Nuclear Liabilities Fund

Protecting the future

Annual report and accounts 2018

nlf.uk.net

“The primary objective of the board is to achieve sufficiency of the Fund to meet certain costs of decommissioning EDFE’s eight nuclear power stations that are currently operating in the UK.”

Richard Wohanka
Chair

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Chair's statement

Protecting future generations

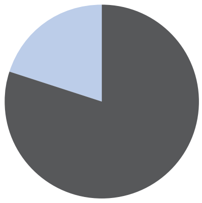
The financial year ending 31 March 2018 was eventful for the Nuclear Liabilities Fund ('NLF' or the 'Fund') as preparations intensify for the start of decommissioning of the first Advanced Gas Cooled Reactors ('AGR') in the nuclear fleet of EDF Energy Nuclear Generation Limited ('EDFE'). This is currently planned to commence in about five years' time and will mark the start of a long journey that will take about 100 years to complete.

Richard Wohanka
Chair

As directors we are conscious of this timeline. Whilst we have to prepare for the large step up in payments in a few years' time with the first reactor closure, we also have to seek to ensure there are sufficient funds to cover the final decommissioning costs that occur in the next century.

The aim of the Fund is to help ensure that future generations are not burdened by decommissioning costs related to the consumption of nuclear generated energy by the present generation.[1] It is this that deeply influences our investment strategy and the work we do to assist in both reducing the near and long-term liabilities and having greater certainty about their scale.

Our investment strategy and its results are discussed in more detail later, but the continuing low level of interest rates during the year have made it more challenging to ensure the Fund has sufficient assets to meet the liabilities for decommissioning the EDFE nuclear power stations that are due to be met by the Fund. Approximately 80% of the assets are held in the National Loans Fund ('NatLF')[2] and 20% in a portfolio of mixed assets (the 'Mixed Assets Portfolio') which are long term in nature and seek to exploit the illiquidity premium attached to many financial assets.



80%

Approximately 80% of the assets are held in the National Loans Fund and 20% in the Mixed Assets Portfolio.

Whilst the Mixed Assets Portfolio has performed in line with our targets, the continued low level of interest rates which apply to the NatLF has meant that the overall portfolio has not.

The directors are keenly aware of the risks to the sufficiency of the Fund. In last year's annual report, we noted that we were working with the Department for Business, Energy and Industrial Strategy ('BEIS'), HM Treasury and UK Government Investments ('UKGI') to agree a plan to diversify funds currently held in the NatLF. I am pleased to confirm that a programme of transferring approximately £2bn is now underway and is expected to be completed by FY2021/22.

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

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

The sufficiency of the Fund's assets is monitored carefully and the directors regularly explore new areas in which to invest, including opportunities where the Fund can contribute to initiatives to strengthen the British economy. We are already a large investor in British venture capital funds; however, we are increasing our activity in this field and are pleased to be working closely with a Government backed institution as part of discussions to diversify the funds out of the NatLF. We are also active in the work being undertaken as part of the Patient Capital Review.

As a matter of principle, we hold a significant percentage of our assets in UK related investments. We see this as a natural currency hedge for EDFE's decommissioning liabilities as well as enabling us to play a supportive role in the development of the UK economy. Currently approximately 82% of our assets are in UK related investments and approximately 31% of our Mixed Asset Portfolio assets are in UK infrastructure projects.

The Fund also plays a role, at a strategic level, in helping scrutinise and challenge EDFE's decommissioning liabilities, primarily through participation in two committees. The directors have been working assiduously on the liabilities side during the year. The directors actively participate in the body which examines EDFE's overall approach to decommissioning ('the Nuclear Liabilities Committee' or 'NLC') as well as the body that is driving the approach to defueling the stations ('the Defueling Steering Panel' or 'DSP'). In addition, the directors commissioned and reviewed a study which recommended the approach that should be adopted to estimate the increase in liabilities due to inflation over the long time period required for defueling and decommissioning the EDFE fleet of nuclear power stations.

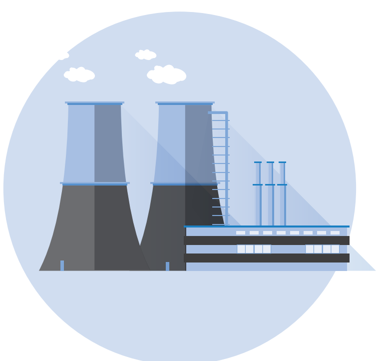
During the year, there were changes to membership of the board and internal resource, notably the appointment of Sally Bridgeland as trustee and director in April 2017, and Catherine Cripps as trustee and director and Melissa Hope as Executive Secretary, both in November 2017. We continue to consider fund resources as we plan for increasing activities in asset management and the increase of liability payments in the future.

The directors have worked closely with NDA's Nuclear Liabilities Assurance ('NLA') team all year and wish to thank them for the diligent work undertaken to vet EDFE's liabilities that have been and are to be met from the Fund's assets.

The directors continue to work closely with both UKGI and EDFE and wish to thank them both for support provided throughout the year.

The primary objective of the board is to achieve sufficiency of the Fund to meet certain costs of decommissioning EDFE's eight nuclear power stations that are currently operating in the UK. We base our quantification of these decommissioning costs on EDFE's fundamental review, every three years, of their decommissioning plans. The last such review took place in 2016. The Mixed Assets Portfolio has produced strong returns over the last few years. This, combined with the benign inflation environment currently predicted for EDFE's decommissioning liabilities and the planned programme of transferring approximately £2bn from the NatLF to higher returning assets enables the directors to report the Fund is on track to be sufficient. However, the directors are cognisant that they will need to be extremely vigilant and pro-active and keep both liabilities and investments under regular review.

Richard Wohanka
Chair



100

It will take about 100 years to complete decommissioning.

Strategic Report

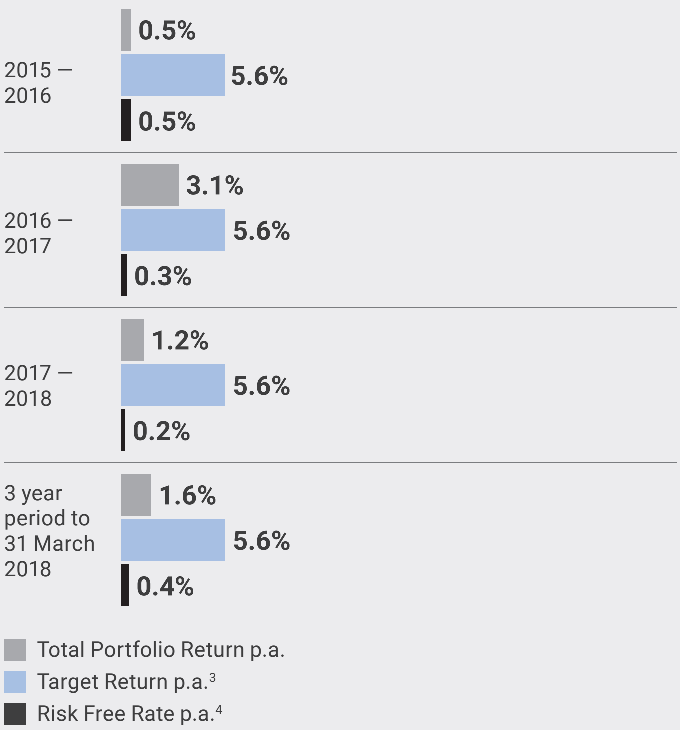
Our key performance indicators
A year of growth

An investment in the M25 forms part of the Fund's infrastructure portfolio.

The Fund's investment performance is assessed using key performance indicators ('KPIs') agreed with UKGI on behalf of BEIS. The KPIs and investment objectives are established to measure performance against the expected future liability obligations. The aim is to provide a summary of the overall returns of the 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 Portfolio Return*



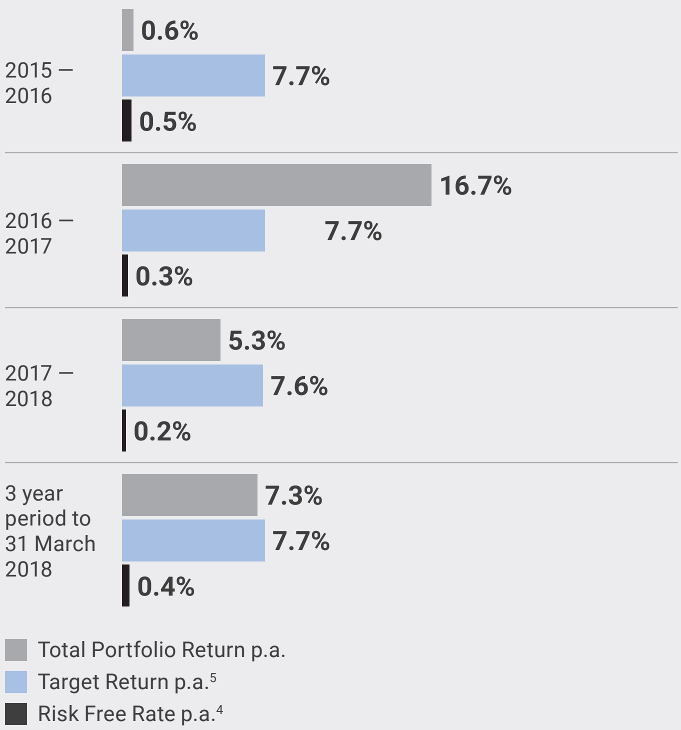
▲ 1.6%

Total Portfolio Return
3 year period to
31 March 2018

The lower than predicted returns from the NatLF remain the primary driver of under-performance at the total portfolio level. The Chair's statement refers to the re-allocation plan being pursued to redress this situation.

