Company Number: SC164685

NUCLEAR LIABILITIES FUND LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2010

NUCLEAR LIABILITIES FUND LIMITED

COMPANY INFORMATION

Directors	The Lady Balfour of Burleigh CBE (reappointed on 10 July 2009) Mr G Jenkins Ms A Richards The Lord Sassoon of Ashley Park (resigned on 14 May 2010) Mr D Stewart CVO
Secretary	Mr D A Venus PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
Company Number	SC164685
Registered Office	16 Rothesay Place Edinburgh EH3 7SQ
Auditors	Deloitte LLP Chartered Accountants London
Solicitors	Shepherd and Wedderburn LLP 1 Exchange Crescent Conference Square Edinburgh EH3 8UL
Bankers	HSBC Bank Plc 8 Canada Square London E14 5HQ
Investment Managers	State Street Global Advisors Limited 20 Churchill Place Canary Wharf London E14 5HJ LaSalle Investment Management Limited 33 Cavendish Square London W1A 2NF HSBC Global Asset management (UK) Ltd Ground Floor Frobisher House Nelson Gate Commercial Road Southampton SO15 1GX J.P. Morgan Asset Management Finsbury Dials 20 Finsbury Street London EC2Y 9AQ
Custodians	HSBC Bank Plc Global Investor Services 8 Canada Square London E14 5HJ

NUCLEAR LIABILITIES FUND LIMITED

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NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

I am pleased to present the fourteenth Annual Report of Nuclear Liabilities Fund Limited (the "Fund") for the year to 31 March 2010.

Purpose of the Fund

The Fund was incorporated on 28 March 1996 with the principal object of providing arrangements for funding certain long-term costs of decommissioning the nuclear power stations of British Energy Group plc ("BE") existing at 20 March 1996. These comprised, and continue to comprise, seven advanced gas cooled reactor stations ("AGRs") and one pressurised water reactor station ("PWR").

The Fund is owned by The Nuclear Trust (the "Trust"), established by deed dated 27 March 1996 (as amended with effect from 14 January 2005), between BE, the Secretary of State for the Department for Business, Innovation and Skills (formerly Department for Business, Enterprise and Regulatory Reform) ("the Secretary of State"), and five trustees, of whom three are appointed by the Secretary of State and two by BE. The Trust is a public trust under Scottish Law and its trustees are also directors of the Fund, the ordinary share capital of which is owned by the trustees.

The primary purpose of the Trust is "to protect and preserve the environment of the United Kingdom for the benefit of the Nation by being a member, directly or through nominees, of a company limited by shares or by guarantee, the purpose of which is to receive and hold monies, investments and other assets for the purpose of making payments towards discharging Nuclear Liabilities."

The obligations of the Fund were set out in the Nuclear Decommissioning Agreement of 29 March 1996, which was terminated on 14 January 2005 and replaced by a Contribution Agreement ("CA") and by the Nuclear Liabilities Funding Agreement ("NLFA") of the same date. These new Agreements were a consequence of the restructuring of BE (the "Restructuring") which was completed on 14 January 2005 (full details can be found on BE's website at www.british-energy.com). The terms of Restructuring include various changes to the manner in which the decommissioning liabilities of BE nuclear power stations are to be funded and also for the funding of certain of BE's contracted and uncontracted nuclear liabilities (together called the "qualifying liabilities").

The terms of the NLFA and other agreements put in place at the time of Restructuring have been amended as a consequence of the sale of the Fund's remaining stake in BE in January 2009. The amendments generally reflect the new ownership structure of BE without compromising the arrangements put in place to facilitate the funding, and in due course, the implementation of decommissioning.

The principal obligations, duties and rights of the Fund as set out in the NLFA and the CA are:

- BE make quarterly payments into the Fund under the terms of the CA. Payments from the Fund to meet qualifying liabilities can only be made by application by BE to the Nuclear Decommissioning Authority ('NDA').
- BE prepares and submits (at its cost) for the review and approval by the NDA:
    - every five years, or three years prior to station closure, whichever is earlier, a lifetime Baseline Decommissioning Plan ('BDP') setting out its strategy and cost estimate for decommissioning its AGR and PWR stations;
    - a plan setting out its strategy for discharging Uncontracted Liabilities (the 'UCLDP');
    - for each financial period, an Annual Liabilities Report ('ALR2'), which is in effect a 3-year rolling near term work plan; and
    - an annual reconciliation of movements in liabilities over the preceding financial period (Annual Liabilities Report, Part 1 or 'ALR1').

Purpose of the Fund (continued)

- Applications for payment of qualifying costs are made monthly by BE to the NDA and any approval is then communicated to the NLF which transfers monies to BE's account. All this is undertaken within defined periods.
- In providing written confirmation to the NLF that an application is acceptable, the NDA must also state that it is reasonably satisfied that BE's technical specifications for the work proposed or undertaken are in accordance with the approved BDPs or the approved UCLDP, and the current approved ALR2.
- A Fund Review will be initiated in January 2015 and at each ten year anniversary thereafter, unless the Secretary of State after January 2015 requests one between regular reviews.

At 31 March 2010 the Fund's assets after deducting current liabilities were valued at £8,502m. The investment policy of the Fund is determined by the Secretary of State after consultation with Fund directors. The Secretary of State has agreed to fund the qualifying liabilities to the extent they exceed all the assets of the Fund.

Review of the year

We have continued to work closely with various Government departments and agencies, including the Shareholder Executive, the Department for Business, Innovation and Skills and the Department of Energy and Climate Change. In particular, we have continued to develop our relationship with the NDA as they monitor and assess qualifying liabilities arising from BE's operations. We continue to enjoy close cooperation with and assistance from BE's directors and staff.

The NLF, HM Government and the NDA all have an interest in minimising the quantum of liabilities arising from the decommissioning and waste management of BE's stations. We are engaged in considering this important issue with them. A useful tool will be the inflation index which the NDA is currently developing using a basket of materials, equipment and engineering processes to produce a measure of annual inflation or deflation in decommissioning and waste management costs.

My colleagues and I have noted with interest the various developments and announcements during the year relating to nuclear new build and in particular the various consultations and discussions that have been taking place between Government, the Nuclear Liabilities Funding Assurance Board, prospective new build operators and others, concerning arrangements for decommissioning and waste management. The directors will continue to engage with all interested parties to relay the benefit of their experience since the NLF's inception in 1996 and to ensure that all those involved in nuclear decommissioning and waste management share information, knowledge and expertise for the benefit of all.

During the year the Fund established a website - www.nlf.uk.net. The site gives details of the Fund's purpose, its history, details of directors and news. It is the intention of the directors to ensure that the contents of the website are current and informative.

