Nuclear Liabilities Fund

Protecting the future

Annual report and accounts 2019

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

Contents

Purpose, sufficiency and liabilities

The primary purpose of the Fund is to receive and hold monies, investments and other assets, in order to secure funding for discharging qualifying 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.

Sufficiency

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

The liabilities

When 'liabilities' are referred to in this report these mean the expected future liability obligations as estimated by EDFE in their 2016 Baseline Decommissioning Plan and the 2016 Uncontracted Liabilities Discharge Plan, together referred to as the 'Lifetime Plan'. A review of these plans is underway and it is expected that this will be concluded during the second half of fiscal year 2019–20.

EDFE's UK Nuclear power station sites

There are seven Advanced Gas Cooled Reactor (AGR) stations operating. Sizewell B is a Pressurized Water Reactor (PWR).

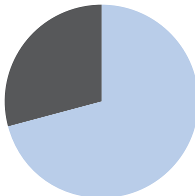
Chair's statement

Protecting future generations

In spite of the turbulent financial markets that we witnessed in the fiscal year 2018–19, the Nuclear Liabilities Fund ('NLF' or the 'Fund') experienced a very stable year in its financial performance.

Richard Wohanka
Chair

During the fiscal year 2018–19, preparations continued 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 four years' time. During the course of fiscal year 2018–19 EDFE continued work on their review of the liabilities. This work continues today and they are scheduled to update the Lifetime Plan during the second half of fiscal year 2019–20.



29%

Approximately 29% of assets are held in the Mixed Assets Portfolio ('MAP') and 71% in the National Loans Fund.

The performance of the Fund's assets in the Mixed Assets Portfolio ('MAP') was excellent. This strong performance is explained in detail later in the report, but the stability of the performance is especially pleasing given the recent volatile nature of financial markets. We are now beginning to reap the benefit of investments made in illiquid assets in earlier years. The balance between illiquid and liquid assets inside the MAP is a judicious one which served us well in the fiscal year 2018–19. Moreover, performance continues to be strong in the fiscal year 2019–20.

The directors continue to be keenly aware of the risks to the sufficiency of the Fund, and whilst the performance of the MAP has been strong, the continued low level of interest rates which apply to the National Loans Fund ('NatLF')[1] are a cause for concern. The low rates have meant that the overall portfolio has only returned 2.2% over the last three years, which is not in line with our targets. The high proportion of the Fund in the NatLF is driven by HM Government requirements, but does give the Fund the ability to hold very liquid and risk-free assets. These are used to meet current costs, and will be used to meet the costs arising in the early years of the decommissioning programme. This enables a long-term approach to be taken when setting the investment strategy for the MAP.

In last year's report we were pleased to report steps to address this issue and the proposed programme of transferring approximately £2bn from the NatLF. We have now completed a short-term loan to the British

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

Business Bank and agreed an investment mandate of £250m with British Patient Capital, a subsidiary of the British Business Bank. This is described in more detail later in this report.

At present just under 30% of the NLF's assets are held in the MAP. This compares to 15% in 2014. This re-balancing is due partially to movements of cash from the NatLF to the MAP but also to the substantially better performance of the MAP compared to the NatLF. For the fiscal year 2018–19 the return on the MAP was 8.1% compared to 0.5% on the NatLF. In addition all current expenditure is met from the NatLF.

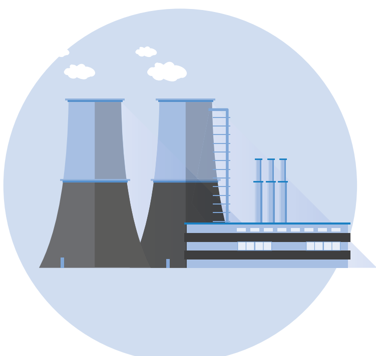
We continue to work closely with the Department of Business, Energy and Industrial Strategy ('BEIS'), HM Treasury and UK Government Investments ('UKGI') to agree further plans to mitigate the risks to the sufficiency of the Fund.

We still aim to hold a significant portion of our investments in the UK to support the economy in the widest sense. As at 31 March 2019, 94% of the total fund and 79% of the MAP is invested in UK assets. The largest single allocation inside the MAP is to UK infrastructure projects.

The overriding objective of ensuring sufficiency of the Fund to meet EDFE's qualifying decommissioning costs also encompasses helping all relevant parties in their endeavours to estimate, and, ideally, minimise the liabilities. In this respect the fiscal year 2018–19 has been particularly active. This has been achieved through our participation in the body that is driving the approach to defuelling the stations (the 'Defuelling Steering Panel' or the 'DSP') and the body which scrutinises EDFE's overall approach to decommissioning (the 'Nuclear Liabilities Committee' or 'NLC'). We also work with BEIS, and EDFE to this end. Activity levels have been high because: (i) EDFE's review of liabilities is underway with new plans being prepared, and (ii) EDFE is working with BEIS and the NDA to consider how efficient and cost-effective decommissioning of EDFE's stations can be planned for and delivered. This work includes consideration of how the stations will be owned and managed in the future BEIS expects this work to conclude summer next year.

A more detailed explanation of the work being done and of the liabilities in general is set out later in this report.

What has also been very pleasing over the last year is the continued good working relationship between the directors and our stakeholders. We continue to work very closely with the Nuclear Decommissioning Authority's Nuclear Liabilities Assurance ('NLA') team and we have received invaluable support from both EDFE and UKGI for which we are most grateful. Furthermore, we must commend the joint working of EDFE and Sellafield Ltd on the Advanced Gas Cooled Reactor Operating Programme ('AGROP'), which is discussed in more detail later in this report.



100

It will take about 100 years to complete decommissioning of EDFE's eight nuclear power stations that are currently operating in the UK today.

BlackRock Investment Management (UK) Limited ('BlackRock') were the Fund's fiduciary manager over the course of the fiscal year. During the second half of the fiscal year, the board, led by the investment committee, carried out a tender process for the fiduciary adviser services for the Fund. Following this process, Aon were appointed as fiduciary manager to the Fund, taking over this role on 30 June 2019. In addition, towards the end of the fiscal year 2018–19 an external board effectiveness review was carried out. The findings were positive and are covered in greater detail later in this report.

The directors remain highly vigilant as to the level of assets that we feel we need to maintain to meet the liabilities and constantly review our investment strategy. In looking to maintain a high degree of exposure to illiquid assets the aim is to exploit the continuing illiquidity premium that exists at present in global financial markets. Our illiquid assets as a whole have a lower volatility than equities and have generated a higher return than bonds as a result of this illiquidity premium. In this way we seek to ensure that future generations will be less likely to be burdened by decommissioning costs related to the consumption of nuclear generated energy by the present generation. We base our quantification of the decommissioning costs on EDFE's fundamental review of their decommissioning plans. The last review was in 2016 and took into account levels of liabilities, decommissioning policy, and expected closure dates of the reactors. On the basis of the 2016 review (the 2016 Lifetime Plan) we are satisfied that, with our current investment approach and the potential implementation of initiatives currently under discussion with BEIS, HM Treasury and UKGI, we will be able to achieve our aim of ensuring sufficiency.

