managed portion of the fund while the other 83% is invested in the NatLF. The MAP is made up of liquid and illiquid assets. As at 31 March 2022 the split between liquid and illiquid assets within the MAP was c.30/70. These assets are managed by a fiduciary manager on behalf of Nuclear Liabilities Fund Limited.

ESG

Environmental, Social and Governance outcomes are a continuing area of focus for the directors. This is reflected in the Investment Risk Appetite Statement (see page 17). In addition, we have completed climate change scenario modelling for a second year, and work continues regarding greater levels of reporting on ESG and specifically climate related disclosures across the fund.

1 Investment performance over the year

As mentioned in the Chair's statement, 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 2022, 83% of the assets of the fund were held in the NatLF and 17% in the MAP. This compares to the prior year when 80% of assets were held in the NatLF and 20% in the MAP. This movement is as a result of an increase in the NatLF assets which occurred late in the current financial year following the contribution from BEIS.

Cash in the NatLF can be accessed at short notice. It is used to meet the current and shorter-term payments to EDF Energy 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.

Case study

The fund has committed £120m to the AEW Urban Real Estate Fund. This fund seeks to repurpose real estate assets to better meet the needs of local communities.

This has included the purchase of a shopping centre in Windsor, Windsor Yards, in March 2021 where a number of new leases have been secured since purchase.

The plan is to seek consent to redevelop the asset, including a hotel, residential development, cinema and some multi use assets such as offices and retail. This will help reposition the assets and modernise them and better meet the needs of Windsor, its visitors and local community.

The MAP was subject to active management in the fiscal year 2021–22. Following an assessment of current value and future returns the BlackRock Renewables investment was sold. The directly held property investments are also being sold as there are efficiencies that can be achieved from making larger investments into managed property funds (see case study). We have also broadened our investments in liquid and semi liquid assets in the year.

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 Illiquid Portfolio three-year return of 9.2% p.a. was above its three-year benchmark return of 6.9% p.a.[7]

The Total Portfolio Return KPI figure is calculated as an average over the whole lifetime of the fund. Given we have 83% of the total fund held in cash deposits in the NatLF generating lower returns, the Total Portfolio Return KPI has continued to undershoot the Target Return. This is in line with expectations over the shorter term, while the weighting of the NatLF remains significant, the Total Portfolio Return KPI will not achieve its target. Conversely as the NatLF is utilised to pay for the costs of decommissioning, and the MAP grows, it is expected that this KPI will begin to be achieved and when the MAP is the dominant asset, the KPI is forecast to be exceeded. Our current expectation is that in c.10 years the weighting of the NatLF and the MAP will be c.50/50, and by 2046 the NatLF will be fully utilised. This allows the MAP investment strategy to benefit from long term investment horizon.

Statement of investment principles

The Statement of Investment Principles (the 'SIP') sets out the governance structure for setting the investment objectives for 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.

A full copy of the SIP is available on our website.

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 improved throughout the year from almost zero in the first half of the year to over 1% for the latest investments. Given the weighting of the assets in the NatLF this is a positive movement for the fund.

We are pleased with how the MAP has performed over the current year, generating 16.2%, on the back of a 9.8% return last year. It has significantly outperformed its target return of 7.3% for the year and also on a 3 year rolling basis where returns are 8.7%. The MAP combines both liquid and illiquid investments in a well diversified portfolio. The benefits of this diversification can be seen by the fact that the Illiquid Portfolio performed better than the Liquid Portfolio in the current year, whereas the opposite occurred last year (see KPI3 on page 10). The diversification of these assets has helped the fund weather recent market volatility.

The Liquid Portfolio was reshaped in 2020–21. A portfolio of six carefully selected active global equity managers with a long term sustainable growth focus was implemented alongside the existing emerging markets exposure. Although the Liquid Portfolio underperformed its benchmark for the current year (4.5% vs 9.9%), it is worth noting that the performance over the first 3 quarters of the financial year was strong, with this softening over the final quarter as volatility impacted stock markets across the world.

7 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).

Over the 3 year cycle, the Liquid Portfolio has however outperformed the benchmark (9.6% vs 7.5%).

The Illiquid Portfolio has significantly outperformed its benchmark this year (22% vs 7.9%) following strong performance over the private equity investments. In line with the directors' aims for the MAP, each allocation 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.

Target returns

The target return for the total fund for the fiscal year 2021–22 was 4.5%. For the fiscal year 2022–23 we need to achieve a return of 4.7%.

The target return for the MAP for the fiscal year 2021–22 was 7.3%. For the fiscal year 2022–23 it remains at 7.3%.

The target return for the total fund for the fiscal year 2022–23 is higher than the prior year (4.5%) – this is in line with expectation and will continue to rise each year as the National Loans Fund is utilised and the weighting of the MAP increases.

2 Liabilities

During the fiscal year 2021–22, undiscounted liabilities increased from £23.5bn to £24.7bn. The main factor affecting this increase was revalorisation (adjustment for inflation). As noted last year, the calculation of liabilities has been aligned with the Annual Funding Review mechanism which reflects the Annual Liabilities Report (19th Edition with values stated at March 2021 monetary values) and adjusted for forecast spend and inflation to 31 March 2022.

In the fiscal year 2021–22, EDF Energy made a contribution to the fund and its administration of £23m. This figure was £10m higher than 2020–21, reflecting payments due on the loading of uranium at Sizewell B. The fund made payments to EDF Energy of £0.2bn, which included costs for detailed defueling and decommissioning preparations in advance of the planned end of generation at Hunterston B and Hinkley Point B and qualifying Hunterston B station costs from the start of defueling on 7 January 2022. Higher than expected costs were incurred as a result of the unplanned end of generation at Dungeness B in June 2021.

This year, the directors have worked closely with NLA, BEIS and EDF Energy to transition to and embed the new NLFA arrangements.

Operation of the new liabilities arrangements

The terms of the NLFA were renegotiated and updated ahead of the end of generation dates for the first AGR stations. The new NLFA terms were signed on 23 June 2021 and include:

- new processes for claiming, validating and paying qualifying costs
- improved reporting on the estimated costs of discharging liabilities and decommissioning planning to drive cost certainty
- incentivisation of cost reductions through mechanisms that allow EDF Energy to achieve a performance bonus if targets relating to station defueling are met.

As previously, the Non-NDA Liabilities Assurance team ('NLA') a segregated part of the NDA[8], act on behalf of BEIS and Nuclear Liabilities Fund Limited to carry out assurance, scrutiny and audit activity in relation to EDF Energy's submissions to ensure that payments from the fund are only made in respect of qualifying costs and in accordance with the NLFA.