My fellow directors and I were sorry that Lord Sassoon was obliged to resign as a director of the Fund on 14 May 2010, following his appointment as Commercial Secretary to the Treasury. We would like to thank Lord Sassoon for his significant contribution to Fund matters over the last two years. His capital markets' knowledge and expertise were particularly helpful during the course of the sale of the Fund's stake in BE.

I would like to thank my board colleagues and all our advisers for their continuing support and assistance.

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

The Lady Balfour of Burleigh CBE
Chairman

Date: 2 August 2010

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

The directors submit their annual report and the financial statements of Nuclear Liabilities Fund Limited ("the Fund") for the year ended 31 March 2010.

Results

The Fund's assets held to meet qualifying liabilities increased by **£217,752,626** to **£8,493,594,165** (2009: increased by £4,442,747,654 to £8,275,841,539).

The rate of return for the year achieved by the Fund was 2.3% before tax (2009: 0.30%). This percentage has been calculated by HSBC Bank Plc and retained by the Fund to measure Fund performance.

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

Future developments concerning the Fund's investment policy are set out on pages 4 and 5.

Presentation of financial statements

During the year ended 31 March 2010, the Fund has voluntarily adopted International Financial Reporting Standards.

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 British Energy Group Plc ("BE") at 29 March 1996 and to make payments for such approved costs which is its Key Performance Indicator (KPI). Accordingly, in the directors' opinion, a more meaningful method of presenting the financial statements would be to use a fund account approach as follows:

	2010	2009
	£	£
Assets held to meet qualifying liabilities - value at start of the year	**8,275,841,539**	3,833,093,885
Contributions from BE	**31,479,997**	31,493,188
BE cashsweep converted into BE shares*	-	4,421,124,641
Payments to BE	**(9,097,353)**	(3,482,479)
Operating profit on ordinary activities before tax	**215,715,243**	34,369,613
Tax on ordinary activities	**(20,345,261)**	(40,757,309)
Assets held to meet qualifying liabilities - value at end of the year	**8,493,594,165**	8,275,841,539

* Further details for the BE cashsweep conversion during the year ended 31 March 2009 are provided in note 18 to the financial statements.

Principal activity and review of business

The principal activity of the Fund is 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.

A further review of the Fund's activities is given in the Chairman's Statement on pages 1 and 2.

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

Statement of investment principles

Although not mandatory, the directors believe that they should be guided by the Myners' Principles to the extent that they are appropriate to the circumstances of the Fund.

Currently there are ongoing discussions surrounding the long-term investment strategy. These discussions cover areas of the Myners' Principles such as setting clear objectives with respect to risk and the liabilities. The directors are also incorporating other issues into their discussion, such as liquidity requirements, tax impact, regulatory constraints and the unique circumstance of the Fund. Once any change in strategy has been agreed, the directors will take into account the remaining Myners' Principles when implementing a change to the current investment strategy. A Statement of Investment Principles will then be drawn up to record the decisions.

The directors assess the performance of their managers through regular reports. The reports include performance and benchmark figures. The directors are aware of their managers' policies on Environmental, Social and Corporate Governance and receive regular reports on their activities.

Annual report and accounts are published and a website (www.nlf.uk.net) exists to aid transparency for stakeholders.

Market review

During the year there was a significant and favourable change in global markets. In the previous 18 months the largest bear market since the late 1930s had led to a US$18 trillion reduction in equity market capitalisation around the world, an amount well in excess of the entire nominal GDP of the United States. Twelve months later, every asset class has shown positive returns. Emerging markets, small-cap stocks and high yield bonds have increased 70%-90% in US dollar terms. Indeed, after a harrowing start to calendar year 2009, the twelve months to 31 March 2010 saw consistent recovery in both economic prospects and risk appetites. While historical 2007 highs remained distant memories, investor sentiment still benefited immensely as many market averages regained levels that had dropped sharply after the September 2008 collapse of Lehman Brothers.

Boosting investor spirits throughout the period were improving profit expectations. Although the pace of estimated gains seemed to ebb as the year drew to a close, relative value considerations kept equities buoyant worldwide. Short-term investments remained singularly unappealing, as G7 central bankers affirmed their commitment to supportive policies and libor rates eroded further. Corporate bond spreads, both investment-grade and high-yield, contracted throughout the period, easing financial constraints on borrowers with access to the capital markets.

In the UK, GDP fell a cumulative 6.2% between the second quarter of 2008 and the third quarter of 2009, the worst fall in over 50 years of recordkeeping. The recession ended in the final quarter of 2009, although barely as GDP recorded a meagre 0.3% gain. Difficulties created by a fragile banking system, household balance sheet repair, fiscal restraint and weak eurozone growth will keep growth anaemic, with GDP expected to rise just 1.2% in 2010. Higher energy prices and VAT rates pushed headline inflation to a worrying 3.5% in January 2010. It should slow over the course of this year, reflecting the large output gap as well as easing pressures from energy and the VAT adjustment. The Bank of England has cut its official Bank Rate to a record low of 0.50%. Although the policy rate is not expected to fall further, it is unlikely to rise this year. Moreover, the BoE remains open to further quantitative easing measures over the near term.

The Fund has been insulated from the market turmoil to a significant extent due to the very high weighting in cash. This strategy could, however, constrain the growth prospects of the Fund.

Market outlook

The volatility and equity gains and losses that took hold during the period have made many traders worry about an imminent rise in risk aversion, particularly in light of growing disruptions in the government bond markets. A pause or a decline certainly seemed likely as the less robust summer patterns approached. Away from the financial constraints that are bearing down most heavily on parts of Europe, small increases in bond yields reflect trends that should remain supportive of share prices. Whether due to rising inflation expectations, as in the UK or Japan, or to a fall in real yields, as in the US or Australia, the performance of bonds is indicative of economic recovery. If only slowly, output gaps are shrinking and demand for capital is picking up. However, the major central banks need to keep rates low, as the sagging housing market keeps the US Federal Reserve on hold, wavering growth concerns the European Central Bank, and deflation persists in Japan.

With minimal cash yields and healthy credit markets, the favourable environment for equities persists, and corrections should remain mild. Later in 2010 we may start to see concerns about increased taxes, peaking profit margins, and potential disappointments for 2011 earnings. However, with a preponderance of capital having flowed into fixed income over the past year, equities should continue to attract funds until either valuations reach more obviously onerous levels or bonds become a considerably cheaper alternative.

Investment policy

The Secretary of State for Department for Business, Innovation and Skills has amended the investment policy of the Fund with effect from 14 January 2005, the date of Restructuring. By agreement with the Secretary of State, the amendment has not yet been implemented. State Street Global Advisers continue to manage the Fund's equity and index-linked investments, while LaSalle Investment Management manage the properties owned by the Fund.