All dates run from
31 March to 31 March

KPI 2: Mixed Assets Portfolio Return*



▲ 7.3%

Mixed Assets Portfolio Return
3 year period to
31 March 2018

The Mixed Assets Portfolio is that portion of the NLF's funds not currently invested in the NatLF.

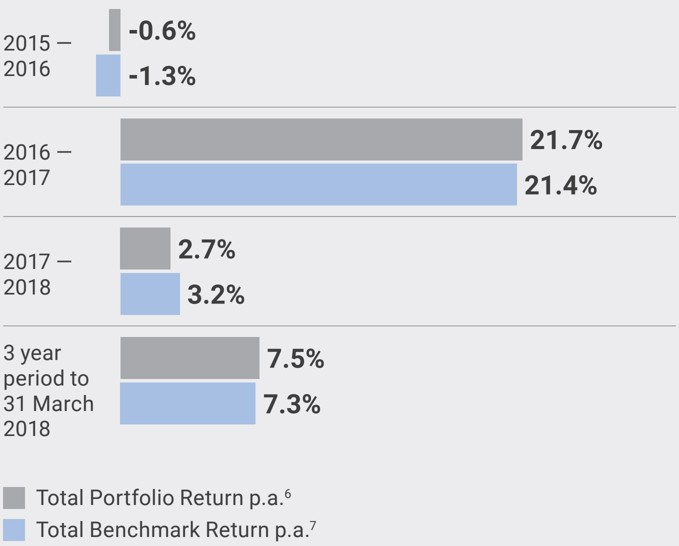
* As of 31/03/2018, £7.3bn (79.0% of the Fund) was invested in the National Loans Fund and £1.9bn (21.0% of the Fund) in the Mixed Assets Portfolio.

3 This is the required return on the National Loans Fund and the Mixed Assets Portfolio to meet the NLF's expected future liability obligations as estimated by EDFE in their 2016 Baseline Decommissioning Plans and 2016 Uncontracted Liabilities Discharge Plan, assuming the values of the National Loans Fund and the Mixed Assets Portfolio as of each quarter end since inception. Net of fees, net of tax.

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

5 This is the required return on the Mixed Assets Portfolio to meet the expected future liability obligations, calculated having regard to the assumed returns from the National Loans Fund as of each respective date. Net of fees, gross of tax.

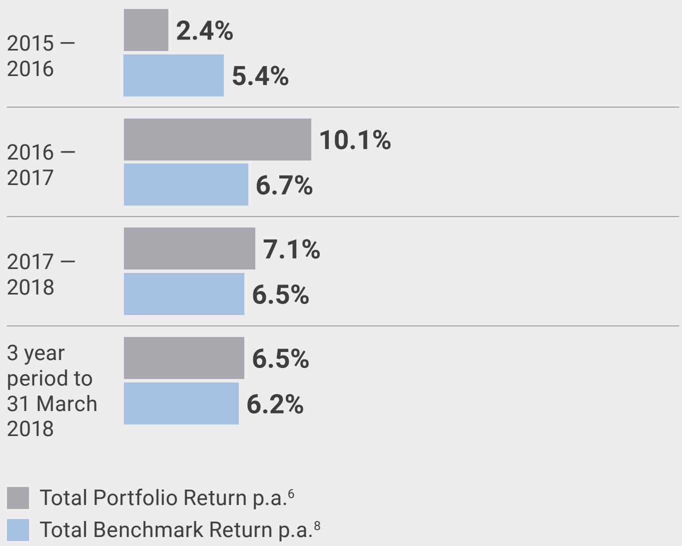
KPI 3: Mixed Assets Portfolio Return Liquid Portfolio Performance



▲ 7.5% **Liquid Portfolio Return**
3 year period to
31 March 2018

The Liquid portfolio includes UK Equities (both large cap and small cap) and Global Developed Equities ex UK.

KPI 3: Mixed Assets Portfolio Return Illiquid Portfolio Performance



▲ 6.5% **Illiquid Portfolio Return**
3 year period to
31 March 2018

The Illiquid portfolio includes allocations to Direct Real Estate, Real Estate Mezzanine Debt, UK Growth Equity and Global Private Equity, Infrastructure Debt and Equity, Renewables, UK SME Loans and Lifetime Mortgages.

The nature of some of these asset classes (particularly for private equity investments) means that there is expected to be a J-Curve Effect, i.e. it is expected that these funds experience negative returns in the early years as capital is being deployed and before the underlying investment has matured.

The Mixed Assets Portfolio comprises liquid and illiquid investments which have both performed broadly in line with agreed benchmarks.

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

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

8 Total Benchmark Return has been calculated as the performance of BlackRock's return proxy for the Illiquid Portfolio. The return proxy is calculated based on the expected rate of return of the illiquid asset classes in the NLF portfolio weighted to reflect each investment manager's proportion of total assets under management in the Illiquid Portfolio. For clarity, the choice of this benchmark is due to a lack of comparable market benchmarks given the portfolio's composition. For example, neither equity nor bond indices provide adequate comparability due to relative differences in risk allocation. This method has been utilised by the directors on an historical basis to measure performance of the Illiquid portfolio. The BlackRock expected rate of return reflects 'equilibrium' or 'valuation-neutral' market conditions that BlackRock would expect over the long term. The approach is based on the capital asset pricing model, which holds that each asset class earns a return equal to the risk-free rate plus a risk premium. The estimate of the risk-free rate is based upon current market expectations. The key rewarded risk factors in the BlackRock model include equity, interest rate, inflation, credit and illiquidity premium.

Strategic Report

Review of the year
Changing landscapes

The first planned station shutdown for decommissioning is now only five years away. Entry to the decommissioning phase will bring a major change in activity levels and Fund cash flows. To date the biggest outflow from the NLF was associated with the funding of the design construction and commissioning of the Dry Fuel Store facility at Sizewell B Power Station.

Investments

Background

The long term liabilities of the Fund, the costs of decommissioning, are likely to change over time in line with the costs of labour, materials and evolving technology. The trustees estimate how much return will be needed to meet the liabilities and design an investment approach which targets this rate of return while reducing 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 in the longer term. The Mixed Assets Portfolio has a bias in its investments towards UK assets with the dual aims of supporting the UK economy and reflecting the likely behaviour of the Fund's liabilities.

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

1 Investment performance over the year

As mentioned in the Chair's statement, the Fund's assets are divided into two sections: assets held in the NatLF and the Mixed Assets Portfolio.

About 80% of the assets of the Fund are held in the NatLF where cash can be accessed at short notice. It is used to meet the current and shorter-term payments to EDFE in respect of their liabilities and, by dampening the overall volatility of return and providing liquidity, allow the directors greater freedom in investing the Mixed Assets Portfolio.

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 Mixed Assets Portfolio. The KPIs are summarised on pages 5 and 6.

The total portfolio three-year return to 31 March 2018 was 1.6% compared to the three-year target KPI return to 31 March 2018 of 5.6% p.a.

The total fund outcome has been significantly hit by the low interest rate environment. The current difference between the actual and target returns is being addressed by developing the plans for transferring £2bn from the NatLF to higher returning assets. In the meantime, the directors have revised our policy on how we re-invest the NatLF cash. Deposits in the NatLF are reviewed on a monthly basis, balancing immediate cash flow needs and views on interest rates with the aim of maximising the interest which can be earned.

The Mixed Assets Portfolio three-year return to 31 March 2018 of 7.3% p.a. was slightly below its three-year target KPI return to March 2018 of 7.7% p.a.[9]

The well-diversified approach, drawing on both liquid and Illiquid assets, has weathered the challenging investment environment throughout the year well. The directors' aims for the Mixed Assets Portfolio, set out in our Statement of Investment Principles, have served the Fund well: the returns have clearly benefitted from the illiquidity premium.

The liquid assets portfolio three-year return of 7.5% p.a. was above its three-year target KPI of 7.3% p.a.: the illiquid portfolio three-year return of 6.5% p.a. was also above its three-year target KPI of 6.2% p.a.[10]

Over the year, both liquid and illiquid parts of the portfolio have performed close to their respective KPIs: the liquid portfolio has returned 2.7% compared to its benchmark of 3.2%; the illiquid portfolio 7.1% compared to its benchmark of 6.5%.

In line with the directors' aims for the Mixed Assets Portfolio, each part has also been well-diversified across types of asset which are expected to react differently in the range of economic scenarios which may present themselves. Indeed, the performance of the two parts of the portfolio relative to their benchmarks masks considerable variations of performance across the underlying asset types and managers.