Richard Wohanka
Chair

Strategic report

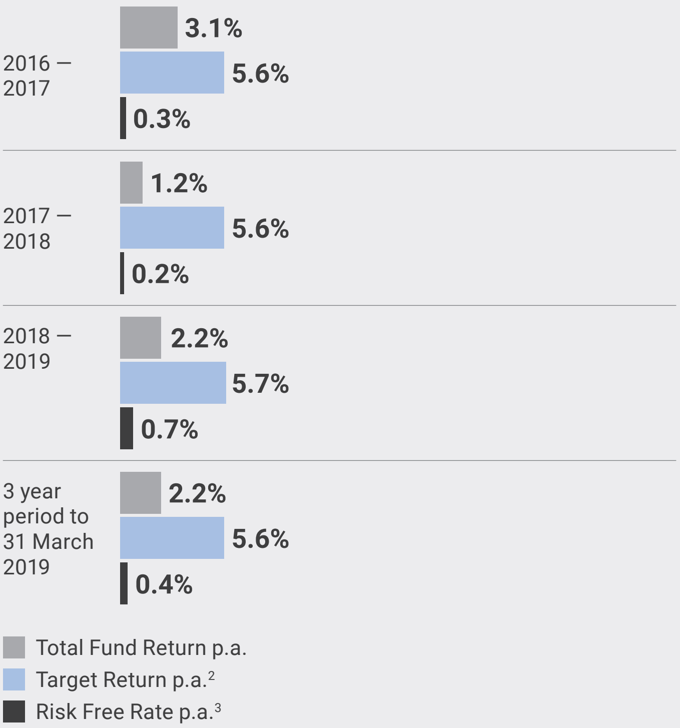
Our key performance indicators
A year of growth

Infrastructure investments include on-shore wind farms.

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 total fund, and a more detailed view of the returns of the Mixed Assets Portfolio.

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

KPI 1: Total Fund Return*

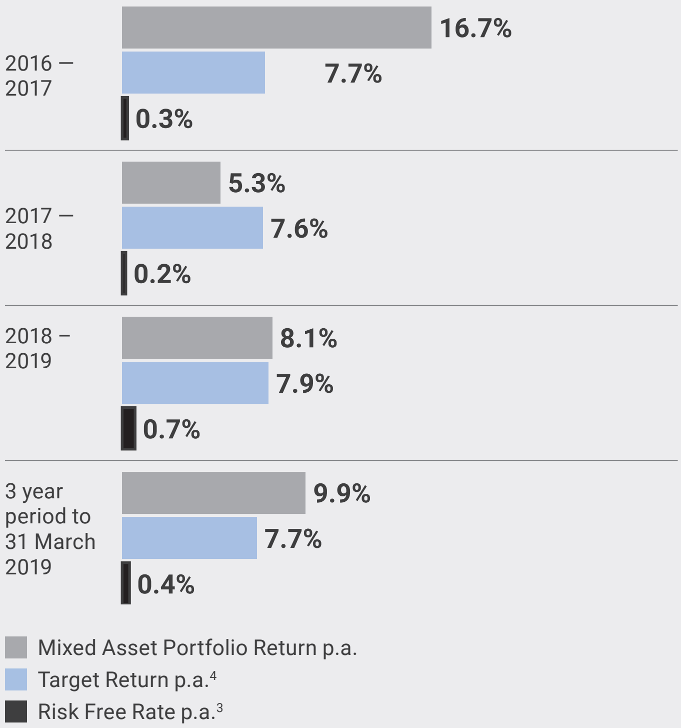


▲ 2.2% **Total Portfolio Return**
3 year period to 31 March 2019

The lower returns from the NatLF remain the primary driver of under-performance at the total fund level and this is likely to continue to be the case until the percentage of the total portfolio invested in the NatLF is substantially reduced.

All dates run from 31 March to 31 March

KPI 2: Mixed Assets Portfolio Return*



▲ 9.9% **Mixed Assets Portfolio Return**
3 year period to 31 March 2019

The MAP is that portion of the total fund not currently invested in the NatLF.

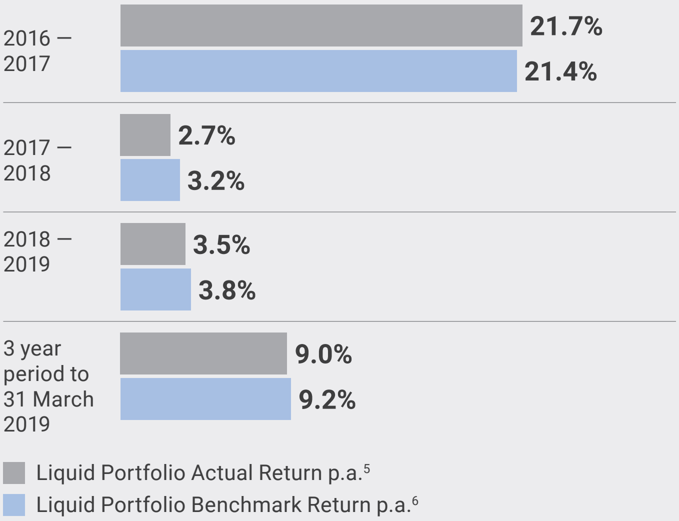
* As of 31/03/2019, £6.7bn (71.0% of the Fund) was invested in the National Loans Fund and £2.7bn (29.0% of the Fund) in the MAP.

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

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

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

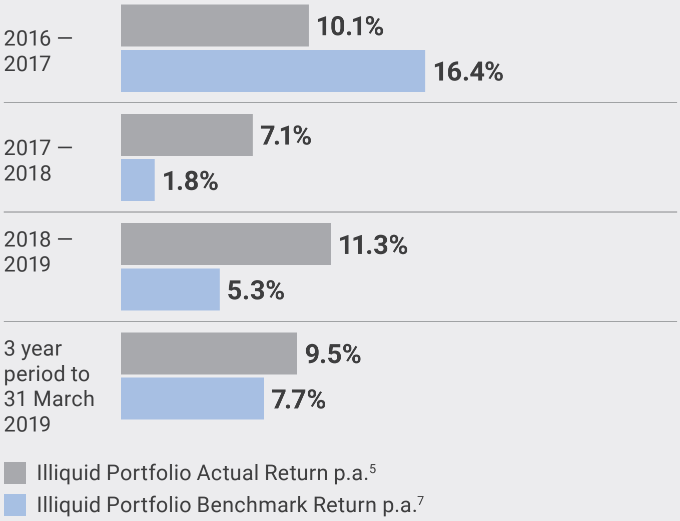
KPI 3: Mixed Assets Portfolio Return Liquid Portfolio Performance



▲ 9.0% **Liquid Portfolio Return**
3 year period to 31 March 2019

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



▲ 9.5% **Illiquid Portfolio Return**
3 year period to 31 March 2019

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.

Most of the assets that make up the illiquid part of the MAP are expected to have cash-flows and a level of volatility closer to that of bonds than equities. As such, over the medium to long-term the performance of this part of the MAP is expected to be lower than the liquid part of the MAP which is primarily composed of equities. It will however be less volatile.

The KPIs for the Liquid and Illiquid Portfolios are a tool to demonstrate the effectiveness of each portfolio against their benchmarks. This is not a measure relative to the liabilities, as is the case for KPI 1 and KPI 2. For KPI 3 the Liquid and Illiquid portfolios are produced on a standalone basis and the MAP return takes into account the relative proportions of each portfolio. The performance of and the allocation to each portfolio varied over the three year period. For example, in 2016–17 the Liquid portfolio was a higher proportion of the MAP and returned 21.7%, whereas the Illiquid portfolio returned only 10.1%. By 2018–19 the Illiquid portfolio was a higher proportion of the MAP and returned 11.3%, whereas the Liquid portfolio returned only 3.5%. This changing composition is why the performance of the MAP over the three year period is higher than both the Liquid and the Illiquid portfolios over the same period.

5 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.

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

7 The Illiquid Portfolio 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 four 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 remains the cash paid relating to the design, construction and commissioning of the Dry Fuel Store facility at Sizewell B Power Station.

Investments

Background

The long term liabilities, the costs of decommissioning, are likely to change over time in line with the costs of labour, materials and evolving technology. The directors estimate 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.

As the assets in the MAP are not needed for many years it can benefit from the illiquidity premium which normally exists in capital markets: a higher rate of return on illiquid assets like 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 MAP.

As at 31 March 2019, about 71% of the assets of the Fund were 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 the liabilities and, by dampening the overall volatility of return and providing liquidity, allow the directors greater freedom in investing the MAP.