Directors

The following directors served throughout the year:

The Lady Balfour of Burleigh CBE (reappointed on 10 July 2009)
Mr G Jenkins
Ms A Richards
The Lord Sassoon of Ashley Park (resigned on 14 May 2010)
Mr D Stewart CVO

In their capacity as Trustees of the Nuclear Trust, (a public trust established under Scottish Law by a deed dated 27 March 1996 between British Energy Plc and the Secretary of State for Department for Business, Innovation and Skills, as amended by a deed dated 12 January 2005) the directors jointly have a legal interest in 98 Ordinary Shares of £1 each in the Fund.

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 auditors are 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 auditors are aware of that information.

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

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Corporate governance

Whilst the Fund is not obliged to comply with the Combined Code, the directors consider that during the year the Fund has complied with the Code in so far as its provisions are applicable.

The Board

The five directors meet regularly to review the overall affairs of the Fund and to consider business specifically reserved for the Board's decision. Twelve Board meetings were held during the course of the year (including meetings held by conference call) together with many other meetings between various Board members, advisers, officials from the Department for Business, Innovation and Skills, the Nuclear Decommissioning Authority and others. The directors are responsible for monitoring the prescribed investment policy of the Fund and, at Board meetings, they consider, within the confines of this policy, matters relating to financial risk and objectives and the exposure of the Fund to credit risk, liquidity risk and market risk which comprises equity price risk; interest rate risk and currency risk. The directors manage these risks by reviewing the performance of its investment managers and advisers and by monitoring the performance of the Fund's portfolio against prescribed benchmarks. The directors' approach to the management of financial risk is given in note 13 "Financial Instruments and Financial Risk Management" to the financial statements.

The directors met regularly with their advisers and kept in frequent contact with industry specialists and regulators as appropriate.

The attendance of directors at Board meetings in the year is set out in the table below:

	Regular Meetings	Extraordinary Meetings and Conference Calls	Total
The Lady Balfour of Burleigh CBE*	9	3	12
Mr G Jenkins	9	3	12
Ms A Richards	9	2	11
The Lord Sassoon of Ashley Park	9	3	12
Mr D Stewart CVO	9	3	12

* includes meetings attended during the period 1 April 2009 to 9 July 2009 as a consultant.

Directors each receive £24,840 (2009: £24,607) per annum in respect of their normal annual non-executive board duties and the chairman £37,261 (2009: £36,911) per annum. Additional remuneration is payable on a per diem basis agreed by the Department for Business, Innovation and Skills and British Energy Group plc in respect of additional work carried out by the directors.

Internal financial controls

The directors have overall responsibility for the internal financial control systems of the Fund. These systems aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which decisions are made and that the assets of the Fund are safeguarded. The financial controls operated by the Board include the monitoring of the investment strategy and regular reviews of the financial results and investment performance. The Board has contractually delegated to external agencies, including investment managers, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), and the day-to-day accounting and company secretarial requirements.

Internal financial controls (continued)

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

The Board meets representatives of the investment managers and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Fund. It reviews the quarterly and annual accounts and reviews the nature and scope of the external audit and the findings therefrom.

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

The directors continued to review the key commercial and financial risks that might affect the Fund together with more general risks such as those relating to compliance with laws and regulations.

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 BE 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 BE and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £36m. 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.

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

The Lady Balfour of Burleigh CBE
Chairman

Date: 2 August 2010

NUCLEAR LIABILITIES FUND LIMITED
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 ("IFRSs") 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 Fund and of the profit or loss of the Fund 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 IFRSs 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 Fund'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 Fund’s transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Fund 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 Fund's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NUCLEAR LIABILITIES FUND LIMITED

We have audited the financial statements of Nuclear Liabilities Fund Limited (the "Company") for the year ended 31 March 2010 which comprise the statement of comprehensive income , the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 20. 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.

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 auditors' 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its financial 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Stuart McLaren (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

Date: 2 August 2010

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010

	Notes	**2010** **£**	2009 £
Investment income	**2**	**53,978,659**	202,156,136
Realised and unrealised gains/(losses) on financial assets at fair value through profit and loss	**8**	**160,545,552**	(142,982,593)
Unrealised gains/(losses) on investment properties	**7**	**2,980,675**	(14,991,010)
Net foreign exchange (losses)/gains		**(57,300)**	225,512
Investment expenses	**3**	**(473,322)**	(9,064,525)
Administrative expenses		**(1,259,021)**	(973,907)
Operating profit on ordinary activities before qualifying liabilities provision and taxation	**4**	**215,715,243**	34,369,613
Transfer (to)/from qualifying liabilities provision	**14**	**(195,369,982)**	6,387,696
Profit on ordinary activities before tax		**20,345,261**	40,757,309
Tax on ordinary activities	**6**	**(20,345,261)**	(40,757,309)
Financial result and total comprehensive income for the year		-	-

All amounts relate to continuing activities.

There have been no other comprehensive income items recognised for 2009 or 2010 other than those included in the income statement.

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2010

	Notes	**2010** £	2009 £	1 April 2008 £
ASSETS				
NON-CURRENT ASSETS				
Investment properties	**7**	**42,105,000**	39,005,000	53,950,000
Financial assets at fair value through profit and loss	**8**	**580,891,847**	408,933,335	740,808,107
		622,996,847	447,938,335	794,758,107
CURRENT ASSETS				
Other current assets	**9**	**7,778,987**	16,146,476	152,737,036
Cash and cash equivalents	**10, 12**	**7,879,846,619**	7,839,123,587	2,923,975,408
		7,887,625,606	7,855,270,063	3,076,712,444
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	**11**	**(5,599,258)**	(4,445,570)	(1,709,682)
Corporation tax payable		**(3,201,073)**	(22,095,263)	(27,453,088)
		(8,800,331)	(26,540,833)	(29,162,770)
TOTAL ASSETS LESS CURRENT LIABILITIES	**12**	**8,501,822,122**	8,276,667,565	3,842,307,781
NON-CURRENT LIABILITIES				
Qualifying liabilities provision	**14**	**(8,493,594,165)**	(8,275,841,539)	(3,833,093,885)
Deferred tax provision	**14**	**(8,227,857)**	(825,926)	(9,213,796)
		(8,501,822,022)	(8,276,667,465)	(3,842,307,681)
NET ASSETS		**100**	100	100
EQUITY ATTRIBUTABLE TO OWNERS OF THE FUND				
Ordinary shares	**15**	**100**	100	100
TOTAL EQUITY (including £2 non-equity interest)		**100**	100	100

The financial statements with registered number SC164685 were approved and authorised for issue by the Board.

Signed on behalf of the Board of Directors.