This year, the directors have worked closely with NLA, BEIS and EDF Energy to transition to and embed the new NLFA arrangements. Updated decommissioning plans, cost estimates and cash flows have been prepared by EDF Energy and these continue to evolve. Particular areas of focus for the directors have been understanding the cost and planning assumptions used by EDF Energy and understanding how plans are aligned and appropriately driving performance. The directors are pleased with progress made on practical implementation of the new arrangements.

8 The Nuclear Decommissioning Authority ('NDA') is a non-departmental body created by the Energy Act 2004 whose functions include the decommissioning of designated nuclear installations. It is sponsored and funded by BEIS.

Stakeholder collaboration activities

BEIS has exercised its option to transfer the AGR stations to the NDA after EDF Energy has ceased generating and has defueled the sites, with Magnox[9] as the new site licence company, subject to regulatory approvals. The NDA will take ownership of the stations and manage the long-term decommissioning programme. EDF Energy, the NDA, Magnox and related parties made commitments under a Memorandum of Understanding in June 2021 to co-operate with the aim of identifying and delivering synergies across the areas of AGR defueling, deconstruction strategy and seamless station transfer.

A number of pre-existing and new formal stakeholder collaboration groups are in existence. The directors continue to participate in the AGR Operating Programme ('AGROP'), which is working to address the many risks that can impact on defueling, and in the Defueling Steering Panel ('DSP').

The directors also participate in the new Decommissioning Senior Alignment Panel ('SAP'), which is supporting delivery of the deconstruction strategy and station transfer programmes.

BEIS chairs an annual review of collaboration under the Memorandum of Understanding, with CEOs of the relevant organisations.

The directors have been pleased with the commitment to collaboration that has been shown so far and continue to play an active role in monitoring, supporting and scrutinising the programmes of activity.

Members of the board had valuable visits to see decommissioning activities progressing at Dungeness in August 2021 and at Hunterston in September 2022.

The directors are pleased with progress made on practical implementation of the new arrangements.

A look forward on liabilities

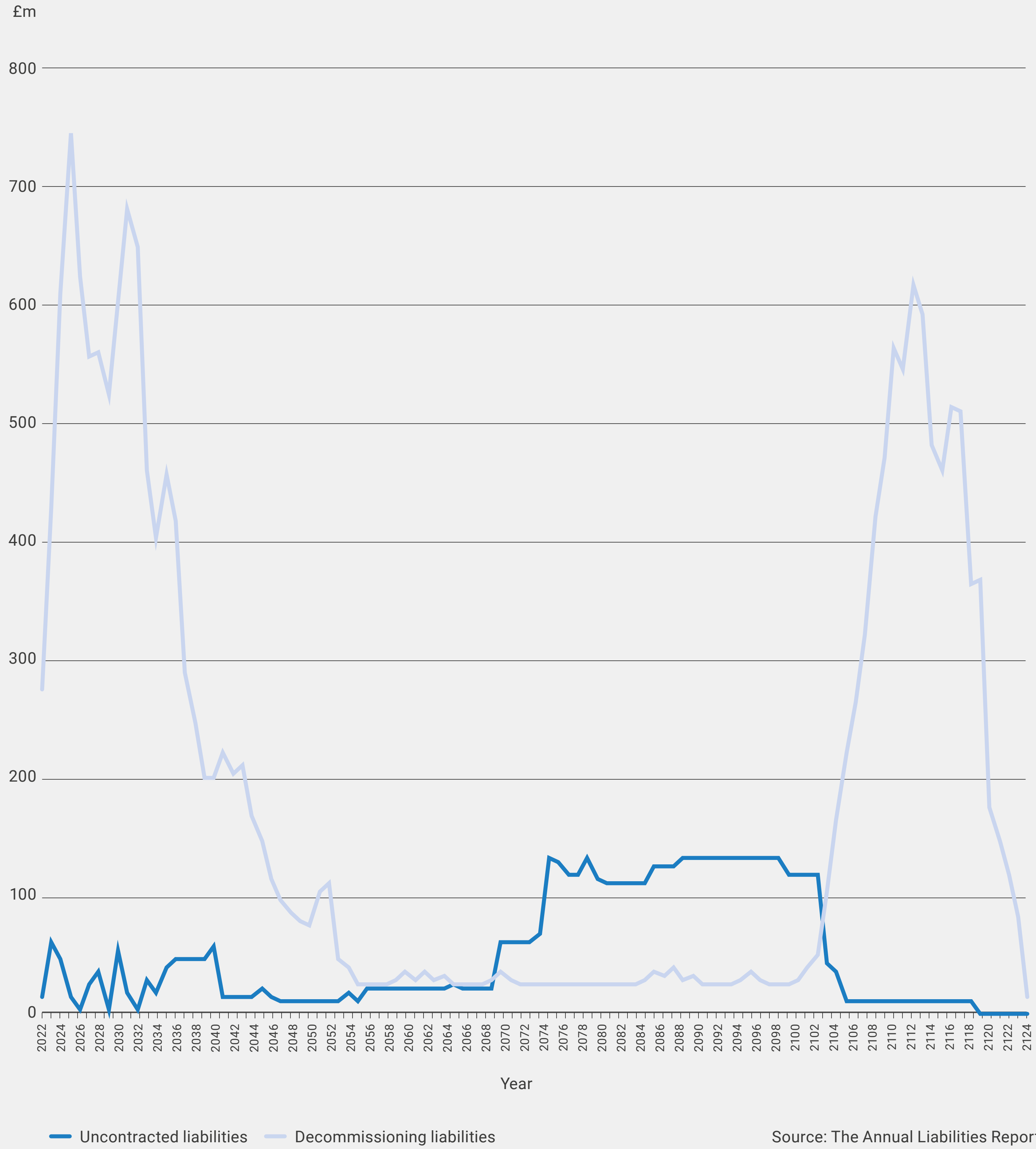
The directors remain committed to working with our stakeholders in a fully collaborative manner and will continue to constructively challenge the approaches to decommissioning the AGRs through formal routes and by engaging with relevant stakeholders. The other main areas of focus over the next five-year period will be:

- engaging with BEIS and the NDA to maintain an adequate level of awareness of policy changes and developments which might affect the liabilities, including the development of a geological disposal facility and associated waste management strategies
- developing relationships with NDA and Magnox in light of the planned transfer of ownership of the AGR stations post-defueling to include agreeing with BEIS, NDA, EDF Energy and Magnox how the NLFA arrangements will operate post-transfer
- working with all parties to monitor and challenge progress with the aim of seeing potential synergies brought to fruition.

Above image: Sizewell B power station.
Photo produced by kind permission of EDF Energy

9 Magnox Limited is a wholly-owned subsidiary of the NDA.

Projected annual expenditure to discharge the liabilities



Source: The Annual Liabilities Report delivered by EDF Energy under the NLFA as at March 2021, adjusted for forecast spend and inflation.