We assess the Fund's investment performance using key performance indicators ('KPIs') which look at the overall returns of the Fund as well as focusing in on the investments in the MAP. The KPIs are summarised on pages 7 and 8.

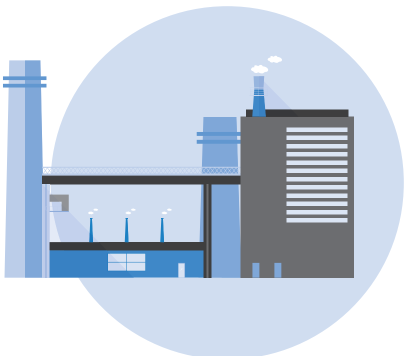
The total fund three-year return to 31 March 2019 was 2.2% p.a. compared to the three-year target KPI return to 31 March 2019 of 5.6% p.a.

The Total Fund Return KPI figure is calculated as an average over the whole lifetime of the fund and the low returns on the investment in the NatLF, which is currently a large proportion of the total fund and has been significantly hit by the low interest rate environment, are the main reason for this shortfall.

The total fund outcome has been significantly hit by the low interest rate environment. We have begun to address the difference between the actual and target returns by transferring £600m from the NatLF to higher returning assets during the fiscal year 2018–19. Discussions are ongoing with BEIS, HM Treasury and UKGI on initiatives to further this aim. Deposits in the NatLF are also 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.

Turning to the MAP, the well-diversified approach, drawing on both liquid and illiquid assets, has weathered the challenging investment environment throughout the year successfully.

The Mixed Assets Portfolio three-year return to 31 March 2019 of 9.9% p.a. was above its three-year target KPI return to March 2019 of 7.7% p.a.[8]



Over the three years (2016–2019), the Liquid Portfolio has performed close to its target KPI, with an actual three-year return of 9.0%, compared to its benchmark three-year return of 9.2%. The Illiquid Portfolio has outperformed its KPI, with an actual three-year return of 9.5% compared to its benchmark three-year return of 6.8%.

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

The Illiquid Portfolio three-year return of 9.5% p.a. was above its three-year KPI of 6.8% p.a.[9]

For example, in the fiscal year 2018–19, the best performing asset in the Liquid Portfolio was our allocation to shares outside the UK which returned 8.0% performing higher than our allocation to UK companies in a year when there was continued market uncertainty. Looking at the Illiquid Portfolio, we sold the portfolio of UK infrastructure debt as it had performed exceptionally well, however it was determined that future return expectations would not meet the Fund's required return. The sale process proved very successful, and enabled investment in higher yielding infrastructure assets.

Our largest single investment inside the MAP, as at 31 March 2019, is to UK infrastructure projects.

8 The MAP three-year target return KPI is based on the required return to meet, when combined with the funds in the NatLF, the expected liabilities in full (gross of tax, net of fees).

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

The ability to meet the target return for the MAP 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.

In last year's report we reported a planned programme of approximately £2bn of transfers from the NatLF into significantly higher returning assets, akin to those we already hold in the MAP.

The first two steps in the programme have been completed. The first of these took the form of a short-term loan of £350m to the British Business Bank which was completed in August 2018 and is at a higher yield to that we receive from the NatLF. The second step was the agreement to invest £250m alongside British Patient Capital to enable long-term investment in innovative companies across the UK. The effective date of this agreement was after the end of the fiscal year 2018–19.

These two steps support the objective of achieving sufficiency of the Fund, and have enabled diversification of our portfolio whilst playing a supportive role in the development of the UK economy.

We are now discussing initiatives, which may offer the Fund an acceptable alternative to the remaining transfer programme, with BEIS, HM Treasury and UKGI.

Statement of investment principles

The Statement of Investment Principles (the 'SIP') 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 MAP. A full copy of the SIP is available on the NLF website.

Target Returns

The target return that we need to achieve for the total fund as a whole in the fiscal year 2019–20 is 5.6%. This has not altered materially for the past few years. This is in spite of the lower than targeted returns earned from the NatLF and due to the continued healthy performance of the MAP. Indeed, because of the fiscal year 2018–19 performance and the transfer of £600 million from the NatLF to the MAP, the target return of the MAP for the fiscal year 2019–20 is now 7.5%. For the fiscal year 2018–19 it was 7.9%.

Investment in UK transport infrastructure

2 Liabilities

During the fiscal year 2018–19 EDFE's liabilities increased by £320m, from £20.0bn to £20.4bn. The main factors affecting this change were, revalorisation[10] (+£354m), discharge of liabilities (-£17m), and other changes (relating to the Sizewell B Dry Fuel Store and defuelling preparations).

In accordance with the requirements of the NLFA, EDFE made a contribution to the Fund and its administration of £13,414,189 in the fiscal year 2018–19.

The NLF made payments of £17m to EDFE during the year for work carried out in respect of the following workstreams: Sizewell B Dry Fuel Store project (£0.5m), Sizewell B fuel related work (£8.5m), AGR fuel related work (£1m), Defuelling preparation work (£5m), and Portfolio Management Support Costs (£2m).

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 continued to enable and encourage external challenge of both the detailed approaches and the programmes being developed to underpin decommissioning of the plants.

10 Revalorisation is adjustment for inflation.

The NLC met several times over the last year to scrutinise various aspects of planning for station closure, defuelling and early deconstruction. In addition it looked at research and development programmes, and planning for workforce transition. The NLC took into account lessons from the Magnox experience in considering EDFE's planning and resourcing intentions for its teams during the later operating life of the units in order to position the stations for a seamless transition into a efficient defuelling regime.

EDFE and Sellafield Ltd have continued to provide the NLF with detailed briefing sessions to allow the board to maintain 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 defuelling timescales
- ensure best overall value for the UK tax payer
- take account of ongoing operational and generation requirements.

The board visited Sellafield in June 2018. Site visits are a useful opportunity for the board to see how plants and processes work in practice and to meet with key stakeholders. This particular visit enabled the board to have informative discussions with our colleagues at the NDA, and was a useful opportunity to see the critical facilities at Sellafield. These facilities currently ensure the safe efficient receipt, treatment and storage of fuel from EDFE's operating AGRs pending final disposal to the proposed Geological Disposal Facility.

The facilities and the associated processes will be a key component of EDFE's defuelling plans and the directors appreciated getting an understanding of the current capability and the plans for upgrades to support the increased fuel transport rates anticipated when defuelling of the AGRs begins.

A look forward on liabilities

The directors 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.