The Lady Balfour of Burleigh CBE
Chairman
Date: 2 August 2010

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	Ordinary shares £	Total £
BALANCE AT 1 APRIL 2008	100	**100**
Movements during the year	-	-
BALANCE AT 31 MARCH 2009	100	**100**
BALANCE AT 1 APRIL 2009	100	**100**
Movements during the year	-	-
BALANCE AT 31 MARCH 2010	100	**100**

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010

	2010	2009
	£	£
Cash flows from operating activities		
Operating profit on ordinary activities before qualifying liabilities provision and taxation	**215,715,243**	34,369,613
Adjustments for:		
Realised and unrealised (gains)/losses on financial assets at fair value through profit and loss	**(160,545,552)**	142,982,593
Unrealised (gains)/losses on investment properties	**(2,980,675)**	14,991,010
Decrease in other current assets	**8,367,489**	34,632,431
(Decrease)/increase in trade and other payables	**(351,837)**	185,587
Cash generated from operations	**60,204,668**	227,161,234
Income taxes paid	**(31,837,520)**	(54,503,005)
Net cash from operating activities	**28,367,148**	172,658,229
Cash flows from investing activities		
Payment to acquire investment properties	**(119,325)**	(46,010)
Payments to acquire financial assets held at fair value through profit and loss	**(37,870,787)**	(44,158,142)
Proceeds from the sale of financial assets held at fair value through profit and loss	**26,457,827**	233,050,321
Net cash (used in)/from investing activities	**(11,532,285)**	188,846,169
Cash flows from financing activities		
Contributions from BE	**31,198,721**	4,554,871,824
Payments to BE	**(7,310,552)**	(1,228,043)
Net cash from financing activities	**23,888,169**	4,553,643,781
Net increase in cash and cash equivalents	**40,723,032**	4,915,148,179
Cash and cash equivalents at start of the year	**7,839,123,587**	2,923,975,408
Cash and cash equivalents at end of the year (note 10)	**7,879,846,619**	7,839,123,587

1 ACCOUNTING POLICIES

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The disclosures required by IFRS 1 concerning the transition from the United Kingdom Generally Accepted Accounting Principles ("UK-GAAP") to IFRS are given in note 20.

The financial statements have been prepared on the historical cost basis, except for revaluation of certain financial assets. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. 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, and in preparing an opening IFRS balance sheet as at 1 April 2008 for the purpose of transition to IFRS.

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 that 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(f), 7 and 8 to these financial statements.

(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 BE 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 BE and reviewed by the NDA, the liabilities that are expected to fall upon the Fund over the next three years amount to approximately £36m. 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 Nuclear Liabilities Funding Agreement ("NLFA"), the Fund will, subject to certain exceptions, fund the qualifying liabilities of BE. 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 contingent liabilities as the directors shall reasonably determine.

The Contribution Agreement ("CA"), as amended on 5 January 2009, provides for the making of contributions to the Fund from BE 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 £5m, stated in March 2003 monetary values and indexed to RPI subject to certain conditions. The Fund also receives an annual contribution from BE 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 the Shareholder Executive and the Nuclear Decommissioning Authority ("NDA") British Energy Team are deducted. Accordingly, these contributions from BE represent an increase in the qualifying liabilities provisions as set out in note 14, not an accretion to shareholders' funds.

1 ACCOUNTING POLICIES (continued)

(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 income statement 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) 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.

(e) Taxation

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

Current tax

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

Deferred tax

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

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

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

1 ACCOUNTING POLICIES (continued)

(e) Taxation (continued)

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.

(f) 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 bid market value (fair value) at the close of business in London and are not depreciated. Changes in fair values are recognised in the statement of comprehensive income in the year in which the change arises. Investment properties are held to be leased out under operating leases.

Financial instruments

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

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sales' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A Financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

1 ACCOUNTING POLICIES (continued)

(f) Non-current assets (continued)

Financial assets at FVTPL comprise listed securities managed by external fund managers on behalf of the Fund. Financial assets at FVTPL 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.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks, short-term cash investments held in AAA rated institutions and National Loans Fund.

(h) New accounting standards

The following accounting standards that are relevant to the Fund are applicable for the first time have been adopted this year:

- IFRS 7 - Financial Instruments: Disclosures
- IAS 1 (revised 2007) - Presentation of Financial Statements
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.

The impact of the adoption of these standards has been to expand the disclosures provided in relation to financial instruments and the management of capital.

The following accounting standards that are relevant to the Fund have not been applied in these financial statements have been issued but are not yet effective:

- IFRS 9 - Financial Instruments: Recognition and Measurement
- IAS 24 - Related Party Disclosures

The adoption of these standards is not expected to have a material impact on the Fund's financial statements.

2 INVESTMENT INCOME

	2010	2009
	£	£
Interest on fixed-term bonds	-	45,280,692
Interest on cash and short-term cash investments	**35,802,259**	135,620,949
Income from listed investments	**14,434,503**	17,368,454
Rent receivable	**3,741,897**	3,886,041
	53,978,659	202,156,136

3 INVESTMENT EXPENSES

	2010	2009
	£	£
Investment management charges	**620,212**	686,861
Other investment expenses (*)	**(146,890)**	8,377,664
	473,322	9,064,525

(*) Other investment expenses of £8,377,664 for the year ended 31 March 2009 relates to costs incurred in respect of the conversion of the NLF cashsweep payment into shares in BE and subsequent sale of those shares (note 18).

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:

	2010	2009
	£	£
Directors' emoluments	**162,121**	294,089
Auditors' remuneration - audit fees	**24,193**	21,900

5 STAFF COSTS

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

	2010	2009
	£	£
Wages and salaries	**162,121**	294,089
Social security costs	**17,094**	35,788
	179,215	329,877

Wages and salaries are comprised wholly of directors' emoluments for their work and time as the Fund employs no staff.

The average number of persons acting as directors during the year remained at five (2009: five). Wages and salaries of £162,121 (2009: £294,089) comprise £136,621 (2009: 135,339) in respect of normal annual board duties and £25,500 (2009: £158,750) for additional work carried out by the directors during the year.

6 TAX ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2010	2009
	£	£
Current tax		
UK corporation tax at 28% (2009: 28%)	**12,186,568**	52,849,625
Foreign tax	**806,837**	-
Adjustments in respect of prior periods corporation tax	**(50,075)**	(3,704,446)
Total current tax	**12,943,330**	49,145,179
Origination and reversal of timing differences	**7,401,931**	(8,387,870)
Total deferred tax movement	**7,401,931**	(8,387,870)
Tax on ordinary activities	**20,345,261**	40,757,309

6 TAXATION ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting tax charge for year

The tax assessed for the year is lower (2009: higher) than the standard rate of corporation tax in the UK - 28% (2009: 28%). The differences are explained below:

	2010	2009
	£	£
Operating profit on ordinary activities before qualifying liabilities provision and taxation	**215,715,243**	34,369,613
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	**60,400,268**	9,623,492
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	**(4,423,369)**	(960,037)
Difference between accounting and taxable gains on unrealised gains and losses	**(38,393,086)**	35,334,586
Recognition of industrial buildings allowance deferred tax	**663,288**	-
Excess foreign tax	**806,837**	-
Capital losses realised in the year	**1,341,398**	463,714
Adjustments to tax charge in respect of previous periods	**(50,075)**	(3,704,446)
Total tax charge for year	**20,345,261**	40,757,309

There is no allowable deduction for the provision for qualifying liabilities. The Fund will not, in the view of HM Revenue and Customs, be treated as 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

It is not considered possible to estimate the amount that is likely to become payable or recoverable in the foreseeable future in respect of revalued financial assets at fair value through profit and loss. There are numerous transactions in shares and securities each year and the actual tax liability depends on the disposal of particular investments.