Year (2022–2130)	**Total (£m)**
Uncontracted liabilities	5,199
Decommissioning liabilities	19,477
Total undiscounted liabilities	24,676

Strategic report

Principal risks and uncertainties

Nuclear Liabilities Fund Limited faces liability, investment, governance, operational solvency and liquidity risks.

Nuclear Liabilities Fund Limited's risk registers are split as follows:

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

There is a bi-annual risk review process. Responsibility for the risk registers is delegated to committees and certain directors; however the consideration of risk is a matter for the board.

Liability risks

Nuclear Liabilities Fund Limited maintains its own liability risk register, which contains those risks which the board considers might impact EDF Energy's costs of defueling and decommissioning and the resulting liabilities over the next 100 years. These risks are identified by maintaining a dialogue with EDF Energy, 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.

One significant risk is the unplanned, early end of generation, which leads to increased costs, mainly arising from extended defueling. The situation is now becoming more certain as 3 stations have ceased generation and preparations for defueling the other AGR stations are well advanced and benefit from the experience of Hunterston B and Hinkley Point B.

Entry to the decommissioning phase has brought a major change in activity levels and Nuclear Liabilities Fund Limited cash flows. There continues to be a risk of the liabilities increasing as EDF Energy'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 and the AGR Operating Programme specifically works on addressing the many risks that can impact on defueling.

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 Nuclear Liabilities Fund Limited will develop in the future.

Focus on delivering sustainable, positive ESG outcomes continues, and the scenario modelling undertaken in 2021 was repeated to ensure that the board continues to monitor climate change risks that might impact the MAP. The board and investment committee work together, with advice from our fiduciary manager, to set and implement Nuclear Liabilities Fund Limited's investment strategy within this Risk Appetite Framework.

Governance and operational risks

The audit committee is responsible for the management of Nuclear Liabilities Fund Limited's governance and operational risk registers. Oversight of investment risks is provided by both the audit and the investment committees. 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 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. A noteable area of improvement over the year has been in documenting processes and procedures.

Solvency and liquidity risks

The view of the directors is that Nuclear Liabilities Fund Limited is in a strong position when considering solvency and liquidity risks.

The directors expect to be able to meet the company's liabilities including its obligations to discharge decommissioning liabilities under the NLFA for the foreseeable future. Following the most recent Annual Funding Review, it was agreed that there was no requirement for additional contributions at this time.

In addition, the substantial liquid assets that the company holds within the National Loans Fund ensure that payments and liabilities will continue to be met as they fall due, and this is expected to the case for a number of years into the future.

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.

Above image: Hinkley Point B.
Photo credit: Pete Vaiders, EDF Energy

Directors' report

For the year ended 31 March 2022

The directors present their Annual Report together with the financial statements and auditor's report for the year ended 31 March 2022.

Results

In the fiscal year 2021–22 Nuclear Liabilities Fund Limited's assets held to meet the liabilities increased by £5,757,329,252 to £20,528,950,699 (in the year 2020–21 the increase was £5,397,364,179 to £14,771,621,447).

At this early stage in 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 Nuclear Liabilities Fund Limited is to receive and hold monies, investments and other assets, so as to secure funding for discharging relevant liabilities relating to the decommissioning of eight nuclear power stations currently operated by EDF Energy and to make payments to EDF Energy in accordance with provisions of the Nuclear Liabilities Funding Agreement. Accordingly, in the directors' opinion, an alternative method of presenting the financial statements would be to use a fund account approach as follows:

	2022 £	2021 £
Assets less liabilities held to meet relevant liabilities – value at start of the year	14,771,621,447	9,374,257,268
Contributions from EDF Energy	23,398,841	13,025,610
Amounts payable to EDF Energy	(240,887,715)	(65,150,439)
Contributions from BEIS	5,610,000,000	5,070,000,000
Operating profit on ordinary activities before tax	462,787,238	428,768,473
Tax on profit on ordinary activities	(97,969,112)	(49,279,465)
Assets less liabilities held to meet relevant liabilities – value at end of the year	20,528,950,699	14,771,621,447

Principal activity and review of business

The principal activities of 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 Nuclear Liability Fund's activities during the course of the fiscal year 2021–22, 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 risks facing the fund and the Risk Appetite Statements are covered in the Principal Risks and Uncertainties section on pages 16 and 17.

The directors consider the result for the fiscal year 2021–22 to be consistent with the objectives set out in the Articles of Association of the company 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 (retired August 2022)

Mr R Armour (retired December 2021)

Mrs C Cripps (retired November 2021)

Dr M Grant

Mr C Heffer, interim (December 2021 – February 2022)

Mrs A McNeil (appointed December 2021)

Mrs M Stephens

In their capacity as trustees of the Nuclear Trust (a public trust established under Scots Law by a deed dated 27 March 1996 between EDF Energy 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 directors jointly have a legal interest in 98 Ordinary Shares of £1 each in Nuclear Liabilities Fund Limited.

Appointments

In November 2021, Mrs Catherine Cripps stepped down from the board. Mr Chris Heffer, was appointed as an interim director from 2 December 2021 until 28 February 2022.

Mr Robert Armour stepped down from the Board in December 2021 and Mrs Alison McNeil was appointed as director in December 2021.

Following the end of the fiscal year 2021–22, Mr Luke Nunneley, was appointed as director and chair of the investment committee, in May 2022. Mr Richard Wohanka stepped down from the board in August 2022 and Chris Hitchen was appointed as director and chair of the board on 29 August 2022.

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 2022.

Donations

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. 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 2021–22, therefore there is no requirement to report.

Directors' report

Governance

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

The UK Corporate Governance Code 2018

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 Nuclear Liabilities Fund Limited, is a means of embedding best practice in corporate governance. The directors consider that for the fiscal year 2021–22 Nuclear Liabilities Fund Limited was compliant with the Code so far as it is relevant and proportionate to a non traded public sector company and taking account of the purpose of the company, its constitutional arrangements and the limited size of its board and executive operations.

Section 172 Statement

S172 Directors' Duties

The directors have regard to the interests of 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 14.

— 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 Corporate Governance in Central Government Departments: Code of Good Practice, the Code of Conduct for Board Members of Public Bodies and the Nolan Principles, where these are relevant for a public trust such as the Nuclear Trust and its subsidiary, 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 EDF Energy. Under the Articles of Association BEIS may remove any of the A directors and EDF Energy may remove any of the B directors. The appointment process for the A directors is conducted by the Cabinet Office and is regulated by the Commissioner for Public Appointments.