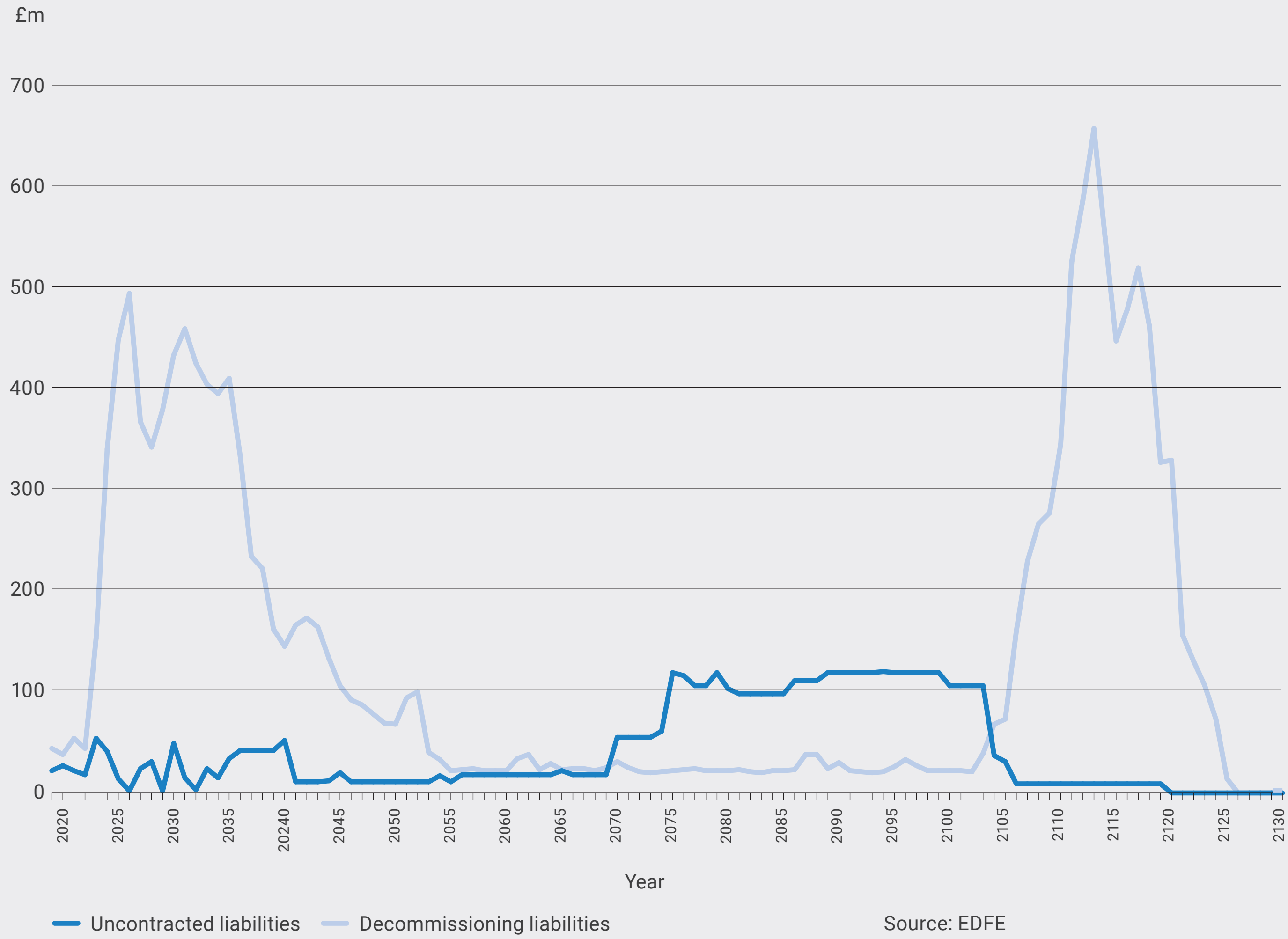
The other main areas of focus for the NLF over the next 5-year period will be:

- Engaging with BEIS on the considerations relating to the conduct of decommissioning of EDFE's AGR fleet.
- Continuing to provide challenge to the development of arrangements for defuelling and decommissioning the AGRs.
- Discussing relevant policy areas with BEIS, including the overall decommissioning waste management strategy and getting a clear understanding of any potential changes.
- 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.

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

Projected annual expenditure to discharge the liabilities



Source: EDFE

Year (2019–2130)	Total (£m)
Uncontracted liabilities	4,750
Decommissioning liabilities	15,716
Total undiscounted liabilities	20,466

Finally, during the second half of the fiscal year 2019–20 EDFE are scheduled to update their Baseline Decommissioning Plan and Uncontracted Liabilities Discharge Plan, together referred to as the Lifetime Plan (as explained earlier in this report). We will be closely monitoring this process and we will maintain close contact with EDFE and the NLA to ensure we have a timely understanding of any significant changes to the liabilities associated with this update.

This chart illustrates the projected annual expenditure to discharge the liabilities (calculated on an undiscounted, P80 basis and in pounds sterling as at December 2018) through to final disposal of waste streams. It assumes defuelling 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 spent AGR fuel loaded before the restructuring of British Energy in 2005 and all PWR fuel loaded at Sizewell B (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 Fund's technical adviser in conjunction with the Fund's fiduciary manager and independent investment adviser, and is subject to bi-annual review and regular updating.

Technical risks

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

The first planned station shutdown for decommissioning is now only four years away. As the stations come nearer to end of life there is a higher risk of early closure due to technical challenges arising late in life. The planning process and updates to the decommissioning plans including the estimates of the liabilities have become more detailed, resulting in increases in decommissioning costs[11]. Entry to the decommissioning phase will 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 for Nuclear Regulation and HM Government regarding the timescales or requirements for decommissioning may also affect the liabilities. Contact is maintained regularly with the various organisations which can impact on the size of the liabilities.

Investment risks

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

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

The investment committee considers the exposure of the Fund to credit risk, liquidity risk and market risk (i.e. equity prices, interest rates and currency). These risks are considered to be the principal financial risks of the Fund. During the course of this fiscal year 2018–19 the investment committee developed metrics to monitor these risks with assistance from the Fund's fiduciary manager.

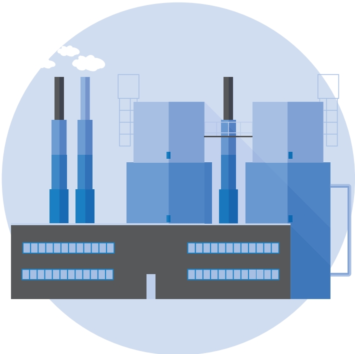
The approach is set out in Note 13 'Financial Risk Management' to the financial statements.

The Investment Risk Appetite Statements support this approach. They provide guidelines for the Fund 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, with advice from our fiduciary manager, 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.

11 ONR press release dated 20 August 2019, Hunterston B Reactor 4 http://news.onr.org.uk ONR Project Assessment Report http://www.onr.org.uk/pars/2019/hunterston-b-19-004.pdf EDFE website https://www.edfenergy.com/energy/graphite-core



Risk Appetite Statements – investment

The board has a:

1. High appetite to take a level of investment risk consistent with the returns required to ensure fund sufficiency.
2. 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.

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

Directors' report

For the year ended 31 March 2019

The directors present their annual report together with the financial statements and auditor's report for the year ended 31 March 2019.

Results

In the fiscal year 2018–19 the Fund's assets held to meet the qualifying liabilities increased by £141,420,389 to £9,402,998,707 (in the fiscal year 2017–18 the increase was £99,014,507 to £9,261,578,318).

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, so as to secure funding for discharging qualifying liabilities relating to existing stations ("the Stations") of EDF Energy Nuclear Generation Group Limited ("EDFE") at 29 March 1996 and to make payments for such approved costs in accordance with 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:

	2019 £	2018 £
Assets less liabilities held to meet qualifying liabilities – value at start of the year	9,261,578,318	9,162,563,811
Contributions from EDFE	12,750,380	24,414,451
Amounts payable to EDFE	(14,600,173)	(26,380,740)
Operating profit on ordinary activities before tax	172,811,011	119,259,426
Tax on profit on ordinary activities	(29,540,829)	(18,278,630)
Assets less liabilities held to meet qualifying liabilities – value at end of the year	9,402,998,707	9,261,578,318

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 fiscal year 2018–19, 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 fiscal year 2018–19 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

Mr R Armour

Mrs S Bridgeland

Mrs C Cripps

Dr P Neumann

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.

Chairman

Following the end of the fiscal year 2018–19, Richard Wohanka was re-appointed as Chair of the Fund for a further two years with effect from April 2020.

Company Secretary

Mrs M Hope served as company secretary during the year.

Audit information

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; 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 2019.

Donations

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

Directors' report

Governance

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

Corporate governance

The Fund is not a listed company therefore it is not obliged to comply with the UK Corporate Governance Code issued by the Financial Reporting Council but we take account of its principles and guidance where these are appropriate to a public trust. Similarly, we have considered how we can apply the Principles set out in the Wates Report for Large Private Companies. 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 and its subsidiary the Fund.