7 INVESTMENT PROPERTIES

Fair value model

The fair values of the investment properties as at 31 March 2010 were determined by the Fund's property managers, LaSalle Investment Management, chartered surveyors. In determining the valuations the valuator refers to current market conditions and recent sales transactions of similar properties.

7 INVESTMENT PROPERTIES (continued)

Amounts recognised in income statement:	2010	2009
Rental income	**3,741,897**	3,886,041
Direct operating expenses on properties that generated rental income	**206,813**	228,751

Reconciliation of carrying amounts:

	Freehold 2010 £	Freehold 2009 £
Valuation		
At start of the year	**39,005,000**	53,950,000
Additions	**119,325**	46,010
Unrealised gains/(losses)	**2,980,675**	(14,991,010)
At end of the year	**42,105,000**	39,005,000

The unrealised gains/(losses) on investment properties are included in the statement of comprehensive income on page 12.

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

	Freehold 2010 £	Freehold 2009 £
Cost		
At start of the year	**43,656,900**	43,610,890
Additions	**119,325**	46,010
At end of the year	**43,776,225**	43,656,900

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010 £	2009 £
Valuation		
At start of the year	**408,933,335**	740,808,107
Additions	**37,870,787**	44,158,142
Disposals proceeds	**(26,457,827)**	(233,050,321)
Realised and unrealised gains/(losses) (*)	**160,545,552**	(142,982,593)
At end of the year	**580,891,847**	408,933,335

(*) Realised and unrealised gains/(losses) comprises; net realised losses of £3,522,870 (2009: net realised gains - £578,270) and net unrealised gains of £164,068,422 (2009: net unrealised losses - £143,560,863)

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)

Cost		
At start of the year	**452,379,536**	640,693,445
Additions	**37,870,787**	44,158,142
Disposals	**(29,980,696)**	(232,472,051)
At end of the year	**460,269,627**	452,379,536

All financial assets at fair value through profit and loss are managed by State Street Global Advisors and are listed on recognised stock exchanges. These investments comprise the following:

	2010	2009
	£	£
UK index linked gilts	**69,434,435**	61,665,506
UK equities	**305,570,212**	202,330,705
Overseas equities:		
North America	**63,456,510**	45,361,560
Europe	**74,312,564**	51,138,531
Japan	**47,785,879**	36,330,124
Pacific	**20,332,247**	12,106,909
	580,891,847	408,933,335

9 OTHER CURRENT ASSETS

Amounts falling due within one year

	2010	2009	1 April 2008
	£	£	£
Other debtors	**381,974**	318,580	102,074,165
Accrued income	**7,397,013**	15,827,896	50,662,871
	7,778,987	16,146,476	152,737,036

10 CASH AND CASH EQUIVALENTS

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

	2010	2009	1 April 2008
	£	£	£
Cash balances with banks	**429,657**	905,642	1,896,911
Short-term cash investments	**7,879,416,962**	7,838,217,945	2,922,078,497
	7,879,846,619	7,839,123,587	2,923,975,408

11 TRADE AND OTHER PAYABLES
Amounts falling due within one year

	2010	2009	1 April 2008
	£	£	£
Trade creditors	**213,111**	475,447	320,627
Other tax and social security	**171,848**	154,924	182,220
Other creditors	**97,719**	234,557	150,650
Accruals and deferred income	**5,116,580**	3,580,642	1,056,185
	5,599,258	4,445,570	1,709,682

12 CURRENCY CLASSIFICATION OF TOTAL ASSETS LESS CURRENT LIABILITIES

Total assets less current liabilities as at 31 March 2010 are analysed by currency as follows:

Currency	**Non-current assets**	**Cash and cash equivalents**	**Other current assets**	**Current liabilities**	**Total**
	£	**£**	**£**	**£**	**£**
Pounds Sterling	**417,109,647**	**7,878,851,857**	**7,206,231**	**(8,800,331)**	**8,294,367,404**
US Dollar	**63,834,105**	**384,691**	**70,689**	**-**	**64,289,485**
Euro	**53,966,192**	**164,306**	**36,932**	**-**	**54,167,430**
Norwegian Krone	**1,447,516**	**2,884**	**-**	**-**	**1,450,400**
Swedish Krona	**4,348,018**	**2,012**	**23,424**	**-**	**4,373,454**
Danish Krone	**1,785,425**	**24,450**	**-**	**-**	**1,809,875**
Swiss Franc	**12,597,503**	**90,469**	**3,011**	**-**	**12,690,983**
Japanese Yen	**47,785,879**	**217,861**	**371,325**	**-**	**48,375,065**
South Korean Won	**4,950,702**	**-**	**13,099**	**-**	**4,963,801**
Singapore Dollar	**1,776,241**	**59,275**	**-**	**-**	**1,835,516**
Hong Kong Dollar	**3,946,018**	**9,704**	**5,865**	**-**	**3,961,587**
Australian Dollar	**9,314,491**	**37,084**	**48,361**	**-**	**9,399,936**
New Zealand Dollar	**135,110**	**2,026**	**50**	**-**	**137,186**
	622,996,847	**7,879,846,619**	**7,778,987**	**(8,800,331)**	**8,501,822,122**

12. CURRENCY CLASSIFICATION OF TOTAL ASSETS LESS CURRENT LIABILITIES (Continued)

Total assets less current liabilities as at 31 March 2009 are analysed by currency as follows:

Currency	Non-current assets	Cash and cash equivalents	Other current assets	Current liabilities	Total
	£	£	£	£	£
Pounds Sterling	302,873,931	7,838,727,054	15,618,950	(26,540,833)	8,130,679,102
US Dollar	45,517,672	160,249	77,717	-	45,755,638
Euro	37,939,990	48,464	30,391	-	38,018,845
Norwegian Krone	857,683	6,244	-	-	863,927
Swedish Krona	2,500,510	3,161	776	-	2,504,447
Danish Krone	1,129,638	9,183	-	-	1,138,821
Swiss Franc	8,793,115	33,461	477	-	8,827,053
Japanese Yen	36,330,125	71,033	372,678	-	36,773,836
Singapore Dollar	1,174,787	4,603	-	-	1,179,390
Hong Kong Dollar	4,252,570	10,283	4,668	-	4,267,521
Australian Dollar	6,454,574	38,530	39,897	-	6,533,001
New Zealand Dollar	113,740	11,322	922	-	125,984
	447,938,335	7,839,123,587	16,146,476	(26,540,833)	8,276,667,565

