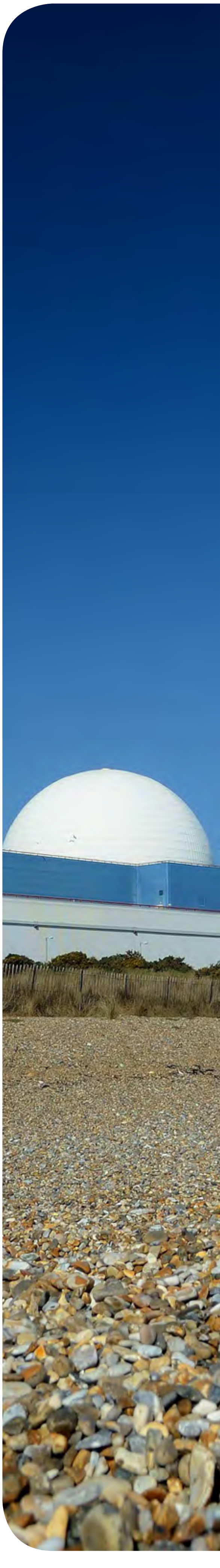
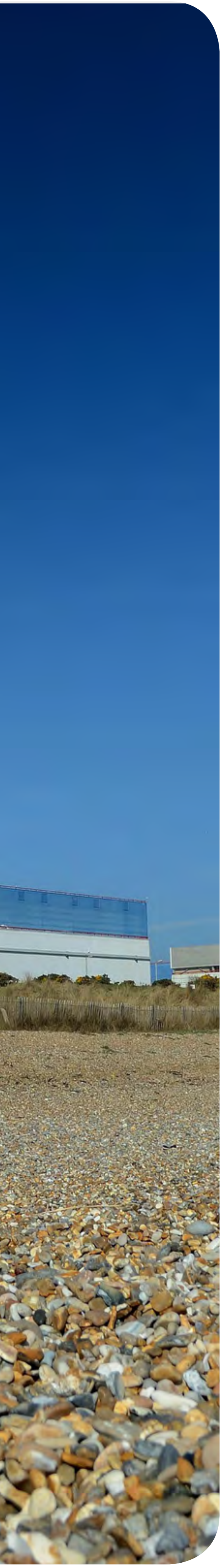
Nuclear Liabilities Fund

Protecting future generations

Annual report and accounts 2023



Nuclear Liabilities Fund Limited
nlf.uk.net



Nuclear Liabilities Fund Limited provides funding to protect future generations from environmental hazards resulting from electricity generated and enjoyed by previous generations.

Contents

Our purpose and strategic objectives

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 Advanced Gas-cooled Reactor ('AGR') stations. Final site clearance is expected to take over 100 years from end of generation.

EDF Energy's UK nuclear power station sites

- Operational PWR Power Station site
- Operational AGR Power Station site
- Decommissioning AGR Power Station site

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**
Monitoring investment performance	see page **8**
Engaging with stakeholders	see page **14**
Managing risks	see page **17**
Good corporate governance	see page **22**

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 Energy Security and Net Zero (DESNZ).

Statement from the Chair

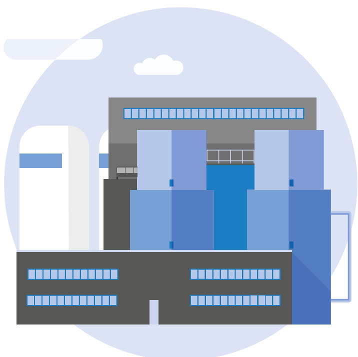
Protecting future generations

Chris Hitchen
Chair

I am delighted to introduce the Nuclear Liabilities Fund Limited Annual Report and Accounts for 2022–23, my first after joining as Chair in August 2022. I am indebted to my predecessor Richard Wohanka for his inspired leadership of the fund over the preceding six years, and to my excellent board and executive colleagues for showing me the ropes and ensuring that the transition went smoothly.

I am excited to have joined a fund which has such an important inter-generational purpose.

The rationale for setting up the fund was to ensure monies were ring-fenced to cover the costs of decommissioning the eight nuclear power stations operated by EDF Energy. This remains true today and the directors and executive team of Nuclear Liabilities Fund Limited are committed to ensuring the sustainable success of the fund. This will protect future generations from paying for decommissioning costs associated with electricity enjoyed by previous generations.



£20.4bn

Total fund size as at 31 March 2023

An interesting year

The year 2022–23 was not without its challenges, both those of a global political and macro-economic nature, and some much more closely related to our own fund's purpose and progress. The political and economic environment continued to be dominated by war in Ukraine, whilst closer to home, a cost of living crisis and a significant reset of the interest rate paradigm presented both problems and opportunities. I am pleased to say that, so far, investments have generally held up well and our expectations for the long-term costs of decommissioning the AGR fleet have not been significantly impacted. Of course, it is still early days for a fund designed to run for in excess of hundred years. Nevertheless, our Annual Funding Review allowed us to confirm that we believe the fund to be sufficient to meet its liabilities as they fall due, so long as we remain unfettered in our ability to invest for the long term.

Investing for the long-term

The total fund size at the end of the fiscal year 2022–23 was £20.4bn, made up of a balance of £16.7bn at the National Loans Fund and £3.7bn of investments in the Mixed Assets Portfolio ('MAP'). It is a happy consequence of previous funding settlements that the balance in the National Loans Fund is broadly sufficient to pay for the first phase of decommissioning, which will take place over the coming two to three decades. Our role is to pay all legitimate costs of decommissioning efficiently. It is pleasing, all other things being equal, that the interest rate available on the National Loans Fund increased significantly over the year. Only time will tell whether this prefaces shifts in the wider investment environment and inflation expectations.

The Mixed Assets Portfolio ('MAP'), our ring-fenced fund, is invested to meet later phases of decommissioning expenditure, much of it seven or eight decades hence under current decommissioning plans.

We know that we need to earn a good rate of return (currently estimated at 7.3% per annum) over this very long period, to avoid our burden ultimately falling back on future UK taxpayers. Our analysis shows that this is very achievable, but only if we stay the course. Performance has so far been good, with a three-year return of 10.5% per annum. However, the chances of us meeting our required rate of return in any individual year, or over three years, are around 6 out of 10. Even over twenty years, we have a probability of success of around 70% – downswings, when they happen, can be surprisingly persistent. It is only over the whole projected life of the fund that we can have a greater confidence level, approaching 9 out of 10, that we will meet our mission. No doubt it was with such thoughts in mind that our predecessors set up the fund as an irrevocable Scottish trust having public benefit but distinct from the government of the day, so as to ensure that funds are ring-fenced for their decommissioning purpose. As new nuclear generation is commissioned to meet the carbon-free energy needs of the future, the principle of pre-funding decommissioning costs is an important contributor to public confidence.

Chris Hitchen

Chris Hitchen
Chair

Top image: Hinkley Point B power station.
Photo produced by kind permission of EDF.

Statement from the Chief Executive

Delivering on our purpose

Melissa Hope
Chief Executive

At the start of the year, two of EDF Energy's stations had ceased generation. By the time of writing, three stations have commenced defueling and EDF Energy have reached the important milestone of completing defueling of the first reactor at Hunterston B.

During the year payments of £0.6bn were made to EDF Energy to cover defueling and decommissioning work. The level of liabilities costs has been relatively stable over the year, with inflation proving the most significant driver behind the increase. We continue to participate in programme oversight meetings covering EDF Energy's progress and the preparations for transfer of the stations to NDA.

The payments made by the fund have allowed EDF Energy to focus on preparations for defueling and decommissioning. At those stations where generation has ceased, their focus is on defueling the reactors safely and efficiently and making preparations for the handover of the stations to the Nuclear Decommissioning Authority (NDA).

Looking to the future, we are pleased to have commenced and made excellent progress in discussions with the NDA, Magnox and DESNZ on the funding arrangements which will apply once the AGR stations transfer to the NDA (in 2026 onwards).

The Board and our leadership

The fiscal year 2022–23 was a year of change for the board of Nuclear Liabilities Fund Limited. We welcomed Luke Nunneley to the board and as chair of the investment committee in May 2022. In August 2022 Chris Hitchen joined the board and became chair as Richard Wohanka stepped down from his role as chair and from the board. We are grateful to Richard for his stewardship of the fund from 2016–2022.

Our annual board effectiveness review was carried out in early 2023 and the board was found to be functioning well. Further detail can be found on page 23.

Following the high level of changes to the board over the last two years I would like to thank the directors, our executive team, and our stakeholders firstly for their efforts to ensure a smooth transition. Secondly, I would like to thank them for their support as I embarked on my tenure as Chief Executive of the Nuclear Liabilities Fund Limited.

Governance and operations

From an operations perspective our focus is on excellent governance, combined with ensuring the appropriate resources are available to deliver our purpose while ensuring value for money. It has been a busy year with an improved payments process and new website being implemented; the completion of an extensive review of governance best practice including guidance issued by DESNZ; and increased concentration on oversight of service providers.

Our risk management was further developed during the year. An important introduction has been the strategic risks (see page 17 for more detail). These are reviewed at every board meeting making certain that the significant risks are factored into all decision making.

As in previous years, we are very grateful to the Non-NDA Nuclear Liabilities Assurance ('NLA') team for their crucial role in providing the assurance on the costs payable by the Nuclear Liabilities Fund Limited throughout the year.

Looking ahead

We will continue to take a long-term view. We will look to invest independently of market cycles and make the most of our extended investment horizon with the goal of maintaining sufficiency of the fund.