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 to form judgements, including:

— updates on financial performance

— updates on 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 2021–22 given to it by 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 Nuclear Liabilities Fund Limited's position and prospects. It takes note of the guidance from the Financial Reporting Council paper, "Guidance on the Going Concern Basis and Reporting on Solvency and Liquidity Risks".

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 our website.

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

Shortly after the end of the fiscal year 2021–22, an externally facilitated review of board effectiveness was carried out. All members of the board, key advisers and stakeholders were consulted. Independent Audit Limited were appointed by the board to carry out an external review. Independent Audit had carried out the last external review, three years ago. They found that the board had faced substantial changes over the last three years and concluded that the board had weathered these well. The review noted the dedication of the directors, the input of experienced advisers and the excellent work of the enlarged executive team.

There was positive feedback on risk management and financial control which have both been strengthened over the year, with processes and procedures more widely documented. Consistent implementation of all processes and procedures will be important moving forward.

Stakeholder management was another area of focus for the review. This continues to be an important area for the board and the review found that there are strong and effective relationships with stakeholders.

Given the enlargement to the executive team, it was noted that there is now an opportunity for Nuclear Liabilities Fund Limited to review the roles of the board, the board committees, executive and their respective delegations, with the aim of allowing the board to step back from the detail and optimise oversight.

Board effectiveness review 2022

The review highlighted the following key areas for action:

i. review of the roles, interactions and delegations between the board, committees and executive

ii. improvements to documenting processes and procedures should be built upon

iii. the board composition and skillset should be continually reviewed. Following significant changes to the composition of the board, building relationships, both internal and external, will be a focus.

Finally, composition of the board was highlighted as an important area for focus. The recent changes to the board mean that efforts to build strong relationships must be made, and skill sets and future composition of the board should be given due consideration.

The investment committee

Until the retirement of Catherine Cripps in November 2021, the investment committee comprised three directors: Catherine Cripps, Margaret Stephens and Richard Wohanka. Upon Catherine's retiral from the board and the investment committee in November 2021 Martin Grant joined the investment committee and became interim chair, pending the appointment of Catherine's successor. Following the end of the fiscal year, in May 2022, Luke Nunneley was appointed chair.

The committee is supported by an independent investment adviser who provides an additional layer of challenge and scrutiny, both to the investment activities of 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 2021–22, the audit committee comprised of Robert Armour, Martin Grant and Margaret Stephens. Margaret has chaired the audit committee since July 2020. Upon Robert's retiral from the board and Alison McNeil's appointment in December 2021, Alison joined the audit committee.

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 Margaret is a qualified chartered accountant and has relevant financial expertise and experience in other organisations of service on audit committees. The report of the audit committee, which forms part of this governance statement, can be found on page 27.

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' (BEIS and EDF Energy as holders of an A and a B special share respectively in the company) 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 employees. As we look towards the transfer of stations, post-defueling from EDF Energy to the Nuclear Decommissioning Authority, it will be important to consider the skillset and composition of the board, and support provided by the executive and independent advisers.

The remuneration and nomination committee makes recommendations to the Special Shareholders on directors' remuneration. Employees' remuneration is considered on an annual basis and benchmarking is used to inform this process.

The board

The directors meet regularly to review the overall affairs of Nuclear Liabilities Fund Limited and to consider business specifically reserved for the board's decision. Nine 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 BEIS, NDA, EDF Energy 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.

The chair received a salary of £31,200 in the fiscal year, whilst the other directors received £28,500 per annum pro rata on a monthly basis. It should be noted that as an interim appointment from BEIS, Mr Chris Heffer did not receive a salary.

Internal financial controls

The directors have overall responsibility for the internal financial control systems of 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.

Attendance table – 1 April 2021 to 31 March 2022

	Board meetings* (9)	Investment committee meetings* (7)	Audit committee meetings (4)	Remuneration & nomination committee meetings (2)
Mrs Alison McNeil[1]	3 (3)		1 (1)	1 (1)
Mrs Catherine Cripps[2]	4 (4)	4 (4)		1 (1)
Mr Chris Heffer[3]	2 (2)	2 (3)		
Mrs Margaret Stephens	9	7	4	2
Dr Martin Grant	9	3 (3)	4	2
Mr Richard Wohanka	9	7		2
Mr Robert Armour[4]	6 (6)		3 (3)	1 (1)

Notes:

1 Alison McNeil, appointed on 16 December 2021

2 Catherine Cripps, retired on 4 November 2021

3 Chris Heffer, interim Trustee, 2 December 2021 to 28 February 2022

4 Robert Armour, retired on 16 December 2021

There were 3 extraordinary board meetings and 1 extraordinary investment committee meeting.

Where there is a second 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 second number in brackets, the individual attended all meetings held in the fiscal year.

— Dr M Grant was appointed interim Chair of the Investment Committee between 4 November 2021 and 31 March 2022 as Mrs C Cripps retired on 4 November 2021.

— Mr C Heffer was appointed by BEIS as an interim director for the period 2 December 2021 to 28 February 2022.

— Mrs A McNeil was appointed by EDF Energy to replace Mr R Armour on 16 December 2021.

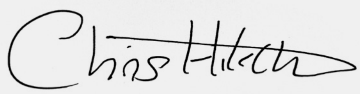
The investment committee receives updates from the fiduciary manager regarding the quality and effectiveness of the accounting records and management information maintained on behalf of Nuclear Liabilities Fund Limited and any issues are escalated to the board. The board reviews the quarterly and annual 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 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 Nuclear Liabilities Fund Limited is to receive and hold monies, investments and other assets, so as to secure funding for discharging relevant liabilities related to the decommissioning of eight nuclear power stations currently operated by EDF Energy and to make payment to EDF Energy in accordance with the provisions of the NLFA. 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.£1.6bn. 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, 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.



Chris Hitchen
Chair

Citypoint
65 Haymarket Terrace
Edinburgh EH12 5HD

16 November 2022

Directors

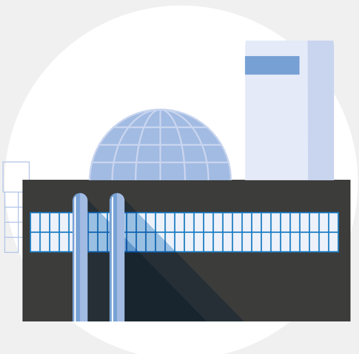
Statement of directors' responsibilities

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:

Chris Hitchen

Chris Hitchen
Chair

16 November 2022

The directors of Nuclear Liabilities Fund Limited for the fiscal year ending 31 March 2022.

Richard Wohanka, CBE

Director (retired in August 2022)

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.

Robert Armour, OBE

Director (retired in December 2021)

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

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

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.

Margaret Stephens

Director

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.