Total assets less current liabilities as at 1 April 2008 are analysed by currency as follows:

Currency	Non-current assets	Cash and cash equivalents	Other current assets	Current liabilities	Total
	£	£	£	£	£
Pounds Sterling	610,346,001	2,923,002,880	152,165,704	(29,162,770)	3,656,351,815
US Dollar	54,152,165	246,881	62,706	-	54,461,752
Euro	56,964,076	485,093	64,446	-	57,513,615
Norwegian Krone	1,444,741	947	-	-	1,445,688
Swedish Krona	3,792,176	366	3,635	-	3,796,177
Danish Krone	1,559,015	16,843	-	-	1,575,858
Swiss Franc	10,523,700	59,069	274	-	10,583,043
Japanese Yen	41,005,030	84,906	372,288	-	41,462,224
Singapore Dollar	1,570,685	159	-	-	1,570,844
Indonesian Rupiah	-	15	-	-	15
Hong Kong Dollar	5,065,240	7,076	5,917	-	5,078,233
Australian Dollar	8,168,764	64,109	60,715	-	8,293,588
New Zealand Dollar	166,514	7,064	1,351	-	174,929
	794,758,107	2,923,975,408	152,737,036	(29,162,770)	3,842,307,781

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of financial instruments as at 31 March 2010:

	Loans and receivables	Financial liabilities measured at amortised cost	Assets at fair value through profit and loss
	£	**£**	**£**
Financial assets			
Financial assets at fair value through profit and loss	-	-	580,891,847
Other debtors	381,974	-	-
Accrued income	7,397,013	-	-
Cash balances with banks	429,657	-	-
Short-term cash investments	7,879,416,962	-	-
Financial liabilities			
Trade and other payables	-	5,427,410	-

Categories of financial instruments as at 31 March 2009:

	Loans and receivables	Financial liabilities measured at amortised cost	Assets at fair value through profit and loss
	£	**£**	**£**
Financial assets			
Financial assets at fair value through profit and loss	-	-	408,933,335
Other debtors	318,580	-	-
Accrued income	15,827,896	-	-
Cash balances with banks	905,642	-	-
Short-term cash investments	7,838,217,945	-	-
Financial liabilities			
Trade and other payables	-	4,290,646	-

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments as at 1 April 2008:

	Loans and receivables	Financial liabilities measured at amortised cost	Assets at fair value through profit and loss
	£	**£**	**£**
Financial assets			
Financial assets at fair value through profit and loss	-	-	740,808,107
Other debtors	102,074,165	-	-
Accrued income	50,662,871	-	-
Cash balances with banks	1,896,911	-	-
Short-term cash investments	2,922,078,497	-	-
Financial liabilities			
Trade and other payables	-	1,527,462	-

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 be 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 2010 amounting to £580,891,847 (2009: £408,933,335 - 2008: £740,808,107) are grouped as Level 1 and disclosed as "Financial assets at fair value through profit and loss". 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 2010 (2009: £nil - 2008: £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). None of the financial assets or liabilities as at 31 March 2010 (2009: £nil - 2008: £nil) were grouped under Level 3.

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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

The Fund is exposed to a number of financial risks. The directors manage these 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 CA. There have been no significant changes in these financial risks since the prior year.

Credit risk

The Fund invests in high quality liquid market investments. All of these financial assets are held with AAA rated institutions on a short-term basis usually recoverable within six months. Therefore, no significant credit risks are associated with these financial assets.

The Fund's maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements is as follows:

	2010	2009	1 April 2008
	£	£	£
Financial assets			
UK index linked gilts	**69,434,435**	61,665,506	63,734,304
Other debtors	**381,974**	318,580	102,074,165
Accrued income	**7,397,013**	15,827,896	50,662,871
Cash balances with banks	**429,657**	905,642	1,896,911
Short-term cash investments	**7,879,416,962**	7,838,217,945	2,922,078,497

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 £36m (2009: £33m). 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.

Market risk

The Fund is exposed to market risk due to the fluctuations in the market prices which are determined by market forces. The Fund is exposed to the following market risks: equity price risk; interest rate risk and currency risk.

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Equity price risk

The Fund is exposed to equity price risk due to its investments in listed securities. This risk is managed by diversifying the Fund's investment portfolio. Fluctuations in the market prices of investments are not hedged.

	2010	2009	1 April 2008
	£	£	£
Equity price risk sensitivity analysis			
If there was a 15% increase or decrease in equity prices with all other variables held constant, the value of financial assets at fair value through profit and loss would increase or decrease by	**87,133,777**	61,340,000	111,121,216

The impact of a 15% 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. The range in equity prices is considered reasonable given the historical changes that have been observed over the last three years. The Funds's sensitivity to equity prices over the last three years has been at an average rate of approximately 15%.

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 2010

	Value subject to fixed rate £	**Value subject to variable rate £**
UK index linked gilts	-	69,434,435
Cash balances with banks	-	429,657
Short-term cash investments	7,407,094,281	472,322,681

Assets earning interest as at 31 March 2009

	Value subject to fixed rate £	**Value subject to variable rate £**
UK index linked gilts	-	61,665,506
Cash balances with banks	-	905,642
Short-term cash investments	7,396,738,045	441,479,900

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Assets earning interest as at 1 April 2008

	Value subject to fixed rate £	**Value subject to variable rate £**
UK index linked gilts	-	63,734,304
Cash balances with banks	-	1,896,911
Short-term cash investments	2,860,047,633	62,030,864

Interest rate risk sensitivity analysis

	2010 £	2009 £	1 April 2008 £
If there was a 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	**2,710,933**	2,520,255	638,310

A sensitivity of 0.50% has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. When applied to short-term interest rates this would represent a two to three rate increase which is reasonably possible in the current environment with the bias coming from the reserve bank and confirmed by market expectations that interest rates in the UK are more likely to move up than down in the coming period. The Fund's sensitivity to interest rates has not changed significantly from the prior year.

Currency risk

The Fund is exposed to currency risk due to its investments in some of the assets 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

	2010 £	2009 £	1 April 2008 £
If there was a 1.50% 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	**964,342**	686,335	816,926
Euro	**812,511**	570,283	862,704
Japanese Yen	**725,625**	551,607	621,933
Other currencies	**609,341**	381,602	487,775

A sensitivity of 1.50% has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement in respect of these foreign currencies.