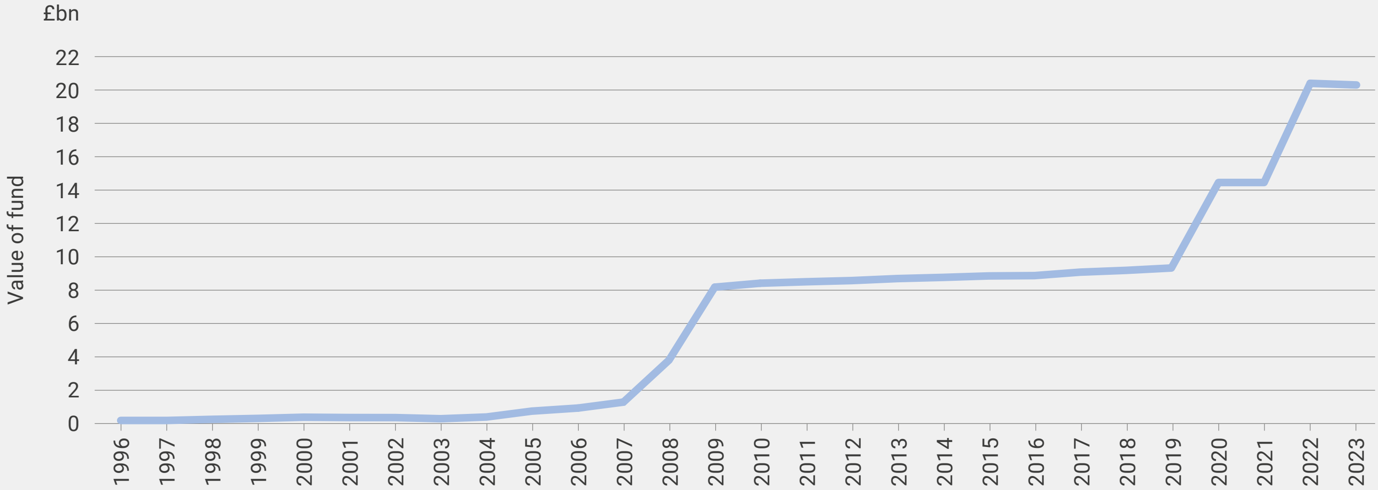
Continuing to develop NLF as a sustainable and resilient organisation, set up appropriately to fulfil our purpose over the coming years is a priority as more stations cease generating, the first stations transfer to NDA and the value of the MAP grows. This means appropriate resource and support, whilst delivering value for money.

We look forward to working with our stakeholders on future funding arrangements and as we progress through the decommissioning journey.

Melissa Hope

Melissa Hope
Chief Executive

Evolution of the fund since inception.



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 (now DESNZ) 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.

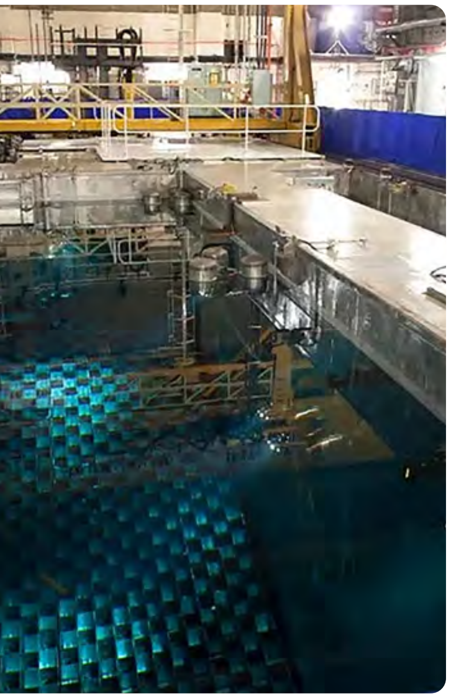
vii. The investment policy for the Mixed Assets Portfolio has increased the value of the assets, further detail on performance can be seen later in this Report.

viii. Following increased costs of defueling in the year (£0.6bn), the value of the fund decreased slightly in 2022/23.

Strategic report

Our key performance indicators

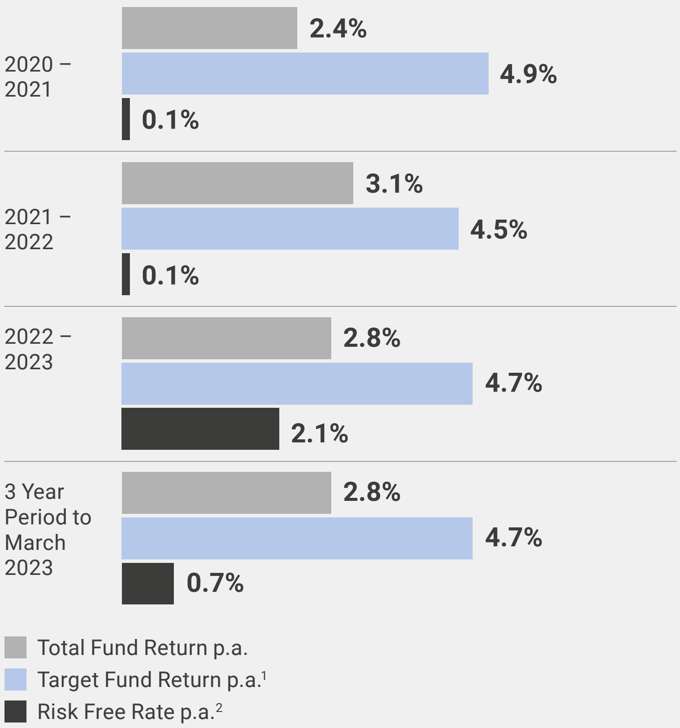
Sizewell B fuel pond.
Photo produced by kind permission of EDF Energy



Nuclear Liabilities Fund Limited's investment performance is assessed using key performance indicators ('KPIs') that were agreed for the fiscal year 2022–23 with DESNZ. 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



▲ 2.8% **Total Portfolio Return**
3-year period to 31 March 2023

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.

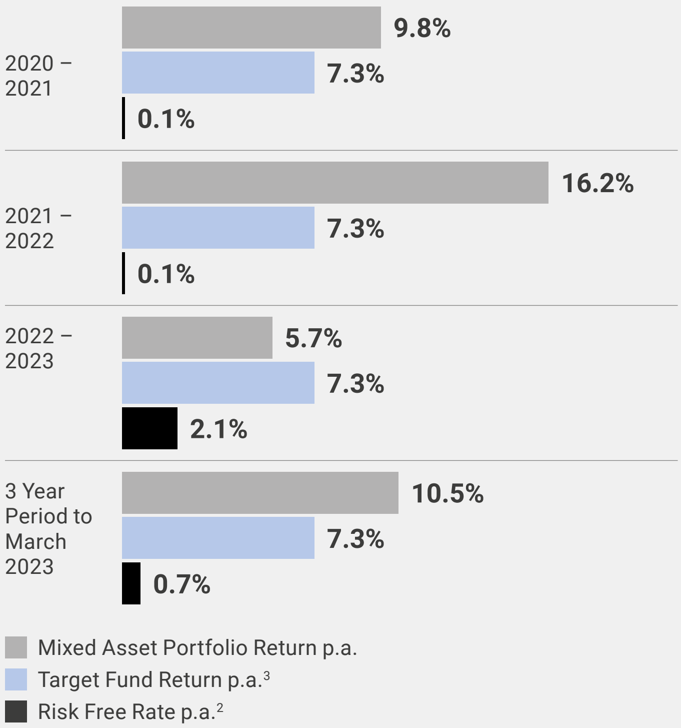
While the weighting of the NatLF remains significant, the higher returns from the MAP performance are subject to a lower weighting. The overall target noted above covers the life of the fund, into the next century as further discussed on page 12.

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



▲ 10.5% **Mixed Assets Portfolio Return**
3-year period to 31 March 2023

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 as agreed by the Board of Nuclear Liabilities Fund Limited with reference to the cost of liabilities and future returns.

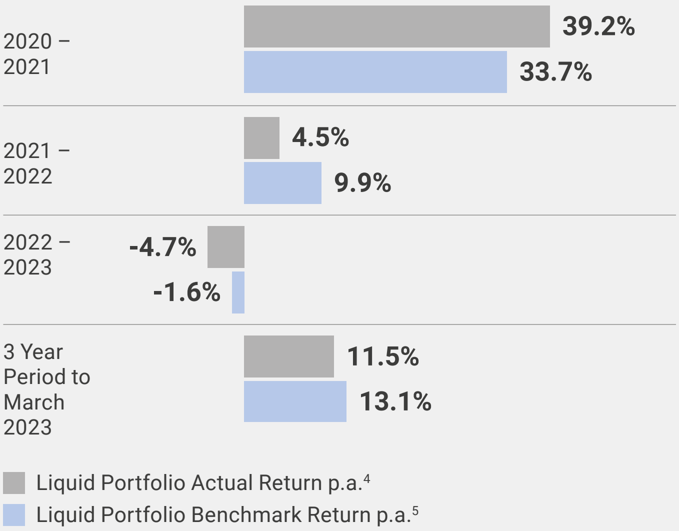
The MAP Return of 5.7% for the year was behind the Target return. This was primarily as a result of negative returns in the liquid portfolio. Further breakdown of Liquid and Illiquid results within the MAP, are shown under KPI 3.

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, as agreed by the Board of Nuclear Liabilities Fund Limited. Net of fees, gross of tax.

KPI 3: Mixed Assets Portfolio Return Liquid Portfolio Performance

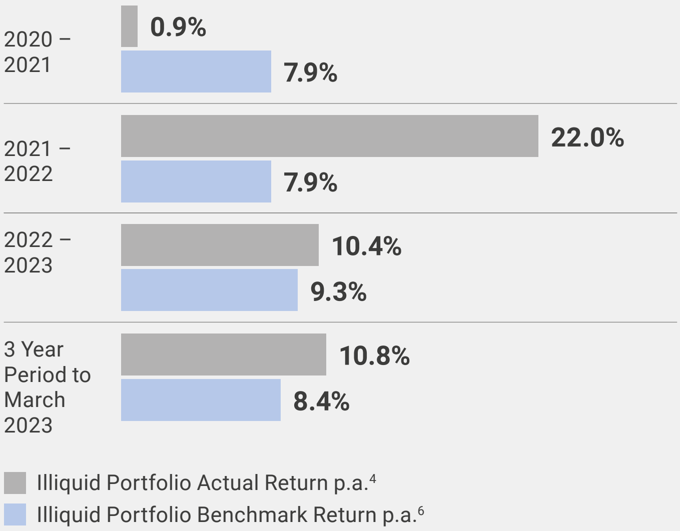


▲ 11.5% **Liquid Portfolio Return**
3 year period to 31 March 2023

The Liquid Portfolio (comprising c.30% of the MAP) 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



▲ 10.8% **Illiquid Portfolio Return**
3 year period to 31 March 2023

The Illiquid Portfolio (comprising c.70% of the MAP) includes allocations to Global Real Estate, High Yield Illiquid Credit, UK Growth Equity, Global Private Equity, Infrastructure 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.