The board has three committees: Audit, Investment, and Remuneration and Nomination. These committees ensure appropriate oversight in each area and report to the board.

Over the course of the fiscal year 2018–19 the company secretary has worked with the directors on improvements to planning and co-ordination across the committee and the board meetings, resulting in improvements to the Fund's governance.

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 7 and 8.

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 Spring 2019 a board effectiveness review was carried out, facilitated by Independent Audit, who have no other connection to NLF. It found that the board had made considerable progress in recent years and that the board and key stakeholders felt arrangements were generally working well. In addition there was good communication and alignment. The board continues to benefit from a diverse membership both in terms of gender and experience. The directors collectively have a wide range of skillsets and expertise in financial services, the investment sector, accountancy, legal, governance, nuclear engineering and pensions management. They are supplemented by the board's investment adviser, Nigel Webber and the board's technical adviser, Paul Crow who replaced John Wilkins in February 2019.

External Board Effectiveness Review

The review highlighted the following key areas for future development:

i. maintaining appropriate skillsets

ii. preserving current stakeholder engagement practices

iii. clarifying and communicating the board's role with regards to both investments and liabilities

iv. considering enhancing the executive management of the Fund.

As a result of the review, the board has considered the remits of the board committees to minimise duplication while keeping all board members informed and involved in key decisions, particularly in the investment sphere. The review reinforced the need to supplement executive resources in the Fund as the first group of the AGR stations approach end of generation and to consider board succession and the resulting skills mix given the number of directors due to complete their first or second terms in 2020. The board felt that maintaining its strategic liabilities challenge role remained important and worthwhile and acknowledged the suggestion in the review of the importance of communicating the benefits of this work.

The review also noted the effectiveness of directors and their commitment to the Fund. However, looking ahead, the increased activity of the Fund and the growing time commitment required of directors makes it sensible to ensure clarity with regards to executive and non-executive roles, aiming for excellence in independent oversight. The directors should, in the future, be supported by an appropriate sized executive management team. The recommendations will continue to be developed in discussion with the Fund's shareholders during the fiscal year 2019–20.

The Investment Committee

The investment committee comprises three directors: Mrs S Bridgeland, Mrs C Cripps and Mr R Wohanka. Mrs S Bridgeland is chair. The committee is supported by an independent investment adviser who provides an additional layer of challenge and scrutiny, both to the investment activities of 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 conduct the detailed monitoring of the MAP, deal with the re-investments in the NatLF, meet the fiduciary manager on a regular basis, and perform the initial analysis and information gathering required to provide recommendations to the board on key investment decisions. The investment committee meets at least six times during the year and holds ad hoc meetings in response to emerging events, both internal and external, affecting Fund returns and prospects.

In the second half of the fiscal year 2018–19 the investment committee led the exercise to tender for the Fund's fiduciary services. Aon was selected as the preferred provider.

The Audit Committee

The audit committee comprises Mr R Armour, Mrs C Cripps and Dr P Neumann. Mrs C Cripps is chair. 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 Mrs C Cripps is a qualified chartered accountant and has relevant financial expertise and experience in other organisations of service on audit committees. The committee met three 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.

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 audit procedures around the verification of the portfolio valuations used in the Company's financial statement and relies on the investment committee overseeing the process whereby the fund managers are selected and monitored. The Fund's fiduciary manager performs operational due diligence on these fund managers which includes a review of the valuation policy they have in place.

The Remuneration and Nomination Committee

The remuneration and nomination committee comprises the whole board, reflecting the need for unanimity of outcomes and the comparative infrequency of meetings. The committee met twice during the financial year. The committee's role is to make recommendations to the board and the Special Shareholders on the composition of the board, the skills mix required for potential candidates, plan for succession and to monitor remuneration arrangements for both directors and Fund employees. Looking forward, as EDFE ramps up its preparations for defuelling, 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. Six 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 – 6	Investment Committee Meetings – 9	Audit Committee Meetings – 3	Remuneration and Nomination Committee Meetings – 2
Mr R Wohanka	6 (6)	9 (9)	–	2 (2)
Mr R Armour	6 (6)	–	3 (3)	2 (2)
Mrs S Bridgeland	6 (6)	9 (9)	–	2 (2)
Mrs C Cripps	6 (6)	9 (9)	3 (3)	2 (2)
Dr P Neumann	6 (6)	–	2 (3)	2 (2)

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.

Mr R Armour, Dr P Neumann, Mrs S Bridgeland and Mrs C Cripps are employed as directors and each receive £28,500 per annum and Mr R Wohanka is employed as chair and receives £31,200 per annum.

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.

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

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

The board meets the fiduciary manager regularly and receives reports upon the quality and effectiveness of the accounting records and management information maintained by the underlying investment managers 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 £209m. 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

10 December 2019

Directors

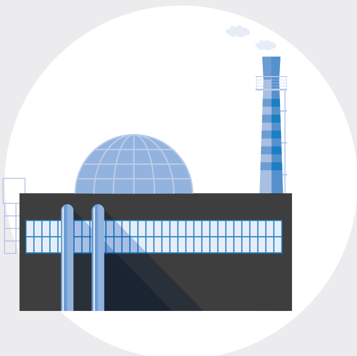
Statement of Directors' responsibilities

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

Approved by the board and signed on its behalf by:

Richard Wohanka
Chairman

10 December 2019

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 Defuelling 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 Fund Limited (the 'company') for the year ended 31 March 2019, which comprise Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 2019 and of its results for the year then ended;
- have been properly prepared in accordance with IFRSs 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.

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 have been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 22, 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.

Use of our report

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

Grant Thornton UK LLP

Paul Flatley
Senior Statutory Auditor

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

London

11 December 2019

Financial statements

Statement of comprehensive income for the year ended 31 March 2019

	Notes	2019 £	2018 £
Investment income	2	65,368,532	34,996,978
Realised and unrealised gains on financial assets at fair value through profit and loss	8	112,689,979	85,502,159
Realised and unrealised gains on investment properties	7	1,059,367	4,563,774
Net foreign exchange gains		252,722	280,679
Investment expenses	3	(5,738,141)	(5,102,095)
Administrative expenses		(821,448)	(982,069)
Other operating income		–	–
Operating profit on ordinary activities before qualifying liabilities provision and taxation	4	172,811,011	119,259,426
Transfer to qualifying liabilities provision	14	(143,270,182)	(100,980,796)
Profit on ordinary activities before tax		29,540,829	18,278,630
Tax on profit on ordinary activities	6	(29,540,829)	(18,278,630)
Financial result and total comprehensive income for the year		–	–

The accompanying notes and accounting policies on pages 30 to 55 form an integral part of these financial statements.

Financial statements

Statement of financial position at 31 March 2019

	Notes	2019 £	2018 £
ASSETS			
Non-current assets			
Investment properties	7	106,780,000	108,730,000
Financial assets at fair value through profit and loss	8	2,540,442,037	1,785,429,164
Other receivables	9	4,264,005	–
		2,651,486,042	1,894,159,164
CURRENT ASSETS			
Other receivables	9	12,939,280	8,824,256
Cash and cash equivalents	10	6,769,777,794	7,387,886,643
		6,782,717,074	7,396,710,899
LIABILITIES			
Current liabilities			
Trade and other payables	11	(8,040,277)	(10,755,735)
Corporation tax payable		(13,154,258)	(10,172,919)
		(21,194,535)	(20,928,654)
TOTAL ASSETS LESS CURRENT LIABILITIES	12	9,413,008,581	9,269,941,409
NON-CURRENT LIABILITIES			
Qualifying liabilities provision	14	(9,402,998,707)	(9,261,578,318)
Deferred tax provision	14	(10,009,774)	(8,362,991)
		(9,413,008,481)	(9,269,941,309)
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 30 to 55 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 10 December 2019.

Signed on behalf of the Board of Directors.