Dr Martin Grant, FREng

Director

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

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

Melissa Hope

Chief Executive

Melissa Hope was appointed as Company Secretary for the fund by the directors in November 2017 and in March 2021 was appointed to the role of Chief Executive.

Alison McNeil

Director (appointed in December 2021)

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

Alison was appointed as a director and trustee in December 2021, having been nominated by EDF Energy.

Report from the audit committee

Report from the audit committee for the year ended 31 March 2022

Meetings and membership

The audit committee met formally four times during the year and also held additional meetings on accounting and audit matters.

The audit committee comprises three directors. Details of those serving during the fiscal year are set out on pages 22, 25 and 26 and full biographies, including qualifications of the current members, are available on Nuclear Liabilities Fund Limited's website.

Nuclear Liabilities Fund Limited outsources accounting and book-keeping to BDO LLP ('BDO'). BDO is overseen by the audit committee and representatives of BDO attend the audit committee meetings. From time to time, we invite the external auditor to attend meetings to report on the quality of accounting procedures and their findings in connection with the statutory audit.

Responsibilities

The primary responsibilities of the audit committee are to:

- monitor the integrity of all financial statements
- review and make recommendations to the board on significant financial reporting issues and judgements which they contain, having regard to matters raised by the external auditor
- keep under review the adequacy and effectiveness of internal financial controls systems, payments processes and policies
- oversee the governance and operational risk register and carry out an annual review of all risk registers, to satisfy itself that the approach and process for selecting risks is working satisfactorily and then report to the board, which retains primary responsibility for risk management
- be responsible for operational compliance and controls including procedures for the detection and prevention of fraud and bribery and the performance of service providers
- oversee the arrangements for the annual funding review and assessment of fund sufficiency.

Significant issues considered in the year

The most significant matters which the audit committee considered were fund valuation and issues in the context of the financial statements.

As detailed on page 22 under the heading of internal financial controls, the fiduciary manager performs operational due diligence on investment managers which includes a review of investment valuation policies. Findings are reported to the investment committee.

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 company's financial statements.

The audit committee has received and discussed with the auditor their report on the results of the audit. We have reviewed the Annual Report and Financial Statements and are satisfied with the clarity and completeness of disclosure and the appropriateness of the accounting policies adopted and have recommended these to the board for approval.

Effectiveness review

The audit committee has carried out an internal review of its effectiveness. Notwithstanding a period of change, the committee considers that it has continued to function well by providing a critical perspective and challenge and that it has exerted an appropriate level of influence. Continuous improvement work continues, with key aims being to ensure that committee meetings are focussed and aligned with a programme of review activity.

Internal audit

Nuclear Liabilities Fund Limited does not have an internal audit function. The audit committee considers the existing controls and monitoring and reporting by third parties to be appropriate and adequate but will review this annually.

External audit

Grant Thornton UK LLP has provided external audit services since fiscal year 2016–17. No significant concerns with the quality and effectiveness of the 2020–21 audit were identified and the auditor provides no non-audit services to the company. The audit committee was satisfied that the auditor has fulfilled its obligations and remains independent and objective and recommended to the board the re-appointment of Grant Thornton UK LLP as auditor for the fiscal year 2021–22.

Margaret Stephens
Chair of the audit committee

16 November 2022

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 2022, 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 UK-adopted international accounting standards.

In our opinion, the financial statements:

— give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;

— have been properly prepared in accordance with UK-adopted international accounting standards; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to International Financial Reporting Standards (IFRSs) as issued by the IASB

As explained in note 1 to the financial statements, the company in addition to applying UK-adopted international accounting standards, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

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.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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 the industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and management. We determined that the most significant laws and regulations were UK-adopted international accounting standards and the Companies Act 2006;
- We enquired of the directors and management to obtain an understanding of how the Company is complying with those legal and regulatory frameworks and whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries through our review of the minutes of the Company's board and audit committee meetings;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:

- evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
- testing journal entries, including manual journal entries processed at the year-end for financial statements preparation; and
- challenging the assumptions and judgements made by management in its significant accounting estimates.

— These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it; The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
- knowledge of the industry in which the Company operates;
- understanding of the legal and regulatory frameworks applicable to the Company.

— We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

16 November 2022

Financial statements

Statement of comprehensive income for the year ended 31 March 2022

	Notes	2022 £	2021 £
Investment income	2	26,259,657	32,872,763
Realised and unrealised gains on financial assets at fair value through profit and loss	8	430,260,326	413,247,298
Realised and unrealised gains/(losses) on investment properties	7	16,957,233	(3,728,967)
Net foreign exchange losses		(971,732)	(3,198,659)
Investment expenses	3	(8,208,283)	(8,869,475)
Administrative expenses		(1,509,963)	(1,554,487)
Operating profit on ordinary activities before relevant liabilities provision and taxation	4	462,787,238	428,768,473
Transfer to relevant liabilities provision	14	(364,818,126)	(379,489,008)
Profit on ordinary activities before tax		97,969,112	49,279,465
Tax on profit on ordinary activities	6	(97,969,112)	(49,279,465)
Financial result and total comprehensive income for the year		-	-

The accompanying notes and accounting policies on pages 38 to 60 form an integral part of these financial statements.

Financial statements

Statement of financial position at 31 March 2022

	Notes	2022 £	2021 £
ASSETS			
Non-current assets			
Investment properties	7	41,200,000	107,250,000
Financial assets at fair value through profit and loss	8	3,079,722,887	2,749,460,163
		3,120,922,887	2,856,710,163
CURRENT ASSETS			
Other receivables	9	26,907,089	85,519,803
Cash and cash equivalents	10	17,455,962,853	11,878,911,297
		17,482,869,942	11,964,431,100
LIABILITIES			
Current liabilities			
Trade and other payables	11	(6,480,159)	(27,324,373)
		(6,480,159)	(27,324,373)
TOTAL ASSETS LESS CURRENT LIABILITIES	12	20,597,312,670	14,793,816,890
NON-CURRENT LIABILITIES			
Relevant liabilities provision	14	(20,528,950,699)	(14,771,621,447)
Deferred tax provision	14	(68,361,871)	(22,195,343)
		(20,597,312,570)	(14,793,816,790)
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 38 to 60 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 Signed on behalf of the Board of Directors.

Chris Hitchen
Chair

Financial statements

Statement of changes in equity for the year ended 31 March 2022

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2021	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2022	100	100
BALANCE AT 1 APRIL 2020	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2021	100	100

The accompanying notes and accounting policies on pages 38 to 60 form an integral part of these financial statements.