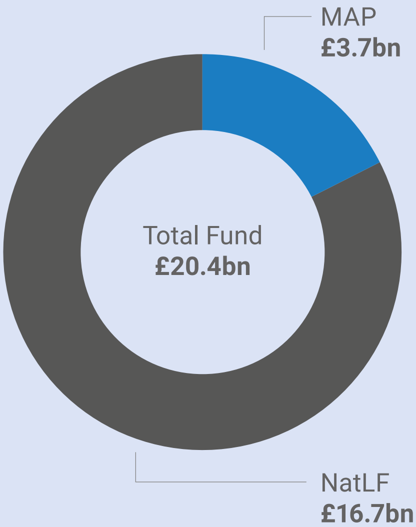
6 This is based on Aon's Capital Market Assumptions and uses Nuclear Liabilities Fund Limited asset allocation to illiquid assets as at the end of the quarter. The Capital Market Assumptions are "best estimates" of annualised returns – that is, there is a 50/50 chance that actual returns will be above 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

Three stations have ceased generation. Nuclear Liabilities Fund Limited is funding the safe and efficient defueling of these stations and preparations for the next stage of decommissioning. The directors continue to focus on the composition and performance of the fund to maximise opportunities for long term growth to ensure sufficiency.

Fund size and composition



Background

The fund's liabilities (see page 3) are likely to change over time in line with the costs of labour, materials and evolving technology. In order to secure sufficiency of the fund, 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 National Loans Fund[7]

As at 31 March 2023, the fund held c.£16.7bn (c.82% of the fund) in the NatLF. The NatLF provides liquidity to meet decommissioning costs and the costs of running the fund, allowing funding certainty over the short to medium term. Current projections show the NatLF to be fully utilised in the early 2050's. Recent increases in short term interest rates have benefitted the returns from the NatLF and this looks likely to continue over the coming year.

The Mixed Assets Portfolio

The MAP balance as 31 March 2023 was c.£3.7bn (c.18% of the fund). As noted above, the assets in the MAP are not needed for many years while the NatLF is used to meet the costs of decommissioning.

As a result, the focus for the MAP is long term growth, and the current forecast is for the MAP to be valued at around £20bn when the NatLF is utilised in around 30 years' time. The MAP will then continue to grow whilst being used to meet decommissioning costs in anticipation of the increased costs at the start of the next century (see graph of annual expenditure on page 15).

The MAP benefits 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 the MAP returns.

The MAP is made up of liquid and illiquid assets. The split between liquid and illiquid assets within the MAP was c.30/70 at 31 March 2023. The liquid investments are used to meet capital calls from the illiquid portfolio. These assets are managed by external investment advisers.

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

1 Investment performance over the year

As noted above, Nuclear Liabilities Fund Limited's assets are divided into two sections:

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

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

The Total Portfolio Return KPI figure is calculated as an average over the whole lifetime of the fund. Given 82% of the total fund is held in cash deposits in the NatLF generating lower returns, the Total Portfolio Return KPI has continued to undershoot the Target Return – 2.8% vs target of 4.7%. This is in line with expectations over the short to medium term. While the weighting of the NatLF remains significant, the Total Portfolio Return KPI may not achieve its target. It is worth noting that the increasing interest rate environment will improve performance of the total portfolio in the fiscal year 2023–24.

As the NatLF is utilised to pay for the costs of decommissioning, and the MAP grows, it is expected that the Total Portfolio Return will increase. When the MAP is the dominant asset, the performance will be more aligned to the performance of the MAP (KPI 2). Current projections show that in approximately 10 years the weighting of the NatLF and the MAP will be c.50/50, and by the early 2050's, the NatLF will be fully utilised.

The Illiquid Portfolio three-year return of 10.8% p.a. was above its three-year benchmark return of 8.4% p.a.[8]

Returns on the NatLF have improved throughout the year from around 1% at the start of the year to over 4% by the end of the year. Following the end of the fiscal year 2022–23 short term interest rates have continued to increase and this will positively impact returns for the upcoming year, particularly given the weighting of the NatLF.

On a three-year basis, a return of 10.5% p.a. means that that the MAP exceeded its target return over this term. However, in what was a volatile year for investments the MAP return over one year was 5.7%, while the target return was 7.3%. 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 strongly and offset the negative performance of the Liquid Portfolio in the year (see KPI3 on page 10). The diversification of assets has been particularly important in the face of ongoing volatility in investment markets.

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.

Investment activity within the MAP continued in the year with a liquid investment in an active diversifier strategy in May 2022, together with an illiquid investment in a property fund in July 2022. In addition, the six remaining directly held investment properties were sold in the year, with the final sale in February 2023.

The Liquid Portfolio underperformed the benchmark in the year (-4.7% vs -1.6%) as volatility impacted global markets and the long term sustainable growth focus was impacted more than 'value' stocks. Over the three year cycle, the Liquid Portfolio performance is positive at 11.5% although it lags the benchmark which returned 13.1%. Following the end of the fiscal year 2022–23, structural and management changes to the Liquid Portfolio were agreed that will increase efficiency in managing the Liquid Portfolio.

The Illiquid Portfolio has outperformed its benchmark this year (10.4% vs 9.3%) following strong performance by the private equity and infrastructure investments. In line with the directors' aims for the MAP, each allocation has been well-diversified across types of asset which are expected to react differently in a range of economic scenarios.

It should be noted that we do not expect smooth returns over the 100 year life of the fund. Despite this, we believe the fund is well placed to benefit from long term asset growth and to meet investment targets over the longer term.

8 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).

Above image: Pile cap and fueling machine, Hunterston B. Image supplied courtesy of EDF Energy.

Target returns

The target return for the total fund for the fiscal year 2022–23 was 4.7%. For the fiscal year 2023–24 we need to achieve a return of 4.9%.

The target return for the MAP for the fiscal year 2022–23 was 7.3%. For the fiscal year 2023–24 it remains at 7.3%.

The target return for the total fund for the fiscal year 2022–23 is higher than the prior year – this is primarily driven by the increase in actual inflation in the year which increased the liabilities versus expectations. This target is also expected to rise each year as the National Loans Fund is utilised and the weighting of the MAP increases.

The directors of Nuclear Liabilities Fund Limited actively participate in quarterly and annual reviews of EDF Energy's performance under the NLFA.

2 Liabilities

Costs of discharging liabilities

During the fiscal year 2022–23, undiscounted liabilities increased from £24.7bn to £27.3bn. The main factor affecting this increase was revalorisation (adjustment for inflation) and increased costs arising from the early closure of Dungeness B in 2021 and its associated impact on overall fleetwide defueling costs. As noted in previous years, the calculation of liabilities has been aligned with the Annual Funding Review mechanism which reflects the Annual Liabilities Report submitted by EDF Energy under the Nuclear Liabilities Funding Agreement ('NLFA') (20th Edition with values stated at December 2021 monetary values) and adjusted for forecast spend and inflation to 31 March 2023.

In the fiscal year 2022–23, the fund made payments to EDF Energy of c.£0.6bn to cover the discharge of liabilities detailed below.

In the fiscal year 2022–23, EDF Energy made a contribution to the fund and its administration of £27m. This figure was £4m higher than 2021–22 reflecting inflationary increases.

Discharge of liabilities

Three AGR stations have now ceased generation. As a result, payments from the fund to EDF Energy have increased. These payments will remain high over the next 10–15 years as the remainder of the AGR fleet reaches the end of its generating life and defueling and decommissioning work is carried out.

In fiscal year 2022–23, the fund met the costs of defueling preparation works, including defueling safety case preparation and remedial works to resolve technical challenges at Dungeness B. Fuel route upgrades were implemented at Hunterston B and Hinkley Point B to enable defueling to be carried out more efficiently and defueling operations commenced at both sites. Defueling at Dungeness B commenced shortly after the financial year end, in May 2023.

Scrutinising costs and monitoring liabilities

The Non-NDA Liabilities Assurance team ('NLA') a segregated part of the NDA,[9] continue to carry out assurance, scrutiny and audit activity on behalf of DESNZ and Nuclear Liabilities Fund Limited in relation to EDF Energy's cost submissions and plans, to ensure that payments from the fund are only made in respect of qualifying costs in accordance with the NLFA and to verify the robustness of liabilities estimates.

This year, the NLA also reviewed EDF Energy's target cost ranges for the three defueling stations. Under revised NLFA arrangements agreed in 2021, EDF Energy will achieve an incentivisation payment if defueling is completed at the lower end of station targets but will pay a contra charge if costs are higher. The arrangements are designed to incentivise safe and efficient defueling. Early completion of defueling will generate significant cost reductions for the fund.

The directors of Nuclear Liabilities Fund Limited actively participate in quarterly and annual reviews of EDF Energy's performance under the NLFA. Particular areas of focus this year have been the Dungeness B remedial plan, defueling progress at Hunterston B and Hinkley Point B, areas of risk and uncertainty, works power consumption at the defueling sites and the deployment of learnings between stations. The directors are pleased with EDF Energy's focus on its decommissioning mission alongside ongoing generation and the extent to which their team has engaged constructively with the new NLFA arrangements.

9 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 DESNZ.

AGR station transfer and long term decommissioning programme

DESNZ has exercised its option to transfer the AGR stations to the NDA after completion of defueling by EDF Energy. The long-term AGR decommissioning programme will be managed via the NDA's subsidiary company, Magnox Limited ('Magnox'). These arrangements aim to leverage the unique expertise of EDF Energy, the NDA and Magnox in order to reduce costs and deliver value for money to the taxpayer.