Richard Wohanka
Chairman

Financial statements

Statement of changes in equity for the year ended 31 March 2019

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2018	100	100
Movements during the year	–	–
BALANCE AT 31 MARCH 2019	100	100
BALANCE AT 1 APRIL 2017	100	100
Movements during the year	–	–
BALANCE AT 31 MARCH 2018	100	100

The accompanying notes and accounting policies on pages 30 to 55 form an integral part of these financial statements.

Financial statements

Statement of cash flows for the year ended 31 March 2019

	2019 £	2018 £
Cash flows from operating activities		
Operating profit on ordinary activities before qualifying liabilities provision and taxation	172,811,011	119,259,426
Adjustments for:		
Realised and unrealised gains on financial assets at fair value through profit and loss	(112,689,979)	(85,502,159)
Realised and unrealised gains on investment properties	(1,059,367)	(4,563,774)
Increase in other receivables	(8,379,029)	(7,123,656)
Increase/(decrease) in trade and other payables	15,753	(431,127)
Cash generated from operations	50,698,389	21,638,710
Income taxes paid	(24,912,717)	(49,372,003)
Net cash generated/(used for) from operating activities	25,785,672	(27,733,293)
Cash flows from investing activities		
Payments to acquire investment properties	(760,633)	(451,226)
Proceeds from the sale of investment properties	3,770,000	1,815,000
Payments to acquire financial assets held at fair value through profit and loss	(1,160,187,735)	(312,216,555)
Proceeds from the sale of financial assets held at fair value through profit and loss	517,864,841	284,862,267
Net cash used in investing activities	(639,313,527)	(25,990,514)
Cash flows from financing activities		
Contributions from EDFE	12,750,380	24,414,451
Payments to EDFE in respect of qualifying liabilities	(17,331,374)	(32,782,332)
Net cash used for financing activities	(4,580,994)	(8,367,881)
Net decrease in cash and cash equivalents	(618,108,849)	(62,091,688)
Cash and cash equivalents at start of the year	7,387,886,643	7,449,978,331
Cash and cash equivalents at end of the year (note 10)	6,769,777,794	7,387,886,643

The accompanying notes and accounting policies on pages 30 to 55 form an integral part of these statements.

Financial statements

Notes to the financial statements for the year ended 31 March 2019

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 all of its investments.

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

a. Going concern

The principal purpose of the Fund is to provide arrangements for funding certain long-term costs of decommissioning the nuclear power stations of EDFE existing at 20 March 1996 and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste. Based on the latest cash flow forecasts produced by EDFE and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £209m. 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 (2018: £3m), stated in March 2003 monetary values and indexed to RPI subject to certain conditions. The Fund also receives an annual contribution from EDFE for administration costs. This contribution is £1m in March 2003 money values indexed to RPI and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA EDFE Team are deducted. Accordingly, these contributions from EDFE represent an increase in the qualifying liabilities provisions as set out in note 14, not an accretion to shareholders' funds.

c. Investment income

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

d. Investment expenses

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

e. Foreign currencies

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

f. Taxation

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

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against

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which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

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

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

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

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

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

- Investment in subsidiaries: In accordance with the exemption under IFRS 10 Consolidated Financial Statements, the Fund does not consolidate subsidiaries in the financial statements. Investments in subsidiaries are accounted for as financial assets at fair value through profit or loss.

— Investments in associates and joint ventures: In accordance with the exemption within IAS 28 Investments in Associates and Joint Ventures, the Fund does not account for its investment in associates and joint ventures using the equity method. Instead, investments in associates and joint ventures are accounted for as financial assets at fair value through profit or loss.

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

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

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

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

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

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

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

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

IFRS 9 was issued to replace IAS 39 – Financial Instruments: Recognition and Measurement and became effective for accounting periods beginning on or after 1 January 2018 and has been first adopted in these financial statements. The Fund has chosen not to restate comparatives. The Fund's financial instruments predominantly comprise equity investments held at fair value. The accounting treatment for these financial instruments is consistent under both IAS 39 and IFRS 9, therefore the introduction of IFRS 9 has had no impact on the reported results and financial position of the Fund.

IFRS 15 – Revenue from contracts with customers was issued and became effective for accounting periods beginning on or after 1 January 2018. The Fund is an investment entity and as its investments are held at fair value through profit or loss, the Fund does not have any revenues from contracts with customers, therefore, the introduction of IFRS 15 has had no impact on the reported results and financial position of the Fund.

At the date of authorisation of these financial statements, IFRS 16 – Leases: Recognition of assets and liabilities arising from a lease by a lessee was issued but will not become effective until accounting periods beginning on or after 1 January 2019. As the Fund does not have any leases held by it as a lessee, the introduction of IFRS 16 is not expected to have any impact on the reported results and financial results of the Fund.

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Notes to the financial statements for the year ended 31 March 2019

2 Investment income

	2019 £	2018 £
Interest on cash, short-term cash and loan investments	47,039,398	18,675,915
Income from listed investments	11,979,754	9,589,045
Rent receivable	6,349,380	6,732,018
	65,368,532	34,996,978

3 Investment expenses

	2019 £	2018 £
Investment management charges	5,067,019	4,627,224
Other investment expenses	671,122	474,871
	5,738,141	5,102,095

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:

	2019 £	2018 £
Staff salaries and directors’ emoluments	239,468	196,733
Auditor’s remuneration – audit fees	50,000	47,000
Defined contribution pension cost	13,220	3,251

5 Staff costs

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

	2019 £	2018 £
Wages and salaries	239,468	196,733
Social security costs	26,072	22,362
Defined contribution pension cost	13,220	3,251
	278,760	222,346

Wages and salaries comprise staff salaries of £94,268 (2018: £37,313) and directors' emoluments of £145,200 (2018: £159,420). The average number of persons acting as directors during the year was five (2018: five). In the year to 31 March 2019, directors' emoluments of £145,200 (2018: £159,420) comprised £145,200 (2018: £143,820) in respect of normal annual board duties and £Nil (2018: £15,600) for additional work.

There was one employee during the fiscal year 2018–19.

6 Tax on profit on ordinary activities

a. Analysis of charge in year

	2019 £	2018 £
Current tax		
UK corporation tax at 19% (2018: 19%)	28,049,596	21,956,593
Foreign tax	71,582	39,460
Adjustments in respect of prior periods	(227,132)	3,528,772
Total current tax	27,894,046	25,524,825
Origination and reversal of temporary differences	1,646,783	(7,246,195)
Total deferred tax movement	1,646,783	(7,246,195)
Tax on profit on ordinary activities	29,540,829	18,278,630

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Notes to the financial statements for the year ended 31 March 2019

6 Tax on profit on ordinary activities (continued)

b. Factors affecting tax charge for year

The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK – 19% (2018: 19%). The differences are explained below:

	2019 £	2018 £
Operating profit on ordinary activities before qualifying liabilities provision and taxation	172,811,011	119,259,426
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	32,834,092	22,659,291
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	(2,943,972)	(10,915,421)
Difference between accounting and taxable gains on unrealised gains and losses	(193,741)	2,114,035
Excess foreign tax	71,582	39,460
Adjustments to tax charge in respect of previous periods	(227,132)	3,528,772
Effect of decrease in tax rates	–	852,493
Total tax charge for year	29,540,829	18,278,630

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 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 2019 were determined by CBRE Limited (2018: 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:

	2019 £	2018 £
Rental income	6,349,380	6,732,018
Direct operating expenses on properties that generated rental income	753,682	766,362
Direct operating expenses on properties that did not generate rental income	230,271	112,530

Reconciliation of carrying amounts:

	Total Freehold £	Total 2019 £	2018 £
Valuation			
At start of the year	108,730,000	108,730,000	105,530,000
Additions	760,633	760,633	451,226
Disposal proceeds	(3,770,000)	(3,770,000)	(1,815,000)
Realised and unrealised gains*	1,059,367	1,059,367	4,563,774
At end of the year	106,780,000	106,780,000	108,730,000

* The realised and unrealised gains are included in the statement of comprehensive income on page 26 and comprise: net realised gains of £141,072 (2018: – £547,313) and net unrealised gains of £918,295 (2018: £4,016,461).