For example, in the year, the best performing asset in the liquid portfolio was our allocation to shares in UK small companies which returned 11.0% while our allocation to UK companies as a whole made a loss of 2.2% with larger companies being less resilient to the current market uncertainty. Looking at the illiquid portfolio, the weakest performance over the year was 4.1% from our portfolio of UK infrastructure debt, and the strongest performance was from our holdings in UK infrastructure equity (12.1%) and real estate mezzanine debt (18.8%).

“The well-diversified approach, drawing on both liquid and illiquid assets, has weathered the challenging investment environment throughout the year well.”

9 The Mixed Assets Portfolio three-year return KPI is based on the required return to meet, when combined with the funds in the NatLF, EDFE's expected liabilities in full (gross of tax, net of fees).

10 It should be noted, both the liquid and illiquid assets portfolio three-year returns are compared to market benchmarks, whereas the Mixed Asset portfolio and total portfolio three year returns are compared to a target return based on the required return to meet EDFE's expected liabilities in full (gross of tax, net of fees). This explains why both the liquid and illiquid asset portfolios have been able to out-perform their market benchmarks, but the Mixed Assets Portfolio's performance is below its benchmark.

The ability to meet the target return for the Mixed Assets Portfolio as a whole, rests on the ability to make decisions to allocate to more promising investment opportunities and the capability to do so with confidence. Against the challenges which the current economic and political backdrop presents, and anticipating the growth and the increase in complexity of our Mixed Assets Portfolio the directors have strengthened the governance around investment activities.

Investments – looking forward

Looking forward, the directors are cognisant of the ever changing investment environment, and the multi-fold increase in cash payments to come. We have agreed a programme of transfers from the NatLF into significantly higher returning assets, akin to those we already hold in our Mixed Assets Portfolio. The first two steps in the programme have been agreed with Government as investments in a Government backed institution. We are pleased to have closed the first of these after the end of the reporting year, in August 2018, in the form of a short-term loan to the British Business Bank which is at a higher yield to that we were receiving from the NatLF. The second step is expected to complete by 1 January 2019 and will be an investment in British Patient Capital, with the aim of financing growth in innovative firms.

Statement of investment principles

The Statement of Investment Principles (the 'SIP') was under review during the year and was agreed by the directors after the date of reporting. This sets out the governance structure for setting the investment objectives for the Fund. It provides detail on the responsibilities of the directors and the investment objectives and principles which they have set for the Mixed Assets Portfolio. A full copy of the SIP is available on the NLF website.

An investment in the St Pancras Station project forms part of the Fund's infrastructure portfolio.

"Looking forward, the directors are cognisant of the ever changing investment environment, and the multi-fold increase in cash payments to come."

2 Liabilities

During the year to March 2018 EDFE's liabilities increased by £400m, from £19.6bn to £20.0bn. The main factors affecting this change were, revalorisation (+£433m) and discharge of liabilities associated with the Sizewell B Dry Fuel Store (-£27m).

In accordance with the requirements of the NLFA, EDFE made a contribution to the Fund of £24,414,451 in the year to the end of March 2018.

The NLF made payments of £33m to EDFE during the year for work carried out in respect of the following workstreams: Sizewell B Dry Fuel store project (£19m), Sizewell B fuel related work (£8m), AGR fuel related work (£2m), Defueling preparation work (£3m), and Portfolio Management Support costs (£1m). These amounts were confirmed to the directors as qualifying payments under the NLFA by the NLA team prior to payment.

During the past year the NLF has continued to play a role in monitoring EDFE's liabilities through participation in both the NLC and the DSP. These bodies were set up following the 2015 HM Government AGR and PWR Nuclear Liabilities Review, and, are designed to encourage more efficient management of EDFE's decommissioning liabilities. Both these bodies have enabled and encouraged external challenge of both the detailed approaches and the programmes being developed to underpin decommissioning of the plants.

Detailed briefing sessions have been provided to NLF by EDFE and by Sellafield Ltd to allow the board to develop an appropriate level of understanding of the Advanced Gas Cooled Reactor Operating Programme ('AGROP'). The AGROP is a collaborative programme between EDFE, Sellafield Ltd and Direct Rail Services Ltd. The objectives of this programme are to:

— enable the minimum AGR defueling timescales
— ensure best overall value for the UK tax payer
— take account of ongoing operational and generation requirements.

These detailed briefing sessions have enhanced our ability to provide appropriate challenge in this area.

The board has benefited from a series of presentations on technical issues that have the potential to have a significant bearing on EDFE's decommissioning liabilities. These have included:

1. An NDA presentation on alternative approaches to decommissioning;
2. An Environment Agency presentation on the decommissioning landscape, which highlighted potential opportunities for reducing nuclear liabilities through proactive management of waste and a revised approach to site end states; and
3. An NDA presentation on their research and development programme.

A look forward on liabilities

The NLF will continue to work with EDFE and also challenge the approaches to decommissioning the EDFE fleet of nuclear power stations through formal routes and by engaging with relevant stakeholders.

The other main areas of focus for the NLF over the next 5-year period will be:

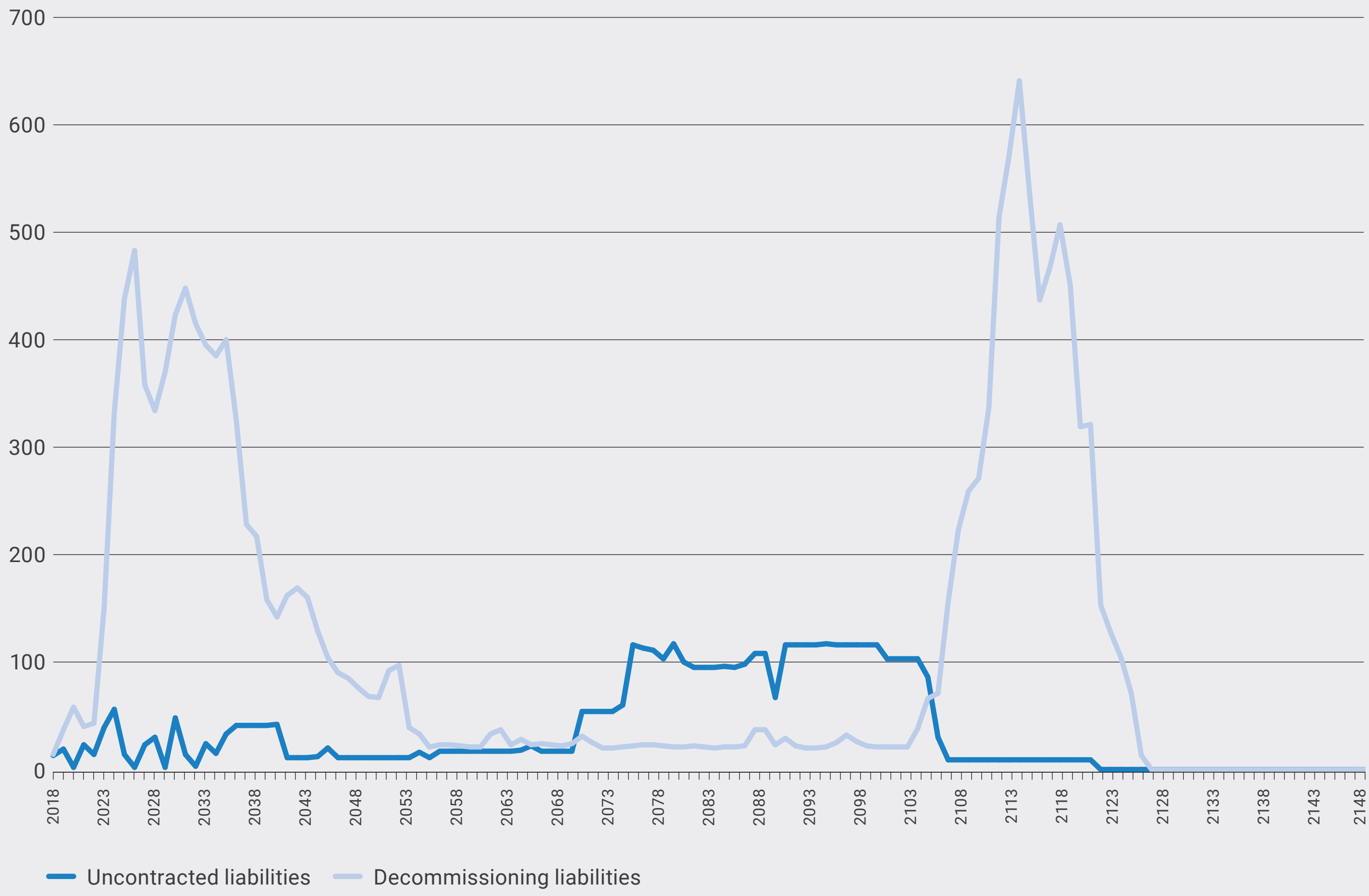
— Engaging with BEIS on the considerations relating to the decommissioning of EDFE's AGR fleet.
— Continuing to provide challenge to the development of arrangements for defueling the AGRs.
— Discussing relevant policy areas with BEIS, including the overall decommissioning waste management strategy.
— Continuing engagement with NDA on decommissioning.