Several programmes of activity are now underway, pursuant to the stakeholder Co-operation Memorandum of Understanding ('MoU') signed in June 2021. Activity undertaken in the year includes the development of a high level design blueprint for the seamless transfer of the first station, Hunterston B, and the establishment of joint working groups to review decommissioning plans and identify potential synergies and efficiencies.

Nuclear Liabilities Fund Limited, DESNZ, the NDA and Magnox have commenced discussions with a view to agreeing the arrangements under which the fund will continue to meet the costs of nuclear liabilities for the AGR stations following transfer to the NDA and how appropriate reporting, monitoring and assurance will be provided.

Members of the board have been pleased with the commitment to collaboration that has been shown so far by all parties.

Stakeholder collaboration, reporting and oversight

The directors continue to play an active role in the governance meeting arrangements established by DESNZ under the MoU. The directors participate in the Decommissioning Senior Alignment Panel ('SAP'), which oversees the programmes of deconstruction strategy alignment and transfer activity and are invited by DESNZ to attend the annual CEO and Permanent Secretary MoU review meeting.

The directors also continue to participate in the AGR Operating Programme ('AGROP'), and in the Defueling Steering Panel ('DSP'). These committees scrutinise the many risks that can impact on defueling and contribute to significant cost increases to the fund. This year, there has been a particular focus on sustaining reliable operations at the Sellafield fuel dismantling plant.

DESNZ commissioned a review of the oversight and working arrangements between the relevant parties, which reported in November 2022. The review found that the programme and its cooperative arrangements were working well. This review will be repeated towards the end of 2023 to ensure that the arrangements, underpinned by the MoU continue to be strong and fit for purpose.

During the year, members of the board have been pleased with the commitment to collaboration that has been shown so far by all parties and would like to thank EDF Energy for facilitating valuable visits to allow the directors to see decommissioning activities progressing at Dungeness, Hunterston and Heysham power stations.

Top right image: Fuel handling plant, Sellafield. Image supplied courtesy of the NDA.

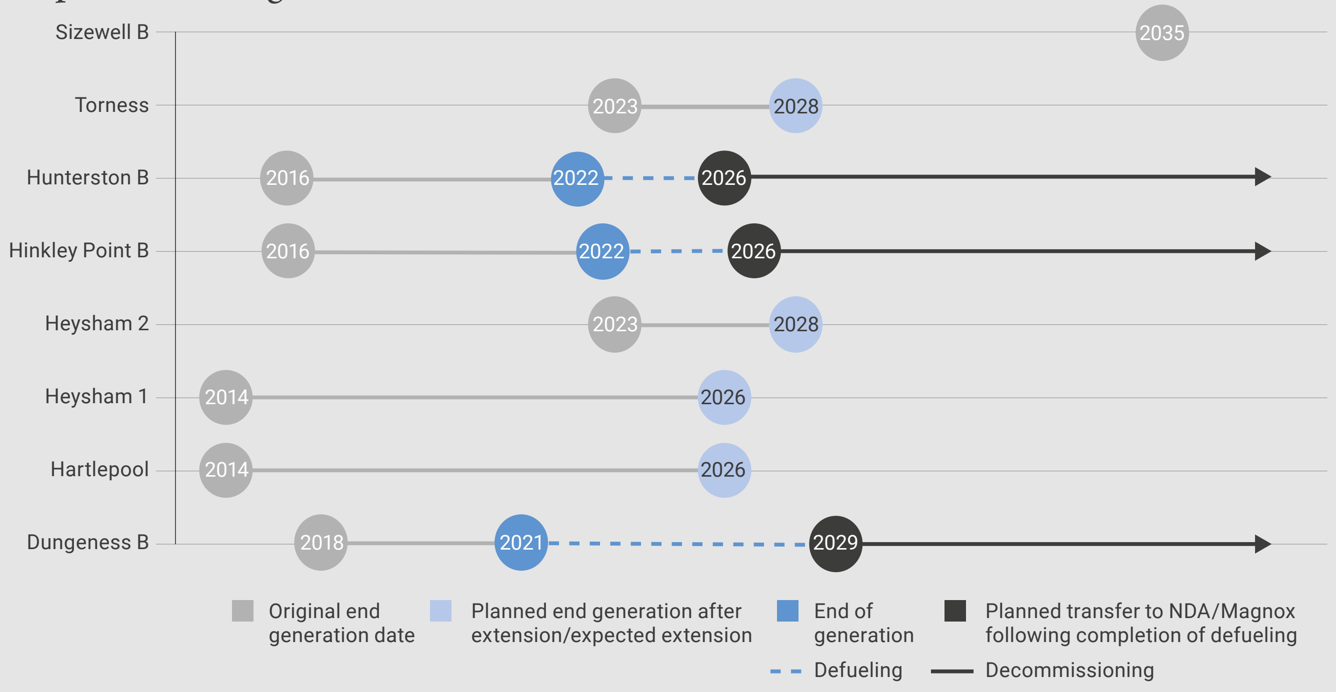
A look forward on liabilities

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.

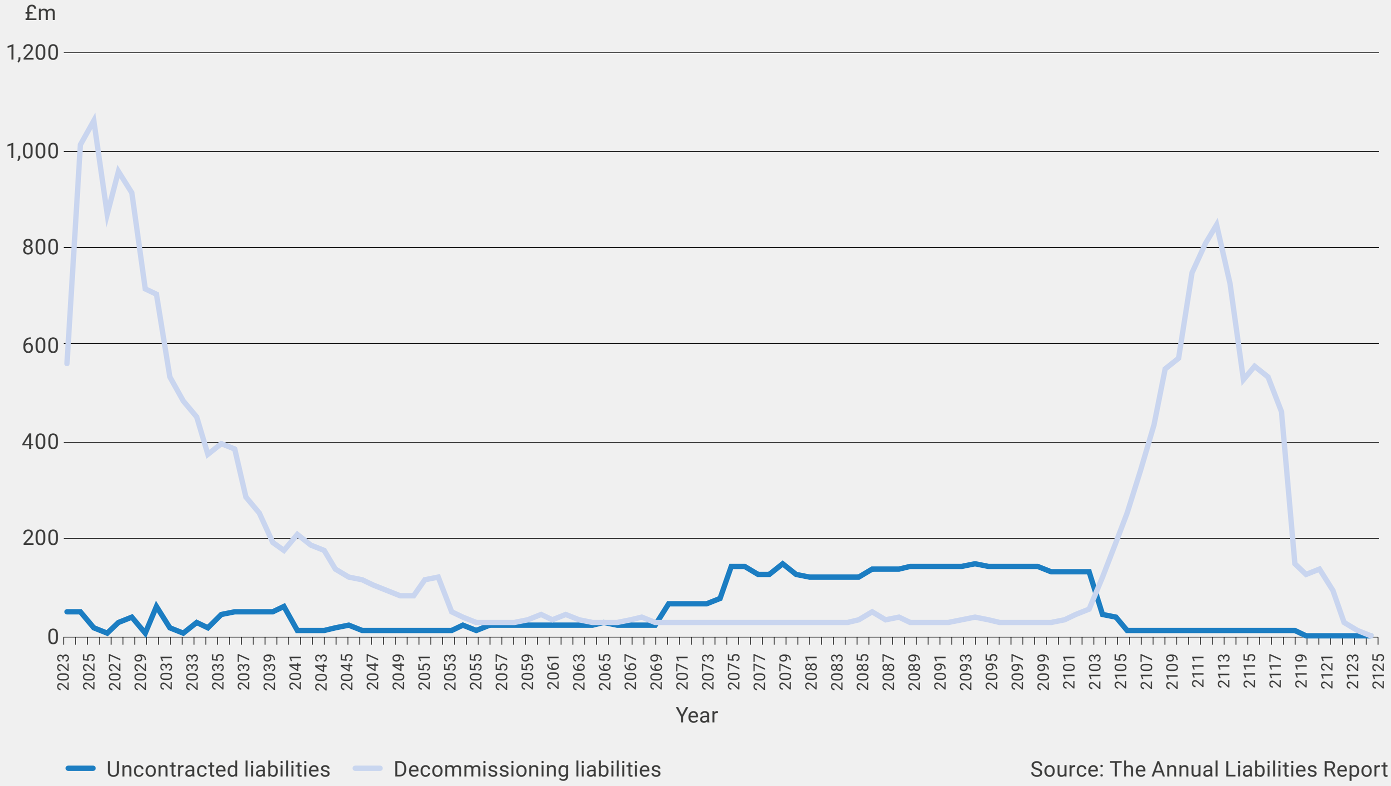
The main area of focus over the next year will be supporting the seamless transfer of the AGR stations and the achievement of synergies through the agreement of new nuclear liabilities funding arrangements with DESNZ, NDA and Magnox. The directors are encouraged by engagement to date and the willingness of all organisations to collaborate constructively.

The directors will continue to engage with DESNZ and the NDA regarding policy changes and developments that might affect the liabilities, including the development of a geological disposal facility and associated waste management strategies and potential opportunities for research and development, which could generate further savings in decommissioning costs over the longer term.

Expected end of generation and transfer dates

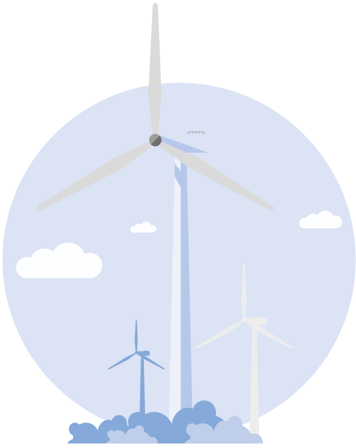


Projected annual expenditure to discharge the liabilities



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

Year (2023–2125)	Total (£m)
Uncontracted liabilities	5,676
Decommissioning liabilities	21,672
Total undiscounted liabilities	27,348



Strategic report

Environmental, social and governance considerations

Environmental, social and governance ('ESG') outcomes are a continuing area of focus for the directors and are factored into the decisions the directors make, both in terms of our own operations and our investments.

We believe ESG is a key component of the success of the Nuclear Liabilities Fund Limited. Examples of our approach at the organisational level are outlined below:

Environmental

Nuclear power generates low carbon electricity, supporting the UK's net zero goals. Nuclear Liabilities Fund Limited aims to ensure that when nuclear power stations come to the end of their generating life, there are funds in place to safely remove and manage nuclear waste and make station sites suitable for alternative uses.