14 NON-CURRENT LIABILITIES

	Deferred tax provision	**Qualifying liabilities provision**	**Total 2010**	Total 2009
	£	**£**	**£**	£
At 1 April	**825,926**	**8,275,841,539**	**8,276,667,465**	3,842,307,681
BE cashsweep converted into BE shares (note 18)	-	-	-	4,421,124,641
BE contributions	-	**31,479,997**	**31,479,997**	31,493,188
Transfer from/(to) statement of comprehensive income	-	**195,369,982**	**195,369,982**	(6,387,696)
Payable to BE	-	**(9,097,353)**	**(9,097,353)**	(3,482,479)
Deferred tax movement	**7,401,931**	-	**7,401,931**	(8,387,870)
At 31 March	**8,227,857**	**8,493,594,165**	**8,501,822,022**	8,276,667,465

Deferred tax balance consists of:

	2010	2009
	£	£
Overseas income receivable	-	147,708
Accelerated capital allowances	**1,361,537**	678,218
Revaluation of investment properties	**(1,587,627)**	-
Revaluation of financial assets	**8,453,947**	-
	8,227,857	825,926

In accordance with the Contributions Agreement, fixed contributions are received quarterly from BE in the sum of £5m, 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 Sizewell B reactor power station. In addition, on 19 January 2009, the Fund exercised its right to sell down its entire cashsweep entitlement when the purchase of BE by EDF was completed converting approximately 36% of the Fund's entitlement to convertible shares in BE. A total of 571m ordinary shares of 10p each in BE were acquired by EDF at a price of 774p per share. The gross proceeds received by the Fund amounted to £4,421m, which are included in the above table. The Fund also receives an annual contribution from BE for administration costs not exceeding £1m.

In accordance with the NLFA, the Fund will, subject to certain exceptions, fund the qualifying liabilities of BE, as represented by the payments to BE in the above table.

The amount shown under qualifying liabilities represents the Fund's future potential liability to the Licensee (British Energy Generation Limited) 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, Innovations and Skills 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.

14. NON-CURRENT LIABILITIES (continued)

Based upon current estimates of Station lives and lifetime output projections, BE has calculated the likely undiscounted cost of decommissioning its existing nuclear power stations and meeting other qualifying uncontracted liabilities (together the "qualifying liabilities") to be £13,429m at current prices. The equivalent sum discounted at 3% per annum is approximately £3,934m at the same date (the difference between the undiscounted and discounted amounts reflects the fact that the majority of the qualifying liabilities will not fall due for payment for a number of years. The choice of discount rate which it is appropriate to apply to the qualifying liabilities is a matter of judgement. BE at present apply a rate of 3% per annum but this will not necessarily be the actual rate over the life of the Fund. This will be determined by a number of variable factors).

The process by which BE determines its qualifying liabilities is prescribed by the NLFA. Under its terms, BE 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, BE 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 BE to update this plan although BE 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 BE's audited accounts.

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 to the extent that proceeds exceed historical cost, adjusted by indexation allowance. The utilisation of this provision is dependent upon the timing of the sale of investment properties and financial assets at fair value through profit and loss. Accordingly, this provision is classified as "non-current liabilities".

15 SHARE CAPITAL

	Authorised	**Allotted, called up and fully paid**	
	£	**No.**	**£**
At 1 April 2008, 31 March 2009 and 31 March 2010			
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, Innovations and Skills ("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 British Energy Generation Limited, formerly Nuclear Electric Limited, and British Energy Generation (UK) Limited, formerly Scottish Nuclear Limited (together "the holder of the B special share").

15 SHARE CAPITAL (Continued)

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 annual rent receivables as at 31 March 2010 under non-cancellable operating leases as follows::

	2010	2009
	£	£
Within 1 year	**3,763,615**	3,542,366
Between 2 and 5 years	**14,162,887**	13,591,982
In more than 5 years	**30,193,090**	31,040,294

No contingent rentals were recognised in income.

As at 31 March 2010 the Fund held a total of 33 leases, 8 of which expire within 5 years of the statement of financial position date, with the remaining 25 due to expire beyond 5 years. The majority of the leases have 5 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%) and controlling party is the Nuclear Trust, a public trust established under Scottish law by British Energy plc and the Secretary of State for the Department for Business, Innovation and Skills. The trustees of the Nuclear Trust are the directors of the Fund. Details of payments to directors are set out in note 5. There were no balances as at 31 March 2010 (2009: £nil - 2008: £nil).

The Fund considers the Secretary of State for the Department for Business, Innovation and Skills also to be a related party. During the year, a sum of £35k (2009 - £5.3m) was reimbursed to the Department for Business, Innovation and Skills in respect of costs incurred and which the Fund was directed to pay in terms of the NLFA. There were no balances as at 31 March 2010 (2009: £nil - 2008: £nil).

18 OPTION TO CONVERT THE NLF CASH SWEEP PAYMENT INTO SHARES IN BRITISH ENERGY GROUP PLC

Under the terms of the CA between the Fund and BE, entered into on 14 January 2005, the Fund received an annual contribution from BE equal to approximately 64% of BE's adjusted net cash flow (the "NLF cashsweep payment"). The payment percentage was capable of adjustment for certain corporate actions but could never exceed 64%. The Fund had the right to convert all or part of the NLF cashsweep payment into a number of shares in BE, but must seek agreement from the Secretary of State for Department for Business, Innovation and Skills ("Secretary of State") in order to exercise the conversion option, or it could be directed to exercise the conversion option by order of the Secretary of State. Following receipt of a direction from Secretary of State, the Fund exercised its right to sell part of its cashsweep entitlement on 31 May 2007, thereby reducing its interest in BE by way of cashsweep from approximately 64% to approximately 36%. By operation of the CA, the interest had reduced to 35% on 31 March 2008. Following receipt of a further direction from the Secretary of State, the Fund exercised its right to sell its residual cashsweep entitlement on 19 January 2009 and thereby reducing its interest in BE by way of cashsweep from approximately 35% to Nil on 31 March 2009.

19 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 fulfill the Fund's purpose of discharging qualifying decommissioning and waste management liabilities.

20 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first year that the Fund has presented its financial statements under International Financial Reporting Standards ("IFRS").

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2010, the comparative information presented in these financial statements for the year ended 31 March 2009 and in the preparation of the opening IFRS statement of financial position at 1 April 2008 (transition date).

In preparing its opening IFRS statement of financial position, the Fund has adjusted amounts previously reported in financial statements prepared in accordance with United Kingdom Generally Accepted Accounting Principles ("UK-GAAP"). An explanation of how the transition from UK-GAAP to IFRS has affected the Fund's financial position, financial performance and statement of cash flows is set out below:

20 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Statement of Financial Position as at 1 April 2008

Non-Current Assets

Financial assets, classified as "other fixed asset investments" of £740,808,107 under UK-GAAP, have been reclassified as "financial assets at fair value through profit and loss" under IFRS.