Financial statements

Statement of cash flows for the year ended 31 March 2022

	2022 £	2021 £
Cash flows from operating activities		
Operating profit on ordinary activities before relevant liabilities provision and taxation	462,787,238	428,768,473
Adjustments for:		
Realised and unrealised gains on financial assets at fair value through profit and loss	(430,260,326)	(413,247,298)
Realised and unrealised (gains)/losses on investment properties	(16,957,233)	3,728,967
Decrease/(increase) in other receivables	52,332,893	(55,343,833)
Decrease in trade and other payables	(684,347)	(4,742,514)
Cash generated/(used) from operations	67,218,225	(40,836,205)
Corporation tax paid	(45,437,897)	(25,645,018)
Net cash generated/(used) from operating activities	21,780,328	(66,481,223)
Cash flows from investing activities		
Payments to acquire investment properties	(4,780,767)	(6,653,967)
Proceeds from the sale of investment properties	87,788,000	-
Payments to acquire financial assets held at fair value through profit and loss	(724,484,395)	(901,508,107)
Proceeds from the sale of financial assets held at fair value through profit and loss	824,481,997	1,309,228,982
Net cash generated in investing activities	183,004,835	401,066,908
Cash flows from financing activities		
Funding from BEIS	5,610,000,000	5,070,000,000
Contributions from EDF Energy	23,398,842	13,025,610
Payments to EDF Energy in respect of relevant liabilities	(261,132,449)	(67,765,150)
Net cash received for financing activities	5,372,266,393	5,015,260,460
Net increase in cash and cash equivalents	5,577,051,556	5,349,846,145
Cash and cash equivalents at start of the year	11,878,911,297	6,529,065,152
Cash and cash equivalents at end of the year (note 10)	17,455,962,853	11,878,911,297

The accompanying notes and accounting policies on pages 38 to 60 form an integral part of these financial statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2022

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 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 EDF Energy 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 EDF Energy and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £1,618m. 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 £20.6bn, 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) Relevant liabilities

In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the relevant liabilities of EDF Energy. The funding of these relevant 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 EDF Energy. The contributions from EDF Energy represent an increase in the relevant 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 exdividend. 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.

(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 relevant 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.

Financial statements

Notes to the financial statements for the year ended 31 March 2022

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 2022

2 Investment income

	2022 £	2021 £
Interest on cash, short-term cash and loan investments	15,726,433	18,432,825
Income from listed investments	5,617,885	8,248,347
Rent receivable	4,915,339	6,191,591
	26,259,657	32,872,763

3 Investment expenses

	2022 £	2021 £
Investment management charges	7,521,257	7,578,431
Other investment expenses	687,026	1,291,044
	8,208,283	8,869,475

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 relevant liabilities provision and taxation

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

	2022 £	2021 £
Staff salaries and directors' emoluments	391,667	332,750
Auditor's remuneration – audit fees	59,000	54,000
Defined contribution pension cost	26,253	13,103

5 Staff costs

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

	2022 £	2021 £
Wages and salaries	391,667	332,750
Social security costs	40,160	35,467
Defined contribution pension cost	26,253	13,103
	458,080	381,320

Wages and salaries comprise staff salaries of £258,013 (2021: £157,550) and directors' emoluments of £133,654 (2021: £175,200). The average number of persons acting as directors during the year was five (2021: five). There were four employees at the end of the fiscal year 2021-22 (2020-21: two).

Directors' emoluments of £133,654 (2021: £175,200) comprised £133,654 (2021: £145,200) in respect of normal annual board duties and £Nil (2021: £30,000) 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

	2022 £	2021 £
Current tax		
UK corporation tax at 19% (2021: 19%)	44,090,745	27,929,649
Adjustments in respect of prior periods	7,711,839	1,631,031
Total current tax	51,802,584	29,560,680
Origination and reversal of temporary differences	19,280,524	19,718,785
Adjustments in respect of prior periods	19,984,214	-
Effect of tax rate change on opening balance	6,901,790	-
Total deferred tax movement	46,166,528	19,718,785
Tax on profit on ordinary activities	97,969,112	49,279,465

Financial statements

Notes to the financial statements for the year ended 31 March 2022

6 Tax on profit on ordinary activities (continued)

b. Factors affecting tax charge for year

	2022 **£**	**2021** **£**
Operating profit on ordinary activities before relevant liabilities provision and taxation	462,787,238	428,768,473
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	87,929,575	81,466,010
Effects of:		
Income not taxable for tax purposes	(34,152,574)	(22,054,005)
Difference between accounting and taxable gains on unrealised gains and losses	-	228,191
Remeasurement of deferred tax for changes in tax rates	16,584,453	-
Indexation allowance on chargeable gains	(249,448)	-
Deferred tax not recognised	-	(12,620,905)
Adjustments to current tax in respect of previous periods	7,711,839	1,631,031
Adjustments to deferred tax in respect of previous periods	19,984,214	-
Expenses not deductible for tax purposes	-	629,143
Other tax adjustments, reliefs and transfers	161,053	-
Total tax charge for year	97,969,112	49,279,465

There is no allowable deduction for the provision for relevant 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.

c. Factors that may affect future tax charges

The UK corporation tax rate remained unchanged at 19% throughout the year ended 31 March 2022.

Finance Bill 2021, which was substantively enacted on 24 May 2021, incorporated a proposed increase of the corporation tax rate to 25% effective from 1 April 2023. As a result, deferred tax balances in respect of temporary differences expected to reverse after 31 March 2023 are measured at the 25% tax rate.

7 Investment properties

Fair value model

The fair values of the investment properties as at 31 March 2022 were determined by CBRE Limited (2021: 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:

	2022 £	2021 £
Rental income	4,915,339	6,191,591
Direct operating expenses on properties that generated rental income	507,729	671,621
Direct operating expenses on properties that did not generate rental income	143,026	138,332

Reconciliation of carrying amounts:

	Freehold Under Construction	Freehold £	Total 2022 £	Total 2021 £
Valuation				
At start of the year	12,100,000	95,150,000	107,250,000	104,325,000
Additions	4,641,465	139,302	4,780,767	6,653,967
Transfer between classes	(16,741,465)	16,741,465	-	-
Disposal proceeds	-	(87,788,000)	(87,788,000)	-
Realised and unrealised gains/(losses)*	-	16,957,233	16,957,233	(3,728,967)
At end of the year	-	41,200,000	41,200,000	107,250,000

* The realised and unrealised gains/(losses) are included in the statement of comprehensive income on page 34 and comprise: net realised gains of £22,867,952 (2021: £Nil) and net unrealised losses of £5,910,719 (2021: £3,728,967).