Social

We strive to embed a culture where everyone feels respected, valued and included. We are taking steps to ascertain whether there are any barriers in place to further broaden our diversity.

Governance

The board are committed to high standards of corporate governance with regard to both public and private sector codes of conduct and best practice. We report on our governance arrangements annually in this report. More details can be found on page 22.

The directors expect the fund's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns, the transition to a low-carbon economy, and crystallisation of climate change risks) in the selection, retention and realisation of investments on behalf of the fund. Further detail is included in the Statement of Investment Principles on our website.

We review ESG across our portfolio annually alongside our investment adviser. This includes a review of our investment managers' participation in collaborative external initiatives such as the Principles for Responsible Investment; the integration of climate change and Net Zero targets across our portfolio; and measures of our managers' alignment to the UN Sustainable Development Goals where this is a core part of their mandate. The following examples are asset management and portfolio operations initiatives provided by some of our asset managers:

Manager: British Patient Capital

Engaged Entity: Xampla

Nuclear Liabilities Fund Limited, through its investment alongside British Patient Capital, is an investor in Xampla (via its commitment to a fund managed by Amadeus Capital Partners).

Xampla offers a range of plastic free, plant-based materials that are strong, natural and fully biodegradable that protect and deliver products and ingredients without harming the planet. Working in partnership with global brands, Xampla come together to build scalable and reliable plastic-free solutions for films, coatings and microcapsules using abundant plant-based feedstocks.

Manager: Adams Street

Engaged Entity: Bright Futures

On behalf of the fund, Adams Street committed to Livingbridge Enterprise 2, L.P., which is invested in Bright Futures, a high-quality, community-based provider of residential care and education for children and young adults with learning disabilities and autism.

Since its investment in Bright Futures, Livingbridge has supported the business to open 10 new homes and one new school, which has led to both significant job creation and allowed the company to satisfy demand for high acuity, community-based residential care placements for young adults with learning disabilities.

Manager: AEW

AEW appoints a Governance Committee or Advisory Board in respect of non-listed funds. The Committee is designed to try to ensure that the principles of sound corporate governance are observed in the management of each fund's assets.

If the manager is not acting in line with the policies, the Committee will write directly to the manager, explaining the issues and setting out their views on the issues.

Strategic report

Principal risks and uncertainties

Risk management is an important consideration. We have grouped our risks into liability, investment, and governance and operational risks.

Nuclear Liabilities Fund Limited maintains the following risk registers:

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

Responsibility for the risk registers is delegated to committees and certain directors; however the consideration of risk is a matter for the board and the risk registers are reviewed by the board at six-monthly intervals.

Below image: vitrification containers.
Image courtesy of NDA.

Strategic risks

A discussion on risks, and the approach to risks, facing Nuclear Liabilities Fund Limited was held in January 2023. The following strategic risks were identified. These are considered by the board at each meeting and are important inputs to any decision making.

Liabilities	Increases in the level of the liabilities and/or significant changes to the timing of liabilities.
Investment	Poor asset performance and an inability to achieve long term investment returns.
Constitutional or political	A constitutional attack on, or a lack of consideration of, the set-up or independence of the fund.
Governance	Inappropriate or insufficient oversight or decision making.
Operations	Insufficient fund operations or inadequate controls.
Reputation and stakeholder management	Poor management of our reputation or failure in management of/engagement with stakeholders impacting confidence in NLF and the associated arrangements.

Liability risks

Nuclear Liabilities Fund Limited maintains its own liability risk register, which contains those risks 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, DESNZ, NLA and NDA. Reports on the most significant risks are presented to the board bi-annually. This year, an internal modelling exercise examined fund sufficiency in a number of scenarios, informed by the liability risk register. The results highlighted that the threat to fund sufficiency is dominated by sustained high inflation. However, whilst there has been a significant increase in inflation in the financial year 2022–23, fluctuations in inflation rates are to be expected over the 100+ year duration of the decommissioning programme. The board continues to keep long-term assumed inflation rates under review.

As noted on page 14 the directors monitor and address risks to defueling activity through active participation in the AGROP and DSP committees.

The risk of unplanned, early end of generation has reduced over the financial year. Hartlepool and Heysham 1 were expected to end generation in 2024, but are now expected to be operational for an additional two years. Preparations for defueling all remaining AGR stations are now well advanced and benefit from the experience of Hunterston B, Hinkley Point B and Dungeness B.

There continues to be a risk of the liabilities increasing as the work programme for post-defueling decommissioning matures and provisioning estimates evolve into executable plans. EDF Energy and Magnox are now working closely on the development of plans for the first sites to transfer. Decisions taken by external bodies such as the Office for Nuclear Regulation and the UK Government regarding the timescales or requirements for decommissioning and the planned geological disposal facility may also affect the liabilities. The directors engage regularly with DESNZ to understand the relevant policy landscape.

Investment risks

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 risk.

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 investment adviser to establish how the asset allocation of Nuclear Liabilities Fund Limited will develop.

The board and investment committee work together, with advice from our investment adviser, to set and implement Nuclear Liabilities Fund Limited's investment strategy within this Risk Appetite Framework.

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).

Governance and operational risks

The audit committee is responsible for the oversight of Nuclear Liabilities Fund Limited's governance and operational risk registers. The directors strive to uphold a high standard of internal governance and carefully monitor governance risks which may arise from external influence or intervention and actions or circumstances which may damage the reputation of the fund.

Operational risk management centres around Nuclear Liabilities Fund Limited's organisational structure, how we work on day-to-day business matters and how we use external service providers. As a number of key operations are outsourced, management of service provider relationships is an important aspect of operational risk management. A framework for the oversight of service providers has been introduced over the year, facilitating a more systematic approach to review. Cyber security risk has been, and will continue to be, an area of focus both internally and in arrangements with our service providers.

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 the fund was sufficient and there was no requirement for reallocation of investments or 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.

Below image: Hinkley A and Hinkley B, Sept 2011. Image courtesy of NDA.

Directors' report

For the year ended 31 March 2023

The directors present their Annual Report together with the financial statements and auditor's report for the year ended 31 March 2023.

Results

In the fiscal year 2022–23 Nuclear Liabilities Fund Limited's assets held to meet the liabilities decreased by by £226,488,201 to £20,302,462,498 (in the year 2021–22 increase of £5,757,329,252 to £20,528,950,699).

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:

	2023 £	2022 £
Assets less liabilities held to meet relevant liabilities – value at start of the year	20,528,950,699	14,771,621,447
Contributions from EDF Energy	27,347,988	23,398,841
Amounts payable to EDF Energy	(550,245,315)	(240,887,715)
Contributions from DESNZ	-	5,610,000,000
Operating profit on ordinary activities before tax	449,541,321	462,787,238
Tax on profit on ordinary activities	(153,132,195)	(97,969,112)
Assets less liabilities held to meet relevant liabilities – value at end of the year	20,302,462,498	20,528,950,699

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 2022–23, 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 17 to 19.

The directors consider the result for the fiscal year 2022–23 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 C Hitchen (appointed August 2022)

Mr R Wohanka (retired August 2022)

Dr M Grant

Mrs A McNeil

Mr L Nunneley (appointed May 2022)

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 DESNZ, 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

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.

Following the end of the fiscal year 2022–23, Mrs Margaret Stephens was re-appointed by DESNZ as director and chair of the audit committee.

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

As Grant Thornton UK LLP has served a seven year term, in accordance with our audit committee terms of reference, the audit committee has overseen a competitive tender process for the provision of external audit services for the fiscal year 2023–24. Following this process, it is our intention that CLA Evelyn Partners will be appointed as auditor for the year ending 31 March 2024.

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 2022–23, 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 2022–23 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 17 to 19.

— Read about our governance on pages 22 and 23.

Corporate governance

Although classed as a 'central government fund' by the Office for National Statistics, as a result of the fund's purpose and constitution, Nuclear Liabilities Fund Limited and its directors have a distinct and unique status. Nuclear Liabilities Fund Limited operates with regard to both public sector codes of conduct and standards for public bodies and private sector corporate governance best practice as far as appropriate and proportionate.

The directors comply with the Nolan Principles (the seven principles of public life) but in their dual role as directors and trustees of the Nuclear Trust, are cognisant of the need to act independently of government and in accordance with fiduciary duties in order to fulfil the purpose of the Nuclear Trust.

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 DESNZ. The two B directors are the two trustees of the Nuclear Trust appointed by EDF Energy in consultation with DESNZ. Under the Articles of Association DESNZ may remove any of the A directors and EDF Energy may remove any of the B directors. In the course of the fiscal year 2022–23, the appointment process for A directors ceased to be regulated by the Commissioner for Public Appointments. Future appointments will continue to be run in accordance with the Governance Code for Public Appointments and will be subject to Ministerial approval.

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 2022–23 given to it by DESNZ. 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

In February and March 2023 an internal review of board effectiveness was carried out. All members of the board, key advisers and stakeholders were consulted. Independent Audit carried out last year's external review. Following the substantial changes to the board and the establishment of the enlarged executive team, they noted that there was 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 directors to step back from the detail and optimise oversight. This has been, and will continue to be, an area of focus.

The feedback through the review was positive, with the consensus being that the board is functioning well. The directors acknowledged that each of their terms as directors are relatively short in respect to the timescales of the fund. Therefore they must act as stewards, while looking ahead to ensure that Nuclear Liabilities Fund is fit for the future.

Board effectiveness review 2023

Looking ahead to the future is key: with the growth of the MAP and the next iteration of the funding arrangements for the AGRs, consideration of appropriate organisational arrangements, governance and resources is a priority.

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

Luke Nunneley was appointed as Chair in May 2022. The investment committee comprised three directors: Luke Nunneley, Margaret Stephens and Richard Wohanka. Upon Richard's retiral from the board and the investment committee in August 2022, the newly appointed chair, Chris Hitchen joined the investment committee. 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 investment adviser 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.