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Notes to the financial statements for the year ended 31 March 2019

7 Investment properties (continued)

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

	Freehold £	Total 2019 £	Total 2018 £
Cost			
At start of the year	97,808,420	97,808,420	98,624,881
Additions	760,633	760,633	451,226
Disposals	(3,628,927)	(3,628,927)	(1,267,687)
At end of the year	94,940,126	94,940,126	97,808,420

8 Financial assets at fair value through profit and loss

	2019 £	2018 £
Valuation		
At start of the year	1,785,429,164	1,672,572,716
Additions	1,160,187,735	510,965,577
Disposals proceeds	(517,864,841)	(483,611,288)
Realised and unrealised gains**	112,689,979	85,502,159
At end of the year	2,540,442,037	1,785,429,164

** These realised and unrealised gains are included in the statement of comprehensive income on page 26 and include: net realised gains of £94,655,605 (2018: £87,131,034) and net unrealised gains of £18,034,374 (2018: unrealised losses £1,628,875).

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

	2019 £	2018 £
Cost		
At start of the year	1,614,758,182	1,500,273,215
Additions	1,160,187,735	510,965,577
Disposals	(423,209,235)	(396,480,610)
At end of the year	2,351,736,682	1,614,758,182

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)	**2019 £**	**2018 £**
UK pooled funds	290,777,902	458,322,977
UK equities	290,311,757	289,328,794
Overseas equities:		
North America	59,298,683	5,093,992
Europe	17,582,658	12,078,696
Japan	135,062	447,689
Pacific	65,239,120	1,306,719
Africa	4,192,424	–
	727,537,606	766,578,867
Unlisted investments		
Level 3 fair value measurements (note 13)		
Loan to British Business Bank Plc	600,000,000	–
Investments in subsidiaries (see below)	844,297,649	467,871,068
Investments in associates and joint ventures (see below)	368,606,782	550,979,229
	1,812,904,431	1,018,850,297
	2,540,442,037	1,785,429,164

Investments in subsidiaries

	2019 £	**2018 £**
Adams Street UK Mid-Market Solutions LP	225,289,313	161,631,322
Equitix MA 1 LP	389,438,280	221,910,480
London Wall Capital Investments LLP Hodge 2016-1	86,694,224	55,693,566
HarbourVest 2017 Global AIF LP	40,731,901	28,635,700
Macquarie Private Debt Funds ICAV	102,143,931	–
	844,297,649	467,871,068

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

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Notes to the financial statements for the year ended 31 March 2019

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

Summary of unconsolidated subsidiaries

		Ownership Interest	
	Registered in	**2019**	**2018**
Adams Street UK Mid-Market Solutions LP	Scotland	99.99%	99.99%
Equitix MA 1 LP	England and Wales	99.00%	99.00%
London Wall Capital Investments LLP Hodge 2016-1	England and Wales	100.00%	100.00%
HarbourVest 2017 Global AIF LP	Scotland	52.50%	52.50%
Macquarie Private Debt Funds ICAV	Ireland	52.72%	–

Adams Street UK Mid-Market Solutions LP invests in high growth equity investments in UK mid market private companies via primaries, secondaries and co-investments. The Fund's total commitment is £240,000,000 of which £189,661,770 (2018: £149,341,770) was drawn as at the year-end.

Equitix MA 1 LP invests principally in the equity and shareholder loans in PPP projects and social infrastructure projects including, but not limited to: hospitals and health projects, schools and education projects, waste projects, university accommodation, utility related infrastructure and highways' projects. The Fund's total commitment is £400,000,000 of which £316,776,559 (2018: £186,037,001) 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 £78,500,000 (2018: £56,500,000) 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 across geographies with an emphasis on North America and Europe. The Fund's total commitment is US $125,000,000 of which US $52,500,000 (£37,452,575) (2018: US $36,250,000 – £27,313,433) was drawn as at the year-end.

Macquarie Private Debt Funds ICAV, an Irish Collective Asset-management Vehicle with variable capital and limited liability, invests in the infrastructure sector across a range of OECD countries. The Fund's total commitment is EUR 215,000,000 of which EUR 116,663,224 (£102,301,241) (2018: EUR Nil) was drawn as at the year-end.

Investments in associates and joint ventures

	2019 £	2018 £
Hermes GPE Infrastructure Fund LP	85,986,141	93,608,222
Macquarie Infrastructure Debt Fund LP	–	181,424,534
BlackRock Renewable Infrastructure Fund LP	112,955,568	107,494,519
Alcentra UK Direct Lending No 1 LP	111,809,892	149,204,099
Jersey Property Unit Trust	8,655,288	7,896,855
LaSalle Real Estate Debt Strategies III SCSp	35,388,000	11,351,000
HarbourVest 2018 Global Feeder AIF LP	13,811,893	–
	368,606,782	550,979,229

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.

Summary of associates and joint ventures

		Ownership Interest	
	Registered in	2019	2018
Hermes GPE Infrastructure Fund LP	Scotland	14.12%	14.12%
Macquarie Infrastructure Debt Fund LP	Guernsey	–	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%	9.95%
HarbourVest 2018 Global Feeder AIF LP	Scotland	45.35%	–

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Notes to the financial statements for the year ended 31 March 2019

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

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 £78,640,885 (2018:£83,520,628) 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 sold its entire investment during the year for £187,971,032.

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 £108,607,474 (2018: £105,411,684) 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 £115,148,048 (2018: £144,405,851) 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 £8,495,460 (2018: £7,708,288) 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 £35,470,039 (2018: £10,797,030) was drawn as at the year-end.

HarbourVest 2018 Global Feeder AIF LP invests in all types of high quality private equity funds including venture capital and leveraged buyout funds across geographies with an emphasis on North America and Europe. The Fund's total commitment is US $185,000,000 of which US $17,575,000 (£14,026,337) (2018: US $Nil) was drawn as at the year-end.

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

Financial assets	Fair value as at 31 March 2019	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investments in subsidiaries	£844,297,649 (2018: £467,871,068)	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
Investments in associates and joint ventures	£368,606,782 (2018: £550,979,229)	Level 3			
Loan to British Business Bank Plc	£600,000,000 (2018: £Nil)	Level 3			

9 Current assets

	2019 £	2018 £
Other receivables		
Other debtors	1,150,405	1,110,151
Accrued income	11,788,875	7,714,105
	12,939,280	8,824,256
NON-CURRENT ASSETS		
Other receivables		
Accrued income	4,264,005	–
	4,264,005	–

Accrued income under non-current assets relates to accrued interest on loans to British Business Bank Plc payable in August 2020.