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Notes to the financial statements for the year ended 31 March 2022

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

	Freehold Under Construction	Freehold £	Total 2022 £	Total 2021 £
Cost				
At start of the year	11,558,240	90,858,631	102,416,871	95,762,904
Additions	4,641,465	139,302	4,780,767	6,653,967
Transfer between classes	(16,199,705)	16,199,705	-	-
Disposals	-	(64,920,048)	(64,920,048)	-
At end of the year	-	42,277,590	42,277,590	102,416,871

8 Financial assets at fair value through profit and loss

	2022 £	2021 £
Valuation		
At start of the year	2,749,460,163	2,743,933,740
Additions	724,484,395	901,508,107
Disposals proceeds	(824,481,997)	(1,309,228,982)
Realised and unrealised gains**	430,260,326	413,247,298
At end of the year	3,079,722,887	2,749,460,163

** The realised and unrealised gains/losses are included in the statement of comprehensive income on page 34 and include: net realised gains of £246,986,968 (2021: £176,335,380) and net unrealised gains of £183,273,358 (2021: £236,911,918).

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

	2022 £	2021 £
Cost		
At start of the year	2,375,311,357	2,606,696,852
Additions	724,484,395	901,508,107
Disposals	(577,464,063)	(1,132,893,602)
At end of the year	2,522,331,689	2,375,311,357

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

	2022 £	2021 £
Level 1 fair value measurements (note 13)		
UK pooled funds	-	234,877,399
UK equities	36,472,447	34,151,163
Overseas equities:	543,809,950	584,922,794
	580,282,397	853,951,356
Unlisted investments		
Level 3 fair value measurements (note 13)		
Loan to British Business Bank Plc	75,000,000	135,000,000
Investments in subsidiaries (see below)	1,221,567,690	958,358,493
Investments in associates and joint ventures – ownership interest of greater than 20% (see below)	361,129,488	274,530,636
Investments in associates and joint ventures – ownership interest of less than 20%	841,743,312	527,619,678
	2,499,440,490	1,895,508,807
	3,079,722,887	2,749,460,163

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".

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Notes to the financial statements for the year ended 31 March 2022

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

Investments in subsidiaries

	2022 £	2021 £
Adams Street UK Mid-Market Solutions LP	269,443,846	281,236,940
Equitix MA 1 LP	476,501,850	456,593,940
AEW UK Urban Real Estate Fund LP	18,233,195	-
HarbourVest 2017 Global AIF LP	92,123,677	78,966,126
ICG Strategic Equity Side Car II LP	365,265,122	141,561,487
	1,221,567,690	958,358,493

Summary of unconsolidated subsidiaries

		Ownership Interest	
	Registered in	2022	2021
Adams Street UK Mid-Market Solutions LP	Scotland	99.99%	99.99%
Equitix MA 1 LP	England and Wales	99.00%	99.00%
AEW UK Urban Real Estate Fund LP	England and Wales	70.29%	-
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 (2021: £202,905,357) 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 £400,000,000 (2021: £387,482,915) 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 £120,000,000 of which £15,163,407 (2021: £12,381,213) was drawn as at the year-end.

HarbourVest 2017 Global AIF LP invests in 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 $89,375,000 (£68,022,680) (2021: US $71,473,995 – £51,807,767) 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 $378,000,000 of which US $339,045,370 (£258,045,034) (2021: US $130,374,694 – £102,113,001) was drawn as at the year-end.

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

	2022 £	2021 £
Macquarie Private Debt Funds ICAV	179,409,577	126,456,980
Alcentra UK Direct Lending No 1 LP	27,244,726	34,796,932
HarbourVest 2018 Global Feeder AIF LP	154,475,185	101,996,200
AEW UK Urban Real Estate Fund LP	-	11,280,524
	361,129,488	274,530,636

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

		Ownership Interest	
	Registered in	2022	2021
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 201,816,432 (£171,481,376) (2021: EUR 144,020,340 – £126,804,840) 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 £41,650,750 (2021: £54,103,267) was drawn as at the year-end.

HarbourVest 2018 Global Feeder AIF LP invests in 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 $120,250,000 (£91,521,425) (2021: US $99,677,908 – £77,705,512) was drawn as at the year-end.

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Notes to the financial statements for the year ended 31 March 2022

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

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 2022	Fair value hierarchy
Investments in subsidiaries	£1,221,567,690 (2021: £958,358,493)	Level 3
Investments in associates and joint ventures – ownership interest of greater than 20%	£361,129,488 (2021: £274,530,636)	Level 3
Investments in associates and joint ventures – ownership interest of less than 20%	£841,743,312 (2021: £527,619,678)	Level 3
Loan to British Business Bank Plc	£75,000,000 (2021: £135,000,000)	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

	2022 £	2021 £
Other receivables		
Other debtors	14,232,093	77,293,894
Accrued income	12,674,996	1,946,089
Corporation tax recoverable	-	6,279,820
	26,907,089	85,519,803

Other debtors of £77,293,894 as at 31 March 2021 included £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.

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:

	2022 £	**2021 £**
Cash balances with banks	140,169,453	14,395,303
Short-term cash investments	17,315,793,400	11,864,515,994
	17,455,962,853	11,878,911,297

11 Trade and other payables

	2022 £	**2021 £**
Trade creditors	131,120	130,880
Corporation tax	84,867	-
Other tax and social security	35,288	22,182
Other creditors	745,833	352,975
Accruals and deferred income	5,483,051	26,818,336
	6,480,159	27,324,373

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Notes to the financial statements for the year ended 31 March 2022

12 Currency classification of total assets less current liabilities

Total assets less current liabilities as at 31 March 2022 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	1,558,683,545	17,450,049,785	26,318,084	(6,480,159)	19,028,571,255
US Dollar	1,096,726,962	4,924,439	162,295	-	1,101,813,696
Euro	250,859,727	161,545	-	-	251,021,272
Japanese Yen	23,236,898	16,681	2,760	-	23,256,339
Other Currencies	191,415,755	810,403	423,950	-	192,650,108
	3,120,922,887	17,455,962,853	26,907,089	(6,480,159)	20,597,312,670

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

Currency	Non-current assets £	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
Euro	215,669,029	254,037	-	-	215,923,066
Japanese Yen	35,815,780	6,344	3,214	-	35,825,338
Other currencies	224,550,991	1,728,239	769,004	-	227,048,234
	2,856,710,163	11,878,911,297	85,519,803	(27,324,373)	14,793,816,890

13 Financial instruments and financial risk management

Categories of financial instruments as at 31 March 2022:

	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	-	-	3,079,722,887
Other debtors	14,232,093	-	-
Accrued income	12,674,996	-	-
Cash balances with banks	140,169,453	-	-
Short-term cash investments	17,315,793,400	-	-
Financial liabilities			
Trade and other payables	-	6,360,004	-

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	-

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 2022

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 2022 amounting to £580,282,397 (2021: £853,951,356) 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 2022 (2021: £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 2022 amounting to £2,499,440,490 (2021: £1,895,508,807) 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:

	2022 £	2021 £
Valuation		
At start of the year	1,895,508,807	2,012,726,307
Additions	518,865,203	246,999,983
Disposal proceeds	(158,556,912)	(464,443,924)
Realised and unrealised gains***	243,623,392	100,226,441
At end of the year	2,499,440,490	1,895,508,807

*** These realised and unrealised gains are included in the statement of comprehensive income on page 34 and include: net realised losses of £10,050,561 (2021: realised gains £6,943,924) and net unrealised gains of £253,673,953 (2021: £93,282,517).