Liabilities project committee

A liabilities project committee was established following the end of the fiscal year 2022–23 in order to provide additional governance and oversight of the negotiation of arrangements under which the fund will continue to meet the costs of nuclear liabilities for the AGR stations following transfer to the NDA (see page 14 for more details).

The audit committee

At the start of the fiscal year 2022–23, the audit committee comprised of Martin Grant, Alison McNeil and Margaret Stephens. Margaret has chaired the audit committee since July 2020.

The board considers that the members of the audit committee have sufficient recent and relevant experience in order for it to perform its functions effectively, noting in particular that 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 29.

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' (DESNZ 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 DESNZ, 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):

- market updates from the fund's investment adviser;
- reports from each committee;
- a summary of the strategic risks; and
- an update on policy matters from DESNZ.

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 new chair receives a salary of £43,000 per annum and a pro-rata payment of £25,579 was paid in the fiscal year. The other directors received £28,500 per annum pro rata on a monthly basis.

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 investment adviser 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 investment adviser 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 2022 to 31 March 2023

	Board meetings (7)	Investment committee meetings* (6)	Audit committee** meetings (5)	Remuneration & nomination committee meetings (2)
Mr Chris Hitchen[1]	4 (4)	4 (4)		2
Mrs Margaret Stephens[2]	7	6	5	2
Dr Martin Grant[3]	7	3^	5	2
Mrs Alison McNeil	7	2^	5	2
Mr Luke Nunneley[4]	7	6		2
Mr Richard Wohanka[5]	3 (3)	2 (2)		

Where there is a 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.

Notes:

1 Chris Hitchen was appointed as Chair on 28 August 2022 (to replace Mr R Wohanka).

2 Following Richard Wohanka's departure on 19 August, Mrs Margaret Stephens was appointed interim Chair until Mr Chris Hitchen's term of appointment commenced on 28 August 2022.

3 Dr Martin Grant was appointed interim Chair of the Investment Committee until Luke Nunneley was appointed on 13 May 2022.

4 Luke Nunneley was appointed as Chair of the Investment Committee on 13 May 2022 and attended the April IC meeting as an observer.

5 Richard Wohanka retired as Chair on 19 August 2022.

* During 2022–23 and until Luke Nunneley was appointed, Dr Martin Grant was appointed as interim Chair of Investment Committee meeting.

** There was 1 extraordinary Audit Committee meeting.

^ Dr Martin Grant and Mrs Alison McNeil attended various Investment Committee meetings in their capacity as Directors/Trustees.

The investment committee receives updates from the investment adviser 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.

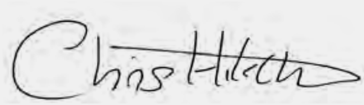
The directors continually review the key commercial and financial risks that might affect Nuclear Liabilities Fund Limited. Further details on financial risk management are stated in note 13 to the financial statements.

Following the end of the fiscal year, the board established a liabilities project committee, that will provide governance and oversight of the arrangements under which the fund will continue to meet the costs associated with decommissioning the AGR stations following transfer to the NDA.

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.£3.0bn. 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

6 November 2023

Directors

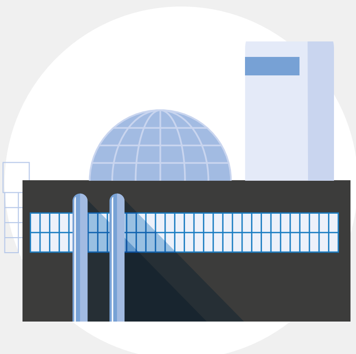
Statement of directors' responsibilities

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
Chair

6 November 2023

The directors and officers of Nuclear Liabilities Fund Limited for the fiscal year ending 31 March 2023.

Chris Hitchen

Director (appointed in August 2022)

Chair

Chair of the Remuneration and Nomination Committee

Member of the Investment Committee

Chris Hitchen was appointed as NLF Chair, a director and trustee by HM Government, in August 2022.

Richard Wohanka, CBE

Director (retired in August 2022)

Chair

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.

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.

Alison McNeil

Director

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.

Luke Nunneley

Director (appointed in May 2022)

Chair of Investment Committee

Member of the Remuneration and Nomination Committee

Luke Nunneley was appointed as a director and trustee by HM Government in May 2022.

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 and re-appointed for a further 3 year term in April 2023.

Melissa Hope

Chief Executive

Melissa Hope was appointed as Company Secretary for the fund by the directors in November 2017 and in March 2022 was appointed to the role of Chief Executive.

Report from the audit committee

Report from the audit committee for the year ended 31 March 2023

Meetings and membership

The audit committee met formally five 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 24, 27 and 28 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 valuation of investments and accounting estimates of taxation in the context of the financial statements.

As detailed on page 24 under the heading of internal financial controls, the investment adviser 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 its 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.

Other areas of focus in the fiscal year 2022–23 have been a review of the assurance provided by NLA in respect of payments for decommissioning costs, the controls in place for the oversight and management of service providers and mitigations against cyber security risks.

Effectiveness review

The audit committee has carried out an internal review of its effectiveness. 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. Key areas of future focus will be the robustness of internal controls and arrangements for the funding of AGR station decommissioning following transfer from EDF Energy to NDA group.

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 and will continue to 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 2022–23 audit were identified and the auditor provides no non-audit services to the company. The audit committee is satisfied that the auditor has fulfilled its obligations and remains independent and objective.

In view of the auditors having now served a seven year term, in accordance with our audit committee terms of reference, the audit committee has overseen a competitive tender process for the provision of external audit services for the fiscal year 2023–24. Following this process, it is our intention that CLA Evelyn Partners will be appointed as auditor for the year ending 31 March 2024.

Margaret Stephens
Chair of the audit committee

6 November 2023

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 2023, 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 2023 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 2023 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 the crisis in Ukraine and rising inflation and interest rates, 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.

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.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 themselves. 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

As explained more fully in the directors' responsibilities statement set out on page 26, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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;
  - 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; and
  - understanding of the legal and regulatory frameworks applicable to the Company.

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.

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

6 November 2023

Financial statements

Statement of comprehensive income for the year ended 31 March 2023

	Notes	2023 £	2022 £
Investment income	2	381,272,668	26,259,657
Realised and unrealised gains on financial assets at fair value through profit and loss	8	79,836,605	430,260,326
Realised and unrealised (losses)/gains on investment properties	7	(3,886,584)	16,957,233
Net foreign exchange gains/(losses)		910,666	(971,732)
Investment expenses	3	(7,186,720)	(8,208,283)
Administrative expenses		(1,405,314)	(1,509,963)
Operating profit on ordinary activities before relevant liabilities provision and taxation	4	449,541,321	462,787,238
Transfer to relevant liabilities provision	14	(296,409,126)	(364,818,126)
Profit on ordinary activities before tax		153,132,195	97,969,112
Tax on profit on ordinary activities	6	(153,132,195)	(97,969,112)
Financial result and total comprehensive income for the year		-	-

The accompanying notes and accounting policies on pages 40 to 62 form an integral part of these financial statements.

Financial statements

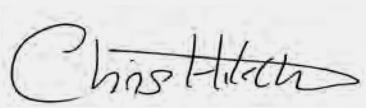
Statement of financial position at 31 March 2023

	Notes	2023 £	2022 £
ASSETS			
Non-current assets			
Investment properties	7	-	41,200,000
Financial assets at fair value through profit and loss	8	3,140,410,060	3,079,722,887
		3,140,410,060	3,120,922,887
CURRENT ASSETS			
Other receivables	9	152,576,606	26,907,089
Cash and cash equivalents	10	17,163,941,647	17,455,962,853
		17,316,518,253	17,482,869,942
LIABILITIES			
Current liabilities			
Trade and other payables	11	(21,109,396)	(6,480,159)
		(21,109,396)	(6,480,159)
TOTAL ASSETS LESS CURRENT LIABILITIES	12	20,435,818,917	20,597,312,670
Non-current liabilities			
Relevant liabilities provision	14	(20,302,462,498)	(20,528,950,699)
Deferred tax provision	14	(133,356,319)	(68,361,871)
		(20,435,818,817)	(20,597,312,570)
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 40 to 62 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 6 November 2023.

Signed on behalf of the Board of Directors.



Chris Hitchen
Chair

Financial statements

Statement of changes in equity for the year ended 31 March 2023

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2022	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2023	100	100
BALANCE AT 1 APRIL 2021	100	100
Movements during the year	-	-
BALANCE AT 31 MARCH 2022	100	100

The accompanying notes and accounting policies on pages 40 to 62 form an integral part of these financial statements.

Financial statements

Statement of cash flows for the year ended 31 March 2023

	2023 £	2022 £
Cash flows from operating activities		
Operating profit on ordinary activities before relevant liabilities provision and taxation	449,541,321	462,787,238
Adjustments for:		
Realised and unrealised gains on financial assets at fair value through profit and loss	(79,836,605)	(430,260,326)
Realised and unrealised losses/(gains) on investment properties	3,886,584	(16,957,233)
(Increase)/decrease in other receivables	(111,783,127)	52,332,893
Decrease in trade and other payables	(320,400)	(684,347)
Cash generated from operations	261,487,773	67,218,225
Corporation tax paid	(75,194,322)	(45,437,897)
Net cash generated from operating activities	186,293,451	21,780,328
Cash flows from investing activities		
Payments to acquire investment properties	-	(4,780,767)
Proceeds from the sale of investment properties	37,313,416	87,788,000
Payments to acquire financial assets held at fair value through profit and loss	(506,371,033)	(724,484,395)
Proceeds from the sale of financial assets held at fair value through profit and loss	525,520,465	824,481,997
Net cash generated in investing activities	56,462,848	183,004,835
Cash flows from financing activities		
Funding from DESNZ	-	5,610,000,000
Contributions from EDF Energy	14,798,499	23,398,842
Payments to EDF Energy in respect of relevant liabilities	(549,576,004)	(261,132,449)
Net cash (paid)/received for financing activities	(534,777,505)	5,372,266,393
Net (decrease)/increase in cash and cash equivalents	(292,021,206)	5,577,051,556
Cash and cash equivalents at start of the year	17,455,962,853	11,878,911,297
Cash and cash equivalents at end of the year (note 10)	17,163,941,647	17,455,962,853

The accompanying notes and accounting policies on pages 40 to 62 form an integral part of these financial statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2023

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, infrastructure, private equity, real estate and credit funds 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 equities, debt and other 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 Non-NDA Liabilities Assurance team within the NDA, the liabilities that are expected to fall upon the fund over the next three years amount to approximately £3.0bn. 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 £20.4bn, 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 ex- dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the fund's right to receive payment is established. Where the fund has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income. For financial assets not categorised at fair value through profit and loss, interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition, except for short-term receivables when the recognition of interest would be immaterial. Interest receivable on short-term cash deposits from the National Loans Fund is based on the interest rates offered by H M Treasury at the start of each investment period and the rates are fixed for the duration of the investment period. 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 2023

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. The fund did not hold any investment properties as at 31 March 2023 as the remaining properties within the property portfolio were sold. Realised gains or losses arising from the sale of properties are included in the statement of comprehensive income.