The above will be achieved through the NLF's continued involvement in the NLC and DSP, and through regular engagement with BEIS, EDFE and the NLA.

Finally, during 2019 EDFE are scheduled to update their Baseline Decommissioning Plans and Uncontracted Liabilities Discharge Plan, together referred to as the Lifetime Plan. We will maintain close contact with both EDFE and the NLA, to ensure we get early warning of any significant changes associated with this update.

“During the past year the NLF has continued to play a role in monitoring EDFE's liabilities through participation in both the NLC and the DSP.”

Projected annual expenditure to discharge the Fund's liabilities



This chart illustrates the projected annual expenditure to discharge the Fund's liabilities (calculated on an undiscounted, P80 basis and in pounds sterling as at December 2017) through to final disposal of waste streams. It assumes defueling and initial deplanting, a period of care and maintenance (safestore) and thereafter site remediation to a state ready for reuse (together called decommissioning).

It also plots projected annual expenditure on discharging liabilities related to nuclear fuel loaded after the restructuring of British Energy in 2005 (Uncontracted Liabilities).

Strategic report

Principal risks and uncertainties

The Fund faces potential operational, financial, reputational, economic and political risks. A risk register is regularly refreshed by the company's technical adviser in conjunction with BlackRock, our fiduciary manager, and our independent investment adviser, and is subject to quarterly review and regular updating.

Technical risks

The risks associated with EDFE's decommissioning liabilities are considered on a lifetime basis. Reports on the more significant risks are presented to the board quarterly. EDFE are responsible for preparing costed plans for discharging their liabilities but there are risks which lie outside the underpinning assumptions.

The first planned station shutdown for decommissioning is now only five years away. Entry to the decommissioning phase is expected to bring a major change in activity levels and NLF cash flows. There is a risk of the liabilities increasing as EDFE's work programme for decommissioning evolves from provisioning estimates into executable plans. Decisions taken by external bodies such as the Office of Nuclear Regulation and HM Government may also affect the liabilities. Contact is maintained regularly with the various organisations which can impact on the size of the liabilities.

Investment risks

The most important challenge to the directors has been the need to invest the Fund so that it will produce sufficient returns to fulfil the purposes of the NLFA and the Trust.

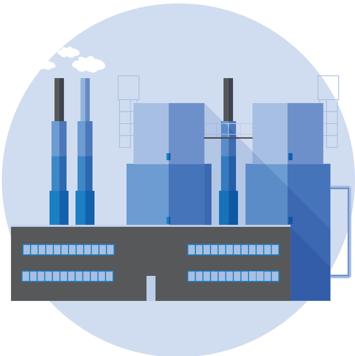
The Fund is a long-term investor and then directors aim to balance the desire to maximise the returns from the Mixed Assets Portfolio with a professional investment approach which manages risks.

The investment committee considers the financial risks and objectives: the exposure of the Fund to credit risk, liquidity risk and market risk (i.e. equity prices, interest rates and currency). The directors consider these risks to be the principal financial risks of the Fund. The investment committee monitors these risks by monitoring performance against prescribed benchmarks with assistance from BlackRock Investment Management (UK) Limited, the Fund's fiduciary manager. The directors' approach is set out in Note 13 'Financial Instruments and Financial Risk Management' to the financial statements.

This year the directors have developed a set of Risk Appetite Statements to support this approach. These provide guidelines for our fiduciary manager to establish how the asset allocation of the Fund will develop over the future.

The Risk Appetite Statements are set out on the next page. The board and investment committee work together to set and implement the Fund's investment strategy within this appetite.

> *"The directors aim to balance the desire to maximise the returns from the Mixed Assets Portfolio with a professional investment approach which manages risks."*



Risk Appetite Statements – investment

The NLF directors have a:

1. High appetite to take a level of investment risk consistent with the returns required to ensure fund sufficiency.
2. A high appetite to continue to work with HM Treasury, BEIS and UKGI to diversify the funds currently held in the Exchequer to reduce the overall level of investment risk.
3. Low appetite for the failure of the Mixed Assets Portfolio to meet its target return in the next 3 years.
4. Low appetite for concentration of risk positions in the Mixed Assets Portfolio, while making meaningful allocations to each type of asset.
5. High appetite for illiquidity (and likely increased returns) in the Mixed Assets Portfolio given the liquid nature (and likely lower returns) of the NatLF.
6. Low appetite for embarrassment and reputational risk, reflecting the desired standards of a public body.
7. Medium appetite to, where possible, focus NLF investments in the UK, supporting the UK Government.
8. Low appetite for complex financial instruments and investments, reflecting a desire for transparency and understanding.

“Approximately 31% of our Mixed Asset Portfolio assets are invested in UK infrastructure projects.”

Director's report

For the year ended 31 March 2018

The directors present their annual report together with the financial statements and auditor's report for the year ended 31 March 2018.

Results

The Fund's assets held to meet the for qualifying liabilities increased by £99,014,507 to £9,261,578,318 (2017: increased by £219,492,347 to £9,162,563,811).

No dividends have been paid or proposed for this year or the prior year.

Presentation of financial statements

The directors are bound by the Companies Act 2006 and International Financial Reporting Standards in the presentation of the financial statements. However, the purpose of the Fund is to receive and hold monies, investments and other assets, in order to secure funding for discharging qualifying liabilities relating to EDFE's UK nuclear power stations which were in existence in 1996 and to make payments for approved costs in accordance with the provisions of the NLFA. Accordingly, in the directors' opinion, a more meaningful method of presenting the financial statements would be to use a fund account approach as follows:

	2018 £	2017 £
Assets less liabilities held to meet qualifying liabilities – value at the start of the year	9,162,563,811	8,943,071,464
Contributions from EDFE	24,414,451	20,320,800
Amounts payable to EDFE	(26,380,740)	(23,010,122)
Operating profit on ordinary activities before tax	119,259,426	279,466,303
Tax on profit on ordinary activities	(18,278,630)	(57,284,634)
Assets less liabilities held to meet qualifying liabilities – value at end of the year	9,261,578,318	9,162,563,811

Principal activity and review of business

The principal activities of the Fund 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 Review of the Year section provides further detail on the Fund's activities during the course of the period, both from the investment and the liabilities perspectives. An indication of likely future developments is provided on pages 10 and 11. Furthermore, the key technical and investment risks facing the Fund and the Risk Appetite Statements are covered in the Principal Risks and Uncertainties section above.

The directors consider the result for the year under review to be consistent with the objectives set out in the Memorandum of Association of the Fund as amended by Special Resolutions approved on 14 January 2005.

Directors

The following directors served during the year:

Mr R Wohanka
(reappointed and appointed chair both on 21 April 2017)

Mr R Armour

Mrs S Bridgeland
(appointed 21 April 2017)

Mrs C Cripps
(appointed 1 November 2017)

Mr N Harrison
(retired on 31 October 2017)

Mr R Lowe
(resigned on 21 April 2017)

Dr P Neumann
(reappointed 1 December 2017)

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

Company Secretary

Mrs J MacDonald resigned as company secretary and Mrs M Hope was appointed as company secretary on 10 November 2017.

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

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

Auditor

Grant Thornton UK LLP has been reappointed as company's auditor for the financial year ending 31 March 2018.

Donations

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

Director's report

Governance

The directors are committed to ensuring high standards of corporate governance.

Corporate governance

The Fund is not a listed company therefore it is not obliged to comply with the UK Corporate Governance Code that was issued in 2010 (as amended) by the Financial Reporting Council but we take account of its principles and guidance where these are appropriate to a public trust. The directors will similarly take account of the UK Corporate Governance Code 2016 that will apply from 2019. In addition, the directors refer to the Corporate Governance Code for Central Government Departments and the Code of Conduct for Board Members of Public Bodies where these are relevant for a public trust such as the Nuclear Trust.

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 takes note of the targets and objectives given to it by the Secretary of State, BEIS, 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 set out on pages 5 and 6.

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

Board effectiveness review

In January 2018 an internal board effectiveness review was carried out. It was noted that the board benefits from a diverse membership both in terms of gender and experience. The directors collectively have a wide range of skillsets and expertise in financial services, the investment sector, accountancy, legal, governance, nuclear engineering and pensions management. They are supplemented by the board's investment adviser, Nigel Webber and the board's technical adviser, John Wilkins.

As a result of the review, the board has streamlined its agendas to make time for priority issues, looked again at the delegations to board committees and introduced some new items such as quarterly review of investment opportunities and an annual policy update with BEIS. The board's key focus has been to amend its investment strategy to address the risk of Fund insufficiency and to meet the liabilities the Trust is intended to discharge.

The review also covered the effectiveness of each trustee and the commitment shown to the Fund.

The review found there is a supportive and open culture on the board which allows directors to share the work load and keep each other informed, enabling the directors to play effective complementary roles.