During the year the Fund received profit distributions from the above Level 3 investments amounting to £146,424,801 (2021: £53,784,168).

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 relevant 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 relevant liabilities that are expected to fall upon the Fund over the next three years amount to approximately £1,618m (2021: £1,593m). The future long-term liability of the Fund in respect of these relevant 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.

	2022 £	2021 £
Listed investments price risk sensitivity analysis		
If there was a 10% (2021: 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:	58,028,240	85,395,135

The impact of a 10% (2021: 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.

	2022 £	2021 £
Unlisted investments price risk sensitivity analysis		
If there was a 10% (2021: 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:	249,944,049	189,550,881

The Board considers a movement of 10% (2021: 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 2022

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 2022:

	Value subject to fixed rate £	Value subject to variable rate £
Loans to British Business Bank Plc	75,000,000	-
Cash balances with banks	-	140,169,453
Short-term cash investments	16,963,795,384	351,998,016

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

The average annual rate of return before tax for short-term cash investments was 0.69% (2021: 0.22%) and the annual rate of return before tax for British Business Bank Plc loan was 1.5% (2021: 2%).

Interest rate risk sensitivity analysis

	2022 £	2021 £
If there was a 5% (2021: 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	24,608,373	441,547

The impact of a 5% (2021: 0.50%) change has been selected as this is considered reasonable given the current level of interest rates observed both on a historical basis and market expectations for future movement.

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

	2022 £	2021 £
If there was a 10% (2021: 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	110,181,370	87,331,730
Euro	25,102,127	21,592,307
Japanese Yen	2,325,634	3,582,534
Other currencies	19,265,011	22,704,823

A sensitivity of 10% (2021: 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 £	Relevant liabilities provision £	Total 2022 £	Total 2021 £
At 1 April	22,195,343	14,771,621,447	14,793,816,790	9,376,733,826
BEIS funding	-	5,610,000,000	5,610,000,000	5,070,000,000
EDF Energy contributions	-	23,398,841	23,398,841	13,025,610
Transfer from statement of comprehensive income	-	364,818,126	364,818,126	379,489,008
Payable to EDF Energy	-	(240,887,715)	(240,887,715)	(65,150,439)
Deferred tax movement	46,166,528	-	46,166,528	19,718,785
At 31 March	68,361,871	20,528,950,699	20,597,312,570	14,793,816,790

Deferred tax balance consists of:

	2022 £	2021 £
Accelerated capital allowances	505,099	1,901,074
Unrealised gains on investments	68,596,786	19,954,593
Unrealised gains/losses on properties	(740,014)	339,676
	68,361,871	22,195,343

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Notes to the financial statements for the year ended 31 March 2022

14 Non-current liabilities (continued)

Relevant liabilities provision

On 18 March 2022, BEIS provided further contribution of £5.61bn to the Fund. The purpose of the funding was to increase the Fund's public sector assets, by making £5.61bn available to the fund in the form of cash deposits in the National Loans Fund. The contribution was at the option of BEIS and the alternative would have been to re-allocate funds between the National Loans Fund and the MAP. Subsequent to the year end, the Annual Funding Review was completed for the fiscal year 2021-22 and concluded no additional contributions or re-allocations were required.

In accordance with the Contribution Agreement, fixed contributions are received quarterly from EDF Energy in the sum of £2m (2021: £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 power station reactor. The Fund also receives an annual contribution from EDF Energy 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, BEIS and the NDA EDF Energy Team are deducted. In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the relevant liabilities of EDF Energy, as represented by the payments to EDF Energy in the above table.

The amount shown under relevant liabilities provision represents the Fund's future potential liability to the Licensee (EDF Energy) at the date of the statement of financial position. In accordance with the NLFA, the liability of the Fund in respect of relevant 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 relevant 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 relevant liabilities equal the total net assets less current liabilities and called up share capital of the Fund.

The process by which EDF Energy determines its relevant liabilities and prepares cost estimates is prescribed by the NLFA. All cost estimates are subject to review, scrutiny and approval by the NLA.

Deferred tax

Deferred tax provision takes account of deferred tax payable on the sale of investment properties and financial assets at fair value through the Statement of Comprehensive Income to the extent that the carrying value of those assets exceeds the estimated tax basis of those assets.

15 Share capital

At 31 March 2021 and 31 March 2022

	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, during the financial year, was jointly held by EDF Energy Nuclear Generation Limited and British Energy Generation (UK) Limited (together "the holder of the B special share"). The B special share is now held in the sole name of EDF Energy Nuclear Generation Limited.

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 2022 under non-cancellable operating leases as follows:

	2022 £	2021 £
Within one year	2,660,962	6,028,429
Between two and five years	8,274,151	21,055,413
In more than five years	14,751,833	27,869,561

No contingent rentals were recognised in income.

As at 31 March 2022 the Fund held a total of 25 leases, 6 of which expire within five years of the statement of financial position date, with the remaining 19 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 2022

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 2022 (2021 £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 £88,917 (2021: £114,945) was paid by the Fund to BEIS for their services in administering the Nuclear Liabilities Funding Agreement.

18 Capital management

The Fund's strategy is to effectively manage the capital in accordance with the Statement of Investment Principles and to seek to maximise long-term returns to fulfil the Fund's purpose.

Company information

Torness Turbine Hall.
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Directors

Mr R Armour (until 16 December 2021)
Mrs C Cripps (until 4 November 2021)
Dr M Grant
Mr C Hitchen (from 29 August 2022)
Mrs A McNeil (from 16 December 2021)
Mr L Nunneley (from 13 May 2022)
Mrs M Stephens
Mr R Wohanka (until 19 August 2022)

Secretary

Mrs M Hope
c/o BDO LLP
55 Baker Street
London W1U 7EU

Company Number

SC164685

Registered Office

Citypoint
65 Haymarket Terrace
Edinburgh EH12 5HD

Accountants and tax advisers

BDO LLP
55 Baker Street
London W1U 7EU

Auditor

Grant Thornton UK LLP
Chartered Accountants
London

Design: red-stone.com

Nuclear
Liabilities Fund