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 investment.

(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.

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Notes to the financial statements for the year ended 31 March 2023

2 Investment income

	2023 £	2022 £
Interest on cash, short-term cash and loan investments	373,371,604	15,726,433
Income from listed investments	6,692,890	5,617,885
Rent receivable	1,208,174	4,915,339
	381,272,668	26,259,657

The significant increase in interest income was due to the impact of both an increased balance and higher interest rates achieved on cash deposits held with the National Loans Fund during the year.

3 Investment expenses

	2023 £	2022 £
Investment management charges	6,938,721	7,521,257
Other investment expenses	247,999	687,026
	7,186,720	8,208,283

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:

	2023 £	2022 £
Staff salaries and directors' emoluments	501,779	391,667
Auditor's remuneration – audit fees	66,000	59,000
Defined contribution pension cost	42,857	26,253

5 Staff costs

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

	2023 £	2022 £
Wages and salaries	501,779	391,667
Social security costs	54,503	40,160
Defined contribution pension cost	42,857	26,253
	599,139	458,080

Wages and salaries comprise staff salaries of £353,325 (2022: £258,013) and directors' emoluments of £148,454 (2022: £133,654). The average number of persons acting as directors during the year was five (2022: five). There were four employees at the end of the fiscal year 2022-23 (2021-22: four).

6 Tax on profit on ordinary activities

a. Analysis of charge in year

	2023 £	2022 £
Current tax		
UK corporation tax at 19% (2022: 19%)	85,771,107	44,090,745
Foreign tax	314,812	-
Adjustments in respect of prior periods	2,051,828	7,711,839
Total current tax	88,137,747	51,802,584
Origination and reversal of temporary differences	(1,760,502)	19,280,524
Adjustments in respect of prior periods	66,754,950	19,984,214
Effect of tax rate change on opening balance	-	6,901,790
Total deferred tax movement	64,994,448	46,166,528
Tax on profit on ordinary activities	153,132,195	97,969,112

Financial statements

Notes to the financial statements for the year ended 31 March 2023

6 Tax on profit on ordinary activities (continued)

b. Factors affecting tax charge for year

	2023 £	2022 £
Operating profit on ordinary activities before relevant liabilities provision and taxation	449,541,321	462,787,238
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	85,412,851	87,929,575
Effects of:		
Income not taxable for tax purposes	(638,150)	(34,152,574)
Fixed asset differences	275,689	-
Remeasurement of deferred tax for changes in tax rates	(600,125)	16,584,453
Indexation allowance on chargeable gains	167,962	(249,448)
Adjustments to current tax in respect of previous periods	2,051,828	7,711,839
Adjustments to deferred tax in respect of previous periods	66,754,950	19,984,214
Foreign tax credits	314,812	-
Other tax adjustments, reliefs and transfers	(607,622)	161,053
Total tax charge for year	153,132,195	97,969,112

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.

Following an exercise undertaken during the year, the methodology of recognising deferred tax for unlisted investments has been refined resulting in an adjustment to deferred tax in respect of previous periods of £66,754,950. This deferred tax arises on equities held through limited partnership structures and is expected to unwind upon the disposal of these investments.

The effective rate of tax (excluding prior year adjustments) for the year ended 31 March 2023 is 18.8%, which is lower than the standard rate of UK corporation tax of 19%. This is due to non- taxable dividend income.

c. Factors that may affect future tax charges

The UK corporation tax rate remained unchanged at 19% throughout the year ended 31 March 2023.

The corporation tax rate has increased 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 fund did not hold any investment properties as at 31 March 2023 as the remaining properties within the property portfolio were sold. Realised gains or losses arising from the sale of properties are included in the statement of comprehensive income. The fair values of the investment properties as at 31 March 2022 were determined by 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:

	2023 £	2022 £
Rental income	1,208,174	4,915,339
Direct operating expenses on properties that generated rental income	94,566	507,729
Direct operating expenses on properties that did not generate rental income	84,148	143,026

Reconciliation of carrying amounts:

	Freehold £	Total 2023 £	Total 2022 £
Valuation			
At start of the year	41,200,000	41,200,000	107,250,000
Additions	-	-	4,780,767
Disposal proceeds	(37,313,416)	(37,313,416)	(87,788,000)
Realised and unrealised (losses)/gains *	(3,886,584)	(3,886,584)	16,957,233
At end of the year	-	-	41,200,000

* The realised and unrealised losses/gains are included in the statement of comprehensive income on page 36 and comprise: net realised losses of £4,964,173 (2022: realised gains £22,867,952) and net unrealised gains of £1,077,589 (2022: unrealised losses £5,910,719).

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Notes to the financial statements for the year ended 31 March 2023

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

	Freehold £	Total 2023 £	Total 2022 £
Cost			
At start of the year	42,277,590	42,277,590	102,416,871
Additions	-	-	4,780,767
Disposals	(42,277,590)	(42,277,590)	(64,920,048)
At end of the year	-	-	42,277,590

8 Financial assets at fair value through profit and loss

	2023 £	2022 £
Valuation		
At start of the year	3,079,722,887	2,749,460,163
Additions	506,371,033	724,484,395
Disposals proceeds	(525,520,465)	(824,481,997)
Realised and unrealised gains**	79,836,605	430,260,326
At end of the year	3,140,410,060	3,079,722,887

** The realised and unrealised gains/losses are included in the statement of comprehensive income on page 36 and include: net realised gains of £167,658,600 (2022: realised gains £246,986,968) and net unrealised losses of £87,821,995 (2022: unrealised gains £183,273,358).

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

	2023 £	2022 £
Cost		
At start of the year	2,522,331,689	2,375,311,357
Additions	506,371,033	724,484,395
Disposals	(357,840,296)	(577,464,063)
At end of the year	2,670,862,426	2,522,331,689

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

Investments listed on recognised stock exchanges

	2023 £	2022 £
Level 1 fair value measurements (note 13)		
UK equities	29,125,536	36,472,447
Overseas equities	502,697,927	543,809,950
	531,823,463	580,282,397
Unlisted investments		
Level 3 fair value measurements (note 13)		
Loan to British Business Bank Plc	-	75,000,000
Investments in subsidiaries (see below)	1,310,527,391	1,221,567,690
Investments in associates and joint ventures – ownership interest of greater than 20% (see below)	441,441,328	361,129,488
Investments in associates and joint ventures – ownership interest of less than 20%	856,617,878	841,743,312
	2,608,586,597	2,499,440,490
	3,140,410,060	3,079,722,887

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".

Financial statements

Notes to the financial statements for the year ended 31 March 2023

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

Investments in subsidiaries

	2023 £	2022 £
Adams Street UK Mid-Market Solutions LP	222,214,377	269,443,846
Adams Street UK Mid-Market Solutions II LP	8,019,504	-
Equitix MA 1 LP	447,565,140	476,501,850
AEW UK Urban Real Estate Fund LP	80,107,645	18,233,195
HarbourVest 2017 Global AIF LP	83,272,149	92,123,677
ICG Strategic Equity Side Car II LP	469,348,576	365,265,122
	1,310,527,391	1,221,567,690

Summary of unconsolidated subsidiaries

		Ownership Interest	
	Registered in	2023	2022
Adams Street UK Mid-Market Solutions LP	Scotland	99.99%	99.99%
Adams Street UK Mid-Market Solutions II LP	Scotland	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%	70.29%
HarbourVest 2017 Global AIF LP	Scotland	52.50%	52.50%
ICG Strategic Equity Side Car II LP	Cayman Islands	96.55%	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 £240,000,000 (2022: £240,000,000) was drawn as at the year-end leaving an undrawn balance of £Nil (2022: £Nil).

Adams Street UK Mid-Market Solutions II 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 £140,000,000 of which £8,000,000 (2022: £Nil) was drawn as at the year-end leaving an undrawn balance of £132,000,000 (2022: £Nil).

Equitix MA 1 LP invests principally in the equity and shareholder loans in Public Private Partnership projects and social infrastructure projects including, but not limited to: hospitals and health projects, schools and education projects, rail projects, utility related infrastructure and highways' projects. The fund's total commitment is £400,000,000 of which £400,000,000 (2022: £400,000,000) was drawn as at the year-end leaving an undrawn balance of £Nil (2022: £Nil).

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 £88,924,927 (2022: £15,163,407) was drawn as at the year-end leaving an undrawn balance of £31,075,073 (2022: £104,836,593).

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 $90,625,000 (£73,297,476) (2022: US $89,375,000 – £68,022,680) was drawn as at the year-end leaving an undrawn balance of US $34,375,000 (£27,802,490) (2022: US $35,625,000 – £27,113,935).

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 $354,559,930 (£286,767,980) (2022: US $339,045,370 – £258,045,034) was drawn as at the year-end leaving an undrawn balance of US $23,440,070 (£18,958,322) (2022: US $38,954,630 – £29,648,094).