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Notes to the financial statements for the year ended 31 March 2019

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 NatLF. Cash and cash equivalents included in the statement of cash flows and the statement of financial position comprise the following:

	2019 £	2018 £
Cash balances with banks	17,630,757	15,265,535
Short-term cash investments	6,752,147,037	7,372,621,108
	6,769,777,794	7,387,886,643

11 Trade and other payables

	2019 £	2018 £
Trade creditors	77,624	64,644
Other tax and social security	70,467	187,876
Other creditors	31,284	37,111
Accruals and deferred income	7,860,902	10,466,104
	8,040,277	10,755,735

12 Currency classification of total assets less current liabilities

Total assets less current liabilities as at 31 March 2019 are analysed by currency as follows:

Currency	Non-current assets £	Cash and cash equivalents £	Other current assets £	Current liabilities £	Total £
Pounds Sterling	2,069,838,039	6,760,408,894	12,524,757	(21,194,535)	8,821,577,155
US Dollar	268,109,758	404,547	24,993	–	268,539,298
Canadian Dollar	8,135,314	5,517	–	–	8,140,831
Euro	158,893,488	8,100,690	70,650	–	167,064,828
Norwegian Krone	1,031,351	252	–	–	1,031,603
Swedish Krona	3,946,527	134,307	–	–	4,080,834
Danish Krone	2,434,114	–	–	–	2,434,114
Brazilian Real	5,482,078	6,658	24,058	–	5,512,794
South African Rand	4,192,424	3,036	–	–	4,195,460
New Taiwan Dollar	11,616,153	–	–	–	11,616,153
Turkish Lira	330,048	–	–	–	330,048
Swiss Franc	12,065,988	92,189	–	–	12,158,177
Czech Koruna	85,027	–	–	–	85,027
Hungarian Forint	2,403,338	–	–	–	2,403,338
Malaysian Ringgit	777,725	–	–	–	777,725
Polish Zloty	1,932,239	–	–	–	1,932,239
Thai Baht	3,197,634	–	–	–	3,197,634
Japanese Yen	28,360,512	460,132	1,058	–	28,821,702
South Korean Won	23,932,849	61,193	293,764	–	24,287,806
Singapore Dollar	1,080,482	945	–	–	1,081,427
Hong Kong Dollar	37,725,827	2,549	–	–	37,728,376
Australian Dollar	5,682,034	96,885	–	–	5,778,919
New Zealand Dollar	233,093	–	–	–	233,093
	2,651,486,042	6,769,777,794	12,939,280	(21,194,535)	9,413,008,581

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Notes to the financial statements for the year ended 31 March 2019

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

Total assets less current liabilities as at 31 March 2019 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

13 Financial instruments and financial risk management

Categories of financial instruments as at 31 March 2019:

	Financial assets measured at amortised cost £	Financial liabilities measured at amortised cost £	Assets at fair value through profit and loss £
Financial assets			
Financial assets at fair value through profit and loss	–	–	2,540,442,037
Other debtors	1,150,405	–	–
Accrued income	16,052,880	–	–
Cash balances with banks	17,630,757	–	–
Short-term cash investments	6,752,147,037	–	–
Financial liabilities			
Trade and other payables	–	7,969,810	–

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Notes to the financial statements for the year ended 31 March 2019

13 Financial instruments and financial risk management (continued)

Categories of financial instruments as at 31 March 2018:

	Financial assets measured at amortised cost £	Financial liabilities measured at amortised cost £	Assets at fair value through profit and loss £
Financial assets			
Financial assets at fair value through profit and loss	–	–	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	–

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.

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 2019 amounting to £727,537,606 (2018: £766,578,867) 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 2019 (2018: £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 2019 amounting to £1,812,904,431 (2018: £1,018,850,297) 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:

	2019 £	2018 £
Valuation		
At start of the year	1,018,850,297	846,521,391
Additions	919,785,536	140,616,299
Disposal proceeds	(187,971,032)	–
Realised and unrealised gains***	62,239,630	31,712,607
At end of the year	1,812,904,431	1,018,850,297

*** These realised and unrealised gains are included in the statement of comprehensive income on page 26 and include: net realised gains of £38,263,308 (2018: £Nil) and net unrealised gains of £23,976,322 (2018: £31,712,607).

During the year the Fund received profit distributions from the above Level 3 investments amounting to £26,310,722 (2018: £35,522,432).

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

Financial risk management

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

Credit risk

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

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Notes to the financial statements for the year ended 31 March 2019

13 Financial instruments and financial risk management (continued)

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 £209m (2018: £176m). 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.

	2019 £	2018 £
Listed investments price risk sensitivity analysis		
If there was a 10% (2018: 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:	72,753,761	76,657,887

The impact of a 10% (2018: 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.

	2019 £	2018 £
Unlisted investments price risk sensitivity analysis		
If there was a 10% (2018: 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:	181,290,443	101,885,030

The Board considers a movement of 10% (2018: 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 2019:

	Value subject to fixed rate £	Value subject to variable rate £
Loans to British Business Bank Plc	600,000,000	–
Cash balances with banks	–	17,630,757
Short-term cash investments	6,710,489,500	41,657,537

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

The average annual rate of return before tax for short-term cash investments was 0.66% (2018: 0.34%) and the annual rate of return before tax for British Business Bank Plc loan was 2% (2018: Nil).

Interest rate risk sensitivity analysis

	2019 £	2018 £
If there was a 0.50% (2018: 0.50%) increase or decrease in variable interest rates with all other variables held constant, the value of variable interest bearing assets would increase or decrease by:	296,441	323,467

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% (2018: 0.50%) has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

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Notes to the financial statements for the year ended 31 March 2019

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

	2019 £	2018 £
If there was a 10% (2018: 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	26,853,930	18,052,063
Euro	16,706,483	9,346,701
Japanese Yen	2,882,170	3,838,747
Other currencies	12,700,560	6,906,147

A sensitivity of 10% (2018: 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 2019 £	Total 2018 £
At 1 April	8,362,991	9,261,578,318	9,269,941,309	9,178,172,997
EDFE contributions	–	12,750,380	12,750,380	24,414,451
Transfer from statement of comprehensive income	–	143,270,182	143,270,182	100,980,796
Payable to EDFE	–	(14,600,173)	(14,600,173)	(26,380,740)
Deferred tax movement	1,646,783	–	1,646,783	(7,246,195)
At 31 March	10,009,774	9,402,998,707	9,413,008,481	9,269,941,309

Deferred tax balance consists of:

	2019 £	2018 £
Accelerated capital allowances	2,045,054	1,974,125
Unrealised gains on investments	7,645,492	6,502,423
Unrealised loss on properties	319,228	(113,557)
	10,009,774	8,362,991

Qualifying liabilities provision

In accordance with the CA, fixed contributions are received quarterly from EDFE in the sum of £2m (2018: £2m), stated in March 2003 monetary values and indexed to RPI together with £150k, which is also indexed to RPI, for every tonne of uranium loaded into the Sizewell B reactor power station. The Fund also receives an annual contribution from EDFE for administration costs. This contribution is in the sum of £1m and the Fund receives an appropriate amount after the direct, attributable administration costs of UKGI and the NDA EDFE Team are deducted. In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the qualifying liabilities of EDFE, as represented by the payments to EDFE in the above table.

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

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

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

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

Deferred tax

Deferred tax provision takes account of deferred tax payable on the sale of investment properties and financial assets at fair value through profit and loss account to the extent that proceeds exceed cost, adjusted by indexation allowance. The deferred tax provision of £2,045,054 relating to accelerated capital allowances will be unwound when the investment properties are sold. In addition, a deferred tax liability of £7,964,720 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.

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Notes to the financial statements for the year ended 31 March 2019

15 Share capital

	Authorised	Allotted, called up and fully paid	
At 31 March 2018 and 31 March 2019	£	No.	£
98 Ordinary shares of £1 each	98	98	98
1 A Special rights redeemable preference share of £1 ('the A special share')	1	1	1
1 B Special rights redeemable preference share of £1 ('the B special share')	1	1	1
	100	100	100

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

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

16 Operating lease receivables

As a lessor, the Fund had rent receivables as at 31 March 2019 under non-cancellable operating leases as follows:

	2019 £	2018 £
Within one year	6,176,383	6,767,631
Between two and five years	22,163,938	23,750,652
In more than five years	34,396,456	39,059,296

No contingent rentals were recognised in income.

As at 31 March 2019 the Fund held a total of 61 leases, 15 of which expire within five years of the statement of financial position date, with the remaining 46 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 2019 (2018: £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 £167,830 (2018: £135,630) 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 2019 (2018: £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.

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11 BlackRock's appointment as fiduciary manager terminated on 30 June 2019. As from 30 June 2019 the Fiduciary Manager is:
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Nuclear
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