The Investment Committee

The investment committee comprises three directors: Sally Bridgeland, Richard Wohanka and Catherine Cripps. Sally Bridgeland succeeded Richard Wohanka as chair in October 2017. The committee is supported by an independent investment adviser who provides an additional layer of challenge and scrutiny, both to the investment activities of the Fund and its incumbent advisers. As the primary purpose of the Fund is to receive and hold monies, investments and other assets, all material investment matters, including changes to investment strategy and asset classes, approval of the Statement of Investment Principles and appointment of advisers, are reserved to the board for determination.

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

The Audit Committee

The audit committee comprises Catherine Cripps, Robert Armour, and Peter Neumann. Norman Harrison retired from the committee on 31 October 2017 and Catherine Cripps succeeded Robert Armour as chair on 1 November 2017. The board considers that the members of the audit committee have sufficient recent and relevant experience in order for it to perform its functions effectively, noting in particular that Catherine Cripps has relevant financial expertise and experience in other organisations of service on audit committees. The committee met five times during the year and also held additional separate meetings on accounting and audit matters. The Company's external auditor also attends a number of meetings to report on the quality of accounting procedures and their findings in connection with the statutory audit. All committee members undertake specialist training to ensure that their skills and experience are kept up to date.

The audit committee is responsible for monitoring the integrity of the Company's annual report and interim management accounts, and for reviewing and making recommendations to the board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by Grant Thornton UK LLP, the external auditor. The most material matters which the committee considered in connection with the Company's financial statements include portfolio valuation and materiality. Consequently, the audit committee has undertaken steps to satisfy itself, and the board, as to the robustness of the process whereby the fund managers of unlisted securities are selected, monitored and conduct valuations.

“The review found there is a supportive and open culture on the board which allows directors to share the workload and keep each other informed, enabling the directors to play effective complementary roles.”

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 did not meet during the financial year. The committee's role is to make recommendations to the board and the Special Shareholders on the composition of the board, the skills mix required for potential candidates, plan for succession and to monitor remuneration arrangements. The appointment of two new directors during 2017 gave the opportunity to reorientate the skills represented around the board table and address gaps identified by the annual board effectiveness review. Looking forward, as EDFE ramps up its preparations for defueling, the demands on the Fund will increase and the committee is considering what additional resources are required to cover the Fund's activities.

The Board

The directors meet regularly to review the overall affairs of the Fund and to consider business specifically reserved for the board's decision. Eight board meetings were held during the course of the year (in addition to matters discussed by conference call) together with many other meetings between various board members, advisers, officials from UKGI, BEIS, the NDA, EDFE and others. The directors meet regularly with their advisers and keep in frequent contact with industry bodies, technical specialists and regulators as appropriate.

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 below:

	Board Meetings – 8	Investment Committee Meetings – 12	Audit Committee Meetings – 5
Mr R Wohanka	8 (8)	11 (12)	–
Mr R Armour	8 (8)	7 (7)	5 (5)
Mrs S Bridgeland	7 (8)	11 (11)	–
Mrs C Cripps	3 (3)	5 (5)	1 (1)
Mr N Harrison	5 (5)	–	4 (4)
Mr R Lowe	–	1 (1)	–
Dr P Neumann	7 (8)	–	4 (5)

The number in brackets shows the total number of meetings that took place while the director was in office, whereas the first number shows the number of meetings actually attended.

The Fund completed the transition of its remuneration arrangements for directors to the new fixed terms which had been introduced in April 2016. Under these terms, the directors each receive £28,500 per annum and the chair £31,200 per annum. Mr R Armour, Dr P Neumann, Mrs S Bridgeland and Mrs C Cripps are employed as directors, and Mr R Wohanka as chair, on these new fixed terms.

Additional remuneration was payable during the year to certain directors who were not, at the relevant time, employed on the new fixed terms for carrying out work in addition to the terms of their respective contracts on a per diem basis in accordance with the Articles of Association of the company. The additional amounts paid in the year to 31 March 2018 amounted to £15,600.

Internal financial controls

The directors have overall responsibility for the internal financial control systems of the Fund. 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. The financial controls operated by the board include 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 investment managers, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), and the day to day accounting and certain company secretarial requirements.

The investment managers have established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls. The effectiveness of the internal financial controls is assessed by the investment managers' compliance and internal audit departments on an ongoing basis.

The board meets representatives of the fiduciary and fund managers and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Fund. 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.

These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

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

> *“The board meets representatives of the investment managers and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Fund.”*

Going concern

The principal purpose of the Fund is to provide arrangements for funding certain long term costs of decommissioning the nuclear power stations of EDFE existing at 20 March 1996 and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. Based on the latest cash flow forecasts produced by EDFE and reviewed by the NDA, EDFE's decommissioning liabilities that are expected to fall upon the Fund over the next three years amount to approximately £176m. The Fund is well placed to meet these costs and 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 directors are satisfied that it is appropriate to prepare the annual report and accounts on a going concern basis.

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

Richard Wohanka
Chairman

Citypoint
65 Haymarket Terrace
Edinburgh EH12 5HD

21 December 2018

Directors

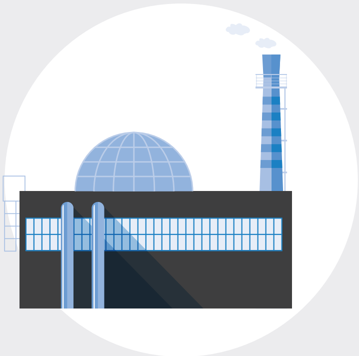
Statement of Directors' responsibilities

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 European Union. 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; and
- 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 European Union, 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; and
- the Strategic Report and Director's Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the board and signed on its behalf by:

Richard Wohanka
Chairman

21 December 2018

The directors of the NLF are the five trustees of 'The Nuclear Trust'

Richard Wohanka

Director

Chairman

Chair of the Remuneration and Nomination Committee

Member of Investment Committee

Robert Armour

Director

Member of Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Nuclear Liabilities Committee

Sally Bridgeland

Director

Chair of Investment Committee

Member of the Remuneration and Nomination Committee

Catherine Cripps

Director

Chair of Audit Committee

Member of Investment Committee

Member of the Remuneration and Nomination Committee

Peter Neumann

Director

Member of Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Nuclear Liabilities Committee and the Defueling Steering Panel

Melissa Hope

Executive Secretary

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 Limited (the 'company') for the year ended 31 March 2018 which comprise Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its results for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities

This description forms part of our auditor's report.

Grant Thornton UK LLP

Paul Flatley
Senior Statutory Auditor

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

London
21 December 2018

Financial statements

Statement of comprehensive income for the year ended 31 March 2018

	Notes	2018 £	2017 £
Investment income	2	34,996,978	43,464,507
Realised and unrealised gains on financial assets at fair value through profit and loss	8	85,502,159	241,166,352
Realised and unrealised gains/(losses) on investment properties	7	4,563,774	(597,165)
Net foreign exchange gains		280,679	312,070
Investment expenses	3	(5,102,095)	(4,108,126)
Administrative expenses		(982,069)	(771,335)
Other operating income		–	–
Operating profit on ordinary activities before qualifying liabilities provision and taxation	4	119,259,426	279,466,303
Transfer to qualifying liabilities provision	14	(100,980,796)	(222,181,669)
Profit on ordinary activities before tax		18,278,630	57,284,634
Tax on profit on ordinary activities	6	(18,278,630)	(57,284,634)
Financial result and total comprehensive income for the year		–	–

The accompanying notes and accounting policies on pages 28 to 51 form an integral part of these financial statements.

Financial statements

Statement of financial position at 31 March 2018

	Notes	2018 £	2017 £
ASSETS			
Non-current assets			
Investment properties	7	108,730,000	105,530,000
Financial assets at fair value through profit and loss	8	1,785,429,164	1,672,572,716
		1,894,159,164	1,778,102,716
CURRENT ASSETS			
Other current assets	9	8,824,256	1,700,600
Cash and cash equivalents	10	7,387,886,643	7,449,978,331
		7,396,710,899	7,451,678,931
LIABILITIES			
Current liabilities			
Trade and other payables	11	(10,755,735)	(17,588,455)
Corporation tax payable		(10,172,919)	(34,020,095)
		(20,928,654)	(51,608,550)
TOTAL ASSETS LESS CURRENT LIABILITIES	12	9,269,941,409	9,178,173,097
Non-current liabilities			
Qualifying liabilities provision	14	(9,261,578,318)	(9,162,563,811)
Deferred tax provision	14	(8,362,991)	(15,609,186)
		(9,269,941,309)	(9,178,172,997)
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 28 to 51 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 21 December 2018.

Signed on behalf of the Board of Directors.

Richard Wohanka
Chairman

Financial statements

Statement of changes in equity for the year ended 31 March 2018

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2017	**100**	**100**
Movements during the year	–	–
BALANCE AT 31 MARCH 2018	**100**	**100**
BALANCE AT 1 APRIL 2016	**100**	**100**
Movements during the year	–	–
BALANCE AT 31 MARCH 2017	**100**	**100**

The accompanying notes and accounting policies on pages 28 to 51 form an integral part of these financial statements.