Current Assets

Financial assets, classified as "debtors" of £152,737,036 under UK-GAAP, have been reclassified as "other current assets" under IFRS.

Under UK-GAAP, short-term deposits of £2,922,078,497 and cash at bank of £1,896,911 were separately disclosed. Under IFRS, both these amounts have been combined as one and reclassified as "cash and cash equivalents" of £2,923,975,408.

Current Liabilities

Financial liabilities, classified as "creditors" of £29,162,770 under UK-GAAP, have been reclassified as "trade and other payables" of £1,709,682 and "corporation tax payable" of £27,453,088 under IFRS.

Non-current liabilities

Deferred tax provision under UK-GAAP did not take into account tax payable on the sale of financial assets (investment properties and financial assets at fair value through profit and loss) to the extent that proceeds exceeded historical cost, adjusted by indexation allowance. Under IFRS, an adjustment has been made to take account of deferred tax payable on the sale of financial assets. The effect of this adjustment is to increase the previously reported deferred taxation of £813,152 to £9,213,796, an increase of £8,400,644 and to increase the deferred tax expense by £8,400,644.

Qualifying liabilities provision of £3,841,494,529 under UK-GAAP has been reduced by £8,400,644 to £3,833,093,885 due to the deferred tax adjustment as stated above under IFRS. This reduction in the qualifying liabilities provision is necessary due to the fact that the funding of these qualifying liabilities is limited to the assets of the Fund for the time being (see note 1 (a) under accounting policies).

Reserves

Unrealised capital reserve of £169,518,954 and profit and loss reserve of £(169,518,954) under UK-GAAP have both been eliminated under IFRS. The effect of this elimination is to decrease the previously reported unrealised capital reserve by £169,518,954 and to increase profit and loss reserve by £169,518,954. The reason for the elimination of these reserves is that these reserves are no longer required following the reclassification of "other fixed asset investments" to "financial assets at fair value through profit and loss" whereby all movements in fair values are taken directly to the statement of comprehensive income with the eventual profit or loss after tax being transferred to/from the qualifying liabilities provision.

Statement of Financial Position as at 31 March 2009

Non-Current Assets

Financial assets, classified as "other fixed asset investments" of £408,933,335 under UK-GAAP, have been reclassified as "financial assets at fair value through profit and loss" under IFRS.

20 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Current Assets

Financial assets, classified as "debtors" of £16,146,476 under UK-GAAP, have been reclassified as "other current assets" under IFRS.

Under UK-GAAP, short-term deposits of £7,838,217,945 and cash at bank of £905,642 were separately disclosed. Under IFRS, both these amounts have been combined as one and reclassified as "cash and cash equivalents" of £7,839,123,587.

Current Liabilities

Financial liabilities, classified as "creditors" of £26,540,833 under UK-GAAP, have been reclassified as "trade and other payables" of £4,445,570 and "corporation tax payable" of £22,095,263 under IFRS.

Reserves

Unrealised capital reserve of £72,974,826 and profit and loss reserve of £(72,974,826) under UK-GAAP have both been eliminated under IFRS. The effect of this elimination is to decrease the previously reported unrealised capital reserve by £72,974,826 and to increase profit and loss reserve by £72,974,826. The reason for the elimination of these reserves is that these reserves are no longer required following the reclassification of "other fixed asset investments" to "financial assets at fair value through profit and loss" whereby all movements in fair values are taken directly to the statement of comprehensive income with the eventual profit or loss after tax being transferred to/from the qualifying liabilities provision.

Financial Performance for the year ended 31 March 2009

Realised gains on investments of £3,210,189 and realised losses on investments of £5,068,420 under UK-GAAP have both been amalgamated within realised and unrealised gains/losses on financial assets at fair value through profit and loss of £142,982,593, under IFRS.

Increase in unrealised losses on other fixed asset investments of £64,739,537 under UK-GAAP has been amalgamated within realised and unrealised gains/losses on financial assets at fair value through profit and loss of £142,982,593, under IFRS.

Decrease in cumulative unrealised gains on other fixed asset investments of £76,384,825 which was included in the statement of total recognised gains and losses under UK-GAAP, has been transferred to the statement of comprehensive income and included within realised and unrealised gains/losses on financial assets at fair value through profit and loss of £142,982,593, under IFRS. The reason for this transfer from the statement of total recognised gains and losses, under UK-GAAP, to the statement of comprehensive income, under IFRS, is that all unrealised gains and losses resulting from the movements in fair values of financial assets at fair value through profit and loss, must pass through the statement of comprehensive income, under IFRS.

Decrease in cumulative unrealised gains and losses on property investments of £14,991,010 which was included in the statement of total recognised gains and losses under UK-GAAP, has been transferred to the statement of comprehensive income and included within unrealised gains/losses on investment properties of £14,991,010, under IFRS. The reason for this transfer from the statement of total recognised gains and losses, under UK-GAAP, to the statement of comprehensive income, under IFRS, is that all unrealised gains and losses resulting from the movements in fair values of investment properties, must pass through the statement of comprehensive income, under IFRS.

"Operating profit on ordinary activities before decommissioning provision and taxation" under UK-GAAP has been re-named as "operating profit on ordinary activities before qualifying liabilities provision and taxation" under IFRS.

20 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

"Transfer from/to decommissioning provisions" under UK-GAAP has been re-named as "transfer from/to qualifying liabilities provision" under IFRS.

Tax on ordinary activities of £49,157,953 under UK-GAAP has been reduced by £8,400,644 to £40,757,309, under IFRS. This reduction relates to a reversal of deferred tax expense of £8,400,644 relating to previous year (see first paragraph relating to non-current liabilities under statement of financial position as at 1 April 2008 above). There was no deferred tax expense for the year ended 31 March 2009 relating to the sale of financial assets (investment properties and financial assets at fair value through profit and loss) because the fair value of these financial assets as at 31 March 2009 was below historical cost, adjusted by indexation allowance.

Transfer from qualifying liabilities provision of £14,788,340 under UK-GAAP has been reduced by £8,400,644 to £6,387,696 under IFRS, due to the adjustment relating to tax on ordinary activities as stated above under IFRS. This reduction in the transfer is necessary due to the fact that the funding of these qualifying liabilities is limited to the assets of the Fund for the time being (see note 1 (a) under accounting policies).

Reconciliation of profit for the year ended 31 March 2009

	2009 £
Financial result for the year under UK-GAAP	91,375,835
Unrealised gains/losses on financial assets at fair value through profit and loss	(76,384,825)
Unrealised gains/losses on investment properties	(14,991,010)
Financial result for the year under IFRS	-

Statement of cash flows for the year ended 31 March 2009

Income taxes of £54,503,005 paid during the year ended 31 March 2009 are classified as operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK-GAAP. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under UK-GAAP.