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

	2023 £	2022 £
Macquarie Private Debt Funds ICAV	185,419,875	179,409,577
Alcentra UK Direct Lending No 1 LP	22,107,726	27,244,726
HarbourVest 2018 Global Feeder AIF LP	161,687,921	154,475,185
AEW UK Core Plus Property Feeder Fund (Unit Trust)	72,225,806	-
	441,441,328	361,129,488

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

		Ownership Interest	
	Registered in	2023	2022
Macquarie Private Debt Funds ICAV	Ireland	34.22%	34.22%
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 Core Plus Property Feeder Fund	England and Wales	25.50%	-

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 (£177,421,039) (2022: EUR 201,816,432 – £171,481,376) was drawn as at the year-end leaving an undrawn balance of EUR 13,183,568 (£11,589,950) (2022: EUR 13,183,568 – £11,201,944).

Alcentra UK Direct Lending No 1 LP invests in secured loans comprising 1st lien senior, uni- tranche, 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 £40,780,797 (2022: £41,650,750) was drawn as at the year-end leaving an undrawn balance of £109,219,203 (2022: £108,349,250).

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 $139,675,000 (£112,969,104) (2022: US $120,250,000 – £91,521,425) was drawn as at the year-end leaving an undrawn balance of US $45,325,000 (£36,658,848) (2022: US $64,750,000 – £49,280,767).

AEW UK Core Plus Property Feeder Fund is a Unit Trust fund which invests in multi sector portfolio of commercial property assets throughout the United Kingdom. The fund held 59,264,631,270 units as at the year-end (2022: Nil) .

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Notes to the financial statements for the year ended 31 March 2023

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 2023	Fair value hierarchy
Investments in subsidiaries	£1,310,527,391 (2022: £1,221,567,690)	Level 3
Investments in associates and joint ventures – ownership interest of greater than 20%	£1,310,527,391 (2022: £1,221,567,690)	Level 3
Investments in associates and joint ventures – ownership interest of less than 20%	£856,617,878 (2022: £841,743,312)	Level 3
Loan to British Business Bank Plc	£Nil (2022: £75,000,000)	Level 3

The British Business Bank loan was fully repaid in December 2022.

Valuation technique and key inputs

Valuation is based on a discounted cash flow model which incorporates both observable and non- observable 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

	2023 £	2022 £
Other receivables		
Other debtors	14,230,151	14,232,093
Accrued income	138,346,455	12,674,996
	152,576,606	26,907,089

Accrued income relates to income earned during the year but not received at year-end. Significant increase in accrued income was due to the increase in interest rates impacting interest receivable on cash deposits with the National Loans Fund received upon the maturity of cash deposits after the year-end.

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 (see further details under credit risk in note 13). Cash and cash equivalents included in the statement of cash flows and the statement of financial position comprise the following:

	2023 £	2022 £
Cash balances with banks	157,600,740	140,169,453
Short-term cash investments	17,006,340,907	17,315,793,400
	17,163,941,647	17,455,962,853

11 Trade and other payables

	2023 £	2022 £
Trade creditors	173,930	131,120
Corporation tax	13,028,292	84,867
Other tax and social security	35,877	35,288
Other creditors	430,722	745,833
Accruals and deferred income	7,440,575	5,483,051
	21,109,396	6,480,159

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Notes to the financial statements for the year ended 31 March 2023

12 Currency classification of total assets less current liabilities

Total assets less current liabilities as at 31 March 2023 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	1,414,772,121	17,156,313,706	151,996,103	(21,109,396)	18,701,972,534
US Dollar	1,283,573,225	6,373,107	242,636	-	1,290,188,968
Euro	249,231,276	543,719	-	-	249,774,995
Japanese Yen	15,928,388	11,123	-	-	15,939,511
Other Currencies	176,905,050	699,992	337,867	-	177,942,909
	3,140,410,060	17,163,941,647	152,576,606	(21,109,396)	20,435,818,917

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

13 Financial instruments and financial risk management

Categories of financial instruments as at 31 March 2023:

	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	-	-	3,140,410,060
Other debtors	14,230,151	-	-
Accrued income	138,346,455	-	-
Cash balances with banks	157,600,740	-	-
Short-term cash investments	17,006,340,907	-	-
Financial liabilities			
Trade and other payables	-	8,045,227	-

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	-

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 2023

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 2023 amounting to £531,823,463 (2022: £580,282,397) 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 2023 (2022: £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 2023 amounting to £2,608,586,597 (2022: £2,499,440,490) 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:

	2023 £	2022 £
Valuation		
At start of the year	2,499,440,490	1,895,508,807
Additions	315,345,757	518,865,203
Disposal proceeds	(149,737,965)	(158,556,912)
Realised and unrealised gains ***	(56,461,685)	243,623,392
At end of the year	2,608,586,597	2,499,440,490

*** These realised and unrealised gains are included in the statement of comprehensive income on page 36 and include: net realised losses of £283,604 (2022: £10,050,561) and net unrealised losses of £56,178,081 (2022: unrealised gains £253,673,953).

During the year the fund received profit distributions from the above Level 3 investments amounting to £201,723,486 (2022: £146,424,801).

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 £3.0bn (2022: £1.6bn). 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.

	2023 £	2022 £
Listed investments price risk sensitivity analysis		
If there was a 10% (2022: 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:	53,182,346	58,028,240

The impact of a 10% (2022: 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.

	2023 £	2022 £
Unlisted investments price risk sensitivity analysis		
If there was a 10% (2022: 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:	260,858,660	249,944,049

The Board considers a movement of 10% (2022: 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 2023

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 2023:

	Value subject to fixed rate £	Value subject to variable rate £
Cash balances with banks	-	157,600,740
Short-term cash investments	16,542,974,919	463,365,988

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

The average annual rate of return before tax for short-term cash investments was 2.18% (2022: 0.69%) and the annual rate of return before tax for British Business Bank Plc loan was 1.5% (2022: 1.5%).

Interest rate risk sensitivity analysis

	2023 £	2022 £
If there was a 4% (2022: 5%) increase or decrease in variable interest rates with all other variables held constant, the value of variable interest receivable would increase or decrease by	24,838,669	24,608,373

Although the short-term cash investments are subject to fixed rates, the maturity of these range from 1-6 months. As a result, the interest rate sensitivity for the short-term cash investments has been disclosed in addition to the variable rate noted above. There would be a lag effect on these investments of interest rate movements as the balances mature.

	2023 £	2022 £
If there was a 4% (2022: 5%) increase or decrease in short-term fixed interest rates with all other variables held constant, the value of short-term interest receivable would increase or decrease by	661,718,997	848,189,769

The impact of a 4% (2022: 5%) 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

	2023 £	2022 £
If there was a 10% (2022: 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	129,018,897	110,181,370
Euro	24,977,499	25,102,127
Japanese Yen	1,593,951	2,325,634
Other currencies	17,794,291	19,265,011

A sensitivity of 10% (2022: 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 2023 £	Total 2022 £
At 1 April	68,361,871	20,528,950,699	20,597,312,570	14,793,816,790
DESNZ funding	-	-	-	5,610,000,000
EDF Energy contributions	-	27,347,988	27,347,988	23,398,841
Transfer from statement of comprehensive income	-	296,409,126	296,409,126	364,818,126
Payable to EDF Energy	-	(550,245,315)	(550,245,315)	(240,887,715)
Deferred tax movement	64,994,448	-	64,994,448	46,166,528
At 31 March	133,356,319	20,302,462,498	20,435,818,817	20,597,312,570

Deferred tax balance consists of:

	2023 £	2022 £
Accelerated capital allowances	(59,457)	505,099
Unrealised gain on investments	133,415,776	68,596,786
Unrealised loss on properties	-	(740,014)
	133,356,319	68,361,871

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Notes to the financial statements for the year ended 31 March 2023

14 Non-current liabilities (continued)

Relevant liabilities provision

No contribution was received from Department for Energy Security and Net Zero ('DESNZ') during the year (2022: £5,610m). Subsequent to the year end, the Annual Funding Review was completed for the fiscal year 2022-23 and concluded no additional contributions were required.

In accordance with the Contribution Agreement, fixed contributions are received quarterly from EDF Energy in the sum of £2m (2022: £2m), stated in March 2003 monetary values and indexed to RPI together with £150k, which is also indexed to RPI, for every tonne of uranium loaded into the Sizewell B reactor power station. The fund also receives an annual contribution from EDF for administration costs. This contribution is £1m adjusted to RPI and the fund receives an appropriate amount after the direct, attributable administration costs of DESNZ and the Non-NDA Liabilities Assurance 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 Energy Security and Net Zero 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 financial assets at fair value through profit and loss to the extent that the carrying value of those assets exceeds the estimated tax basis of those assets.

15 Share capital

At 31 March 2022 and 31 March 2023

	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 Energy Security and Net Zero ('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 transferred from the joint names of EDF Energy Nuclear Generation Limited and British Energy Generation (UK) Limited. The B special share is now held to the sole name of EDF 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

The fund did not hold any investment properties as at 31 March 2023 as the remaining properties within the property portfolio were sold. The fund had rent receivables as at 31 March 2022 under non-cancellable operating leases as follows:

	2023 £	2022 £
Within one year	-	2,660,962
Between two and five years	-	8,274,151
In more than five years	-	14,751,833

No contingent rentals were recognised in income.

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Notes to the financial statements for the year ended 31 March 2023

17 Related parties and controlling interest

The main shareholders of Nuclear Liabilities Fund Limited are the trustees of the Nuclear Trust, who jointly hold 98% of the ordinary shares. The Nuclear Trust is a public trust established in 1996 under Scots law by Deed of Trust. Following the end of the fiscal year, the parties to the Deed of Trust changed from British Energy Limited and the Department for Business, Energy and Industrial Strategy to EDF Energy Nuclear Generation Group Limited and the Department for Energy Security and Net Zero. The trustees of the Nuclear Trust are the directors of Nuclear Liabilities Fund Limited. Details of payments to directors are set out in note 5. There was no balance due to the directors as at 31 March 2023 (2022 £Nil).

The fund considers the Secretary of State for the Department for Energy Security and Net Zero also to be a related party. During the year, a sum of £102,720 (2022: £88,917) was paid by the fund to DESNZ 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

AGR flasks. Image courtesy of NDA.

Directors

Dr M Grant
Mr C Hitchen (from 29 August 2022)
Mrs A McNeil
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
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Company Number

SC164685

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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