Financial statements

Statement of cash flows for the year ended 31 March 2018

	2018 £	2017 £
Cash flows from operating activities		
Operating profit on ordinary activities before qualifying liabilities provision and taxation	119,259,426	279,466,303
Adjustments for:		
Realised and unrealised gains on financial assets at fair value through profit and loss	(85,502,159)	(239,795,731)
Realised and unrealised (gains)/losses on investment properties	(4,563,774)	597,165
(Increase)/decrease in other current assets	(7,123,656)	4,095,421
Decrease in trade and other payables	(431,127)	(104,311)
Cash generated from operations	21,638,710	44,258,847
Income taxes paid	(49,372,003)	(27,714,788)
Net cash (used for)/generated from operating activities	(27,733,293)	16,544,059
Cash flows from investing activities		
Payments to acquire investment properties	(451,226)	(13,412,165)
Proceeds from the sale of investment properties	1,815,000	915,000
Payments to acquire financial assets held at fair value through profit and loss	(312,216,555)	(463,079,502)
Proceeds from the sale of financial assets held at fair value through profit and loss	284,862,267	391,373,113
Net cash used in investing activities	(25,990,514)	(84,203,554)
Cash flows from financing activities		
Contributions from EDFE	24,414,451	20,320,800
Payments to EDFE in respect of qualifying liabilities	(32,782,332)	(33,899,645)
Net cash used for financing activities	(8,367,881)	(13,578,845)
Net decrease in cash and cash equivalents	(62,091,688)	(81,238,340)
Cash and cash equivalents at start of the year	7,449,978,331	7,531,216,671
Cash and cash equivalents at end of the year (note 10)	7,387,886,643	7,449,978,331

The accompanying notes and accounting policies on pages 28 to 51 form an integral part of these financial statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2018

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 European Union.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

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

Assessment as investment entity

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

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

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

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

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

a. Going concern

The principal purpose of the Fund is to provide arrangements for funding certain long-term costs of decommissioning the nuclear power stations of EDFE existing at 20 March 1996 and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. Based on the latest cash flow forecasts produced by EDFE and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £176m.

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 directors are satisfied that it is appropriate to prepare the annual report and accounts on a going concern basis.

b. Qualifying liabilities

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

The CA, as amended on 5 January 2009, provides for the making of contributions to the Fund from EDFE by way of the following: a contribution of £150k adjusted to RPI for every tonne of uranium loaded into Sizewell B reactor power station and a quarterly contribution in the sum of £3m (2016: £3m), stated in March 2003 monetary values and indexed to RPI subject to certain conditions. The Fund also receives an annual contribution from EDFE for administration costs. This contribution is limited to £1m and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA EDFE team are deducted. Accordingly, these contributions from EDFE represent an increase in the qualifying liabilities provisions as set out in note 14, not an accretion to shareholders' funds.

c. Investment income

Dividends are recognised as income on the date that the related investments are marked ex- dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Fund's right to receive payment is established. Where the Fund has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income. For financial assets not categorised at fair value through profit and loss, interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition, except for short-term receivables when the recognition of interest would be immaterial. The Fund's rental income is derived from operating leases and this income is credited to the statement of comprehensive income on a straight-line basis over the lease term. Benefits allowed and allowable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term.

d. Investment expenses

Investment expenses relating to properties, listed investments and fiduciary services are accounted for on an accruals basis. Investment expenses relating to unlisted 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 qualifying liabilities provision and taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Financial statements

Notes to the financial statements for the year ended 31 March 2018

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

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

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

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

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

g. Non-current assets

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

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

Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories, financial assets at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. 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.

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

h. Cash and cash equivalents

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

i. 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.

j. New accounting standards

There were no changes to accounting standards that had a material impact on these financial statements. At the date of authorisation of these financial statements, the following relevant Standards and Interpretations which have not been applied in these financial statements were in issue but are not yet effective, and in some cases have not yet been adopted by the European Union: IFRS 9 – Financial Instruments will simplify the classification of financial assets for measurement purposes; IFRS 15 – Revenue from Contracts which sets out a single and comprehensive framework for revenue recognition; and IFRS 16 – Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases. With the potential exception of IFRS 9, these new standards are not anticipated to have a significant impact on the financial statements. The Fund does not consider that any other 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 2018

2 Investment income

	2018 £	2017 £
Interest on cash and short-term cash investments	18,675,915	21,101,104
Income from listed investments	9,589,045	15,525,762
Rent receivable	6,732,018	6,837,641
	34,996,978	43,464,507

3 Investment expenses

	2018 £	2017 £
Investment management charges	4,627,224	3,818,441
Other investment expenses	474,871	289,685
	5,102,095	4,108,126

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

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

	2018 £	2017 £
Staff salaries and directors' emoluments	196,733	151,031
Auditor's remuneration – audit fees	47,000	40,000
Defined contribution pension cost	3,251	–

5 Staff costs

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

	2018 £	2017 £
Wages and salaries	196,733	151,031
Social security costs	22,362	17,577
Defined contribution pension cost	3,251	–
	222,346	168,608

Wages and salaries comprise staff salaries of £37,313 (2017: £Nil) and directors' emoluments of £159,420 (2017: £151,031). With effect from November 2017, the Fund has employed an in-house Executive Company Secretary. Previously company secretarial work was outsourced to an external supplier. The average number of persons acting as directors during the year was five (2017: five). In the year to 31 March 2018, directors' emoluments of £159,420 (2017: £151,031) comprised £143,820 (2017: £123,293) in respect of normal annual board duties and £15,600 (2017: £27,738) for additional work.

6 Tax on profit on ordinary activities

a. Analysis of charge in year

	2018 £	2017 £
Current tax		
UK corporation tax at 19% (2016: 20%)	21,956,593	60,193,443
Foreign tax	39,460	872,986
Adjustments in respect of prior periods	3,528,772	(745,095)
Total current tax	25,524,825	60,321,334
Origination and reversal of temporary differences	(7,246,195)	(3,036,700)
Total deferred tax movement	(7,246,195)	(3,036,700)
Tax on profit on ordinary activities	18,278,630	57,284,634

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Notes to the financial statements for the year ended 31 March 2018

6 Tax on profit on ordinary activities (continued)

b. Factors affecting tax charge for year

The tax assessed for the year is lower (2017: higher) than the standard rate of corporation tax in the UK – 19% (2017: 20%). The differences are explained below:

	2018 £	2017 £
Operating profit on ordinary activities before qualifying liabilities provision and taxation	119,259,426	279,466,303
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	22,659,291	55,893,261
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	(10,915,421)	(11,146,462)
Difference between accounting and taxable gains on unrealised gains and losses	2,114,035	15,164,506
Excess foreign tax	39,460	872,986
Adjustments to tax charge in respect of previous periods	3,528,772	(745,095)
Effect of decrease in tax rates	852,493	(2,754,562)
Total tax charge for year	18,278,630	57,284,634

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

c. Factors that may affect future tax charges

The UK Government substantively enacted Finance No.2 Bill 2015 on 26 October 2015 which reduced the corporation tax rate to 19% with effect from 1 April 2017 and to 18% from 1 April 2020. The UK government substantively enacted Finance Bill 2016 on 15 September 2016 which further reduced the corporation tax rate to 17% with effect from 1 April 2020.

7 Investment properties

Fair value model

The fair values of the investment properties as at 31 March 2018 were determined by CBRE Limited (2017: CBRE Limited). CBRE Limited is a firm of chartered surveyors and independent valuers with recognised professional qualifications. In determining the valuations the valuer refers to current market conditions and recent sales transactions of similar properties. This conforms to the valuation standards of Royal Institution of Chartered Surveyors.

Amounts recognised in statement of comprehensive income:

	2018 £	2017 £
Rental income	6,732,018	6,837,641
Direct operating expenses on properties that generated rental income	766,362	555,942
Direct operating expenses on properties that did not generate rental income	112,530	104,056

Reconciliation of carrying amounts:

	Total Freehold £	Total 2018 £	2017 £
Valuation			
At start of the year	105,530,000	105,530,000	93,630,000
Additions	451,226	451,226	13,412,165
Disposal proceeds	(1,815,000)	(1,815,000)	(915,000)
Realised and unrealised gains/(losses)*	4,563,774	4,563,774	(597,165)
At end of the year	108,730,000	108,730,000	105,530,000

* The realised and unrealised gains and losses are included in the statement of comprehensive income on page 24 and comprise: net realised gains of £547,313 (2017: losses – £691,904) and net unrealised gains of £4,016,461 (2017: £94,739).

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Notes to the financial statements for the year ended 31 March 2018

7 Investment properties (continued)

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

	Freehold £	Total 2018 £	Total 2017 £
Cost			
At start of the year	98,624,881	98,624,881	86,819,620
Additions	451,226	451,226	13,412,165
Disposals	(1,267,687)	(1,267,687)	(1,606,904)
At end of the year	97,808,420	97,808,420	98,624,881

8 Financial assets at fair value through profit and loss

	2018 £	2017 £
Valuation		
At start of the year	1,672,572,716	1,361,900,656
Additions	510,965,577	835,904,869
Disposals proceeds	(483,611,288)	(765,028,540)
Realised and unrealised gains**	85,502,159	239,795,731
At end of the year	1,785,429,164	1,672,572,716

** These realised and unrealised gains are included in the statement of comprehensive income on page 24 and include: net realised gains of £87,131,034 (2017: £302,783,129) and net unrealised losses of £1,628,875 (2017: £62,987,398). Realised and unrealised gains in the statement of comprehensive income of £85,502,159 (2017: £241,166,352) also include net realised gains of £Nil (2017: £1,370,621) arising on futures contracts.

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

	2018 £	2017 £
Cost		
At start of the year	1,500,273,215	1,126,135,312
Additions	510,965,577	835,904,869
Disposals	(396,480,610)	(461,766,966)
At end of the year	1,614,758,182	1,500,273,215

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

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

Investments listed on recognised stock exchanges

Level 1 fair value measurements (note 13)	**2018 £**	**2017 £**
UK pooled funds	458,322,977	465,608,000
UK equities	289,328,794	348,752,639
Overseas equities:		
North America	5,093,992	2,464,758
Europe	12,078,696	8,066,367
Japan	447,689	583,727
Pacific	1,306,719	575,834
Unlisted investments through subsidiaries and associates (see below)	766,578,867	826,051,325
Level 3 fair value measurements (note 13)		
UK equity investments	513,682,579	401,320,935
UK debt investments	505,167,718	445,200,456
	1,018,850,297	846,521,391
	1,785,429,164	1,672,572,716

Investments in subsidiaries

	2018 £	**2017 £**
Adams Street UK Mid-Market Solutions LP (Equity)	161,631,322	116,458,430
Equitix MA 1 LP (Equity)	221,910,480	174,295,440
London Wall Capital Investments LLP Hodge 2016-1 (Debt)	55,693,566	26,555,853
HarbourVest 2017 Global AIF LP (Equity)	28,635,700	–
	467,871,068	317,309,723

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Notes to the financial statements for the year ended 31 March 2018

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

Adams Street UK Mid-Market Solutions LP invests in 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 £149,341,770 (2017: £111,120,000) was drawn as at the year-end.

Equitix MA 1 LP invests principally in the equity and shareholder loans in PPP projects and social infrastructure projects including, but not limited to: hospitals and health projects, schools and education projects, waste projects, university accommodation, utility related infrastructure and highways' projects. The Fund's total commitment is £200,000,000 of which £186,037,001 (2017: £154,882,812) was drawn as at the year-end.

London Wall Capital Investments LLP Hodge 2016-1 invests in the UK residential mortgage sector. The Fund's total commitment is £100,000,000 of which £56,500,000 (2017: £26,000,000) was drawn as at the year-end.

HarbourVest 2017 Global AIF LP invests in all types of high quality private equity funds including venture capital and leveraged buyout funds. The Fund's total commitment is US $125,000,000 of which US $36,250,000 (£27,313,433) (2017: US $Nil) was drawn as at the year-end.

Investments in associates and joint ventures

	2018 £	2017 £
Hermes GPE Infrastructure Fund LP (Equity)	93,608,222	103,803,421
Macquarie Infrastructure Debt Fund LP (Debt)	181,424,534	175,947,006
BlackRock Renewable Infrastructure Fund LP (Debt)	107,494,519	98,714,974
Alcentra UK Direct Lending No 1 LP (Debt)	149,204,099	143,982,623
Jersey Property Unit Trust (Equity)	7,896,855	6,763,644
LaSalle Real Estate Debt Strategies III SCSp (Debt)	11,351,000	–
	550,979,229	529,211,668

The above table shows associates and joint ventures of the Fund which have been recognised at fair value through profit or loss as permitted by IAS 28 'Investments in Associates and Joint Ventures'.

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

Summary of associates and joint ventures

	Registered in	Ownership Interest 2018	2017
Hermes GPE Infrastructure Fund LP	Scotland	14.12%	14.12%
Macquarie Infrastructure Debt Fund LP	Guernsey	22.06%	22.06%
BlackRock Renewable Infrastructure Fund LP	Ireland	20.00%	20.00%
Alcentra UK Direct Lending No 1 LP	England and Wales	50.00%	50.00%
Jersey Property Unit Trust	Jersey	3.75%	3.75%
LaSalle Real Estate Debt Strategies III SCSp	Luxembourg	9.95%	–

Hermes GPE Infrastructure Fund LP invests in economic infrastructure sectors with well-established regulatory regimes (e.g. water, renewable energy) predominantly in the UK and selectively in other OECD countries. The Fund's total commitment is £100,000,000 of which £83,520,628 (2017: £90,017,152) was drawn as at the year-end.

Macquarie Infrastructure Debt Fund LP invests in a portfolio of investment grade debt of infrastructure borrowers in the UK. The Fund's total commitment is £175,000,000 of which £143,966,889 (2017: £145,324,129) was drawn as at the year-end.

BlackRock Renewable Infrastructure Fund LP invests in renewable power infrastructure projects in the UK. The Fund's total commitment is £130,000,000 of which £105,411,684 (2017: £100,000,000) was drawn as at the year-end.

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 £144,405,851 (2017: £139,967,380) was drawn as at the year-end.

Jersey Property Unit Trust has been formed to acquire, extend and refurbish a 600,000 square feet freehold office campus located in East London for a total project cost of £230m. The Fund's total commitment is £9,000,000 of which £7,708,288 (2017: £7,074,802) was drawn as at the year-end.

LaSalle Real Estate Debt Strategies III SCSp invests in mezzanine-related lending against high quality real estate assets. The Fund's total commitment is £80,000,000 of which £10,797,030 (2017: £Nil) was drawn as at the year-end.

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

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Notes to the financial statements for the year ended 31 March 2018

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

Financial assets	Fair value as at 31 March 2018	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted UK equity investments	£513,682,579 (2017: £401,320,935)	Level 3	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	Unobservable inputs include assumptions regarding expected future default rates and market liquidity discounts	Movements in fair values are taken directly to statement of comprehensive income
Unlisted UK debt investments	£505,167,718 (2017: £445,200,456)	Level 3			

9 Other current assets amounts falling due within one year

	2018 £	2017 £
Other debtors	1,110,151	1,073,285
Accrued income	7,714,105	627,315
	8,824,256	1,700,600

10 Cash and cash equivalents

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

	2018 £	2017 £
Cash balances with banks	15,265,535	50,121,566
Short-term cash investments	7,372,621,108	7,399,856,765
	7,387,886,643	7,449,978,331

11 Trade and other payables

	2018 £	2017 £
Trade creditors	64,644	72,570
Other tax and social security	187,876	270,161
Other creditors	37,111	303,225
Accruals and deferred income	10,466,104	16,942,499
	10,755,735	17,588,455

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Notes to the financial statements for the year ended 31 March 2018

12 Currency classification of total assets less current liabilities

Total assets less current liabilities as at 31 March 2018 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	1,514,080,981	7,386,810,080	8,542,415	(20,928,654)	8,888,504,822
US Dollar	180,051,036	195,362	274,236	–	180,520,634
Canadian Dollar	7,642,234	5,310	–	–	7,647,544
Euro	93,356,440	102,966	7,605	–	93,467,011
Norwegian Krone	1,615,038	101	–	–	1,615,139
Swedish Krona	6,455,465	139,015	–	–	6,594,480
Danish Krone	4,161,894	–	–	–	4,161,894
New Taiwan Dollar	4,563,501	–	–	–	4,563,501
Turkish Lira	897,276	–	–	–	897,276
Swiss Franc	18,956,690	90,421	–	–	19,047,111
Czech Koruna	154,311	–	–	–	154,311
Hungarian Forint	308,887	–	–	–	308,887
Malaysian Ringgit	1,152,707	–	–	–	1,152,707
Polish Zloty	1,074,052	–	–	–	1,074,052
Thai Baht	1,289,716	–	–	–	1,289,716
Japanese Yen	37,941,081	446,391	–	–	38,387,472
South Korean Won	5,947,822	–	–	–	5,947,822
Singapore Dollar	1,474,766	907	–	–	1,475,673
Hong Kong Dollar	5,285,553	1,825	–	–	5,287,378
Australian Dollar	7,517,483	94,265	–	–	7,611,748
New Zealand Dollar	232,231	–	–	–	232,231
	1,894,159,164	7,387,886,643	8,824,256	(20,928,654)	9,269,941,409

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

Total assets less current liabilities as at 31 March 2017 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	1,417,704,212	7,448,911,213	1,681,760	(51,608,550)	8,816,688,635
US Dollar	155,106,619	217,177	18,802	–	155,342,598
Canadian Dollar	8,417,301	5,759	–	–	8,423,060
Euro	91,592,359	21,976	–	–	91,614,335
Norwegian Krone	1,621,299	4	38	–	1,621,341
Swedish Krona	13,114,741	–	–	–	13,114,741
Danish Krone	4,287,038	–	–	–	4,287,038
New Taiwan Dollar	4,222,407	–	–	–	4,222,407
Turkish Lira	932,214	–	–	–	932,214
Swiss Franc	23,623,152	98,528	–	–	23,721,680
Czech Koruna	144,979	–	–	–	144,979
Hungarian Forint	238,013	–	–	–	238,013
Malaysian Ringgit	994,916	–	–	–	994,916
Polish Zloty	1,059,542	–	–	–	1,059,542
Thai Baht	1,070,724	–	–	–	1,070,724
Japanese Yen	40,042,143	479,619	–	–	40,521,762
South Korean Won	–	147,066	–	–	147,066
Singapore Dollar	1,413,850	955	–	–	1,414,805
Hong Kong Dollar	3,777,871	2,068	–	–	3,779,939
Australian Dollar	8,486,009	93,966	–	–	8,579,975
New Zealand Dollar	253,327	–	–	–	253,327
	1,778,102,716	7,449,978,331	1,700,600	(51,608,550)	9,178,173,097

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Notes to the financial statements for the year ended 31 March 2018

13 Financial instruments and financial risk management

Categories of financial instruments as at 31 March 2018:

	Loans and receivables £	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	–	–	1,785,429,164
Other debtors	1,110,151	–	–
Accrued income	7,714,105	–	–
Cash balances with banks	15,265,535	–	–
Short-term cash investments	7,372,621,108	–	–
Financial liabilities			
Trade and other payables	–	10,567,859	–

Categories of financial instruments as at 31 March 2017:

	Loans and receivables £	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	–	–	1,672,572,716
Other debtors	1,073,285	–	–
Accrued income	627,315	–	–
Cash balances with banks	50,121,566	–	–
Short-term cash investments	7,399,856,765	–	–
Financial liabilities			
Trade and other payables	–	17,318,294	–

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.

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 2018 amounting to £766,578,867 (2017: £826,051,325) 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 2018 (2017: £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 2018 amounting to £1,018,850,297 (2017: £846,521,391) 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:

	2018 £	2017 £
Valuation		
At start of the year	846,521,391	507,457,399
Additions	140,616,299	286,826,664
Unrealised gains	31,712,607	52,237,328
At end of the year	1,018,850,297	846,521,391

During the year the Fund received profit distributions from the above Level 3 investments amounting to £35,522,432 (2017: £17,516,025).

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:

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Notes to the financial statements for the year ended 31 March 2018

13 Financial instruments and financial risk management (continued)

Financial risk management

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

Credit risk

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

Liquidity risk

The Fund maintains sufficient cash and readily realisable securities to meet its current liabilities. On the basis that most of the Fund's qualifying liabilities will not fall due for payment for a number of years and on the basis that HM Government will be responsible for meeting these liabilities to the extent that the Fund does not have sufficient assets available to it, the directors consider that liquidity is not a significant risk to the Fund. The qualifying liabilities that are expected to fall upon the Fund over the next three years amount to approximately £176m (2017: £142m). The future long-term liability of the Fund in respect of these qualifying liabilities will at all times be limited to the assets available to it.

Price risk

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

	2018 £	2017 £
Listed investments price risk sensitivity analysis		
If there was a 10% (2017: 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:	76,657,887	82,605,133

The impact of a 10% (2016: 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.

13 Financial instruments and financial risk management (continued)

	2018 £	2017 £
Unlisted investments price risk sensitivity analysis		
If there was a 10% (2017: 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:	101,885,030	84,652,139

The Board considers a movement of 10% (2017: 10%) in the fair values to be within a reasonable expected range based on their understanding of market transactions for these unlisted investments.

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 2018:

	Value subject to fixed rate £	Value subject to variable rate £
Cash balances with banks	–	15,265,535
Short-term cash investments	7,323,193,214	49,427,894

Assets earning interest as at 31 March 2017:

	Value subject to fixed rate £	Value subject to variable rate £
Cash balances with banks	–	50,121,566
Short-term cash investments	7,369,697,479	30,159,286

The average rate of return before tax for short-term cash investments was 0.34% (2017: 0.26%).

Interest rate risk sensitivity analysis

	2018 £	2017 £
If there was a 0.50% (2017: 0.20%) increase or decrease in variable interest rates with all other variables held constant, the value of variable interest bearing assets would increase or decrease by	**323,467**	**160,562**

In the current financial environment, with the bias coming from the reserve bank and confirmed by market expectations, the interest rates in the UK are likely to remain below 1% in the coming period. Therefore, a sensitivity of 0.50% (2017: 0.20%) has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. The Fund's sensitivity to interest rates has changed from the prior year due to the increase in the interest rates achieved by the Fund during the year.

Financial statements

Notes to the financial statements for the year ended 31 March 2018

13 Financial instruments and financial risk management (continued)

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

	2018 £	2017 £
If there was a 10% (2017: 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	18,052,063	15,534,260
Euro	9,346,701	9,161,433
Japanese Yen	3,838,747	4,052,176
Other currencies	6,906,147	7,400,577

A sensitivity of 10% (2017: 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, in particular to take account of the increased volatility that has been observed in the currency markets since the balance sheet date.

14 Non-current liabilities

	Deferred tax provision £	Qualifying liabilities provision £	Total 2018 £	Total 2017 £
At 1 April	15,609,186	9,162,563,811	9,178,172,997	8,961,717,350
EDFE contributions	–	24,414,451	24,414,451	20,320,800
Transfer from statement of comprehensive income	–	100,980,796	100,980,796	222,181,669
Payable to EDFE	–	(26,380,740)	(26,380,740)	(23,010,122)
Deferred tax movement	(7,246,195)	–	(7,246,195)	(3,036,700)
At 31 March	8,362,991	9,261,578,318	9,269,941,309	9,178,172,997

14 Non-current liabilities (continued)

Deferred tax balance consists of:

	2018 £	2017 £
Accelerated capital allowances	1,974,125	1,710,230
Unrealised gains on investments	6,502,423	14,436,049
Unrealised loss on properties	(113,557)	(537,093)
	8,362,991	15,609,186

Qualifying liabilities provision

In accordance with the CA, fixed contributions (the 'Decommissioning Payment') are received quarterly from EDFE, currently in the sum of 1.875m, stated in March 2003 monetary values and indexed to RPI. In addition, EDFE make the PWR Fuel Payment of £150k, which is also indexed to RPI, for every tonne of uranium loaded into the Sizewell B power station reactor. The Fund also receives an annual contribution from EDFE for Administration Costs. This contribution is in the sum of £1m, also indexed to RPI, and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA NLA team are deducted. In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the qualifying liabilities of EDFE, as represented by the payments to EDFE in the above table.

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

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

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

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

Deferred tax

Deferred tax provision takes account of deferred tax payable on the sale of investment properties and financial assets at fair value through profit and loss account to the extent that proceeds exceed cost, adjusted by indexation allowance. The deferred tax provision of £1,974,125 relating to accelerated capital allowances will be unwound when the investment properties are sold. In addition, a deferred tax liability of £6,388,866 has been recognised on the difference between the financial assets and properties at their fair value and the indexed cost in excess of the capital losses brought forward.

Financial statements

Notes to the financial statements for the year ended 31 March 2018

15 Share capital

	Authorised	Allotted, called up and fully paid	
	£	No.	£
At 31 March 2017 and 31 March 2018			
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 BEIS ('the holder of the A special share') and one B special rights redeemable preference share of £1 ('the B special share'), which is jointly held by EEDFE ('the holder of the B special share').

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

16 Operating lease receivables

As a lessor, the Fund had rent receivables as at 31 March 2018 under noncancelable operating leases as follows:

	2018 £	2017 £
Within one year	6,767,631	6,525,161
Between two and five years	23,750,652	21,957,768
In more than five years	39,059,296	40,703,941

No contingent rentals were recognised in income.

As at 31 March 2018 the Fund held a total of 70 leases, 25 of which expire within five years of the statement of financial position date, with the remaining 45 due to expire beyond five years. The majority of the leases have five yearly rent reviews, with the yearly rental value being adjusted to the market value at this time. A small number of the leases also contain options to break early.

17 Related parties and controlling interest

The Fund's main shareholder (98%) is the Nuclear Trust, a public trust established under Scots law by British Energy plc and the Secretary of State for the Department for Business, Energy and Industrial Strategy. The trustees of the Nuclear Trust are the directors of the Fund. Details of payments to directors are set out in note 5. There was no balance due to the directors as at 31 March 2018 (2017: £Nil).

The Fund considers the Secretary of State for the Department for Business, Energy and Industrial Strategy also to be a related party. During the year, a sum of £135,630 (2017: £Nil) was paid to the Department for Business, Energy and Industrial Strategy for their services in administering the Nuclear Liabilities Funding Agreement. There was no balance due to the Department for Business, Energy and Industrial Strategy as at 31 March 2018 (2017: £Nil).

18 Capital management

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

Company information

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Mrs C Cripps
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Mr R Wohanka

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Nuclear
Liabilities Fund