

NUCLEAR LIABILITIES FUND LIMITED

ANNUAL REPORT

YEAR ENDED 31 MARCH 2008

NUCLEAR LIABILITIES FUND LIMITED

COMPANY INFORMATION

Directors The Lady Balfour of Burleigh CBE
Mr G Jenkins
Ms A Richards
Sir James Sassoon
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 & Touche LLP
Chartered Accountants
London

Solicitors Linklaters LLP
1 Silk Street
London EC2Y 8HQ

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

Bankers HSBC Bank Plc
Mariner House
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London EC3N 4DA

Investment Managers State Street Global Advisors
21 St James's Square
London SW1 4SS

LaSalle Investment Management
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NUCLEAR LIABILITIES FUND LIMITED

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NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT
YEAR ENDED 31 MARCH 2008

The directors are pleased to present the twelfth Annual Report of Nuclear Liabilities Fund Limited (the "Fund") for the year to 31 March 2008.

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 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, Enterprise and Regulatory Reform ("the Secretary of State"), and five trustees, of whom three were 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.

A primary purpose of the Trust is "to protect and preserve for the benefit of the Nation the environment of the United Kingdom, 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").

Under the terms of the NLFA, the Fund will, subject to certain exceptions, fund BE's qualifying liabilities. The Secretary of State has agreed to fund the qualifying liabilities to the extent they exceed all the assets of the Fund.

At 31 March 2008 the Fund's assets were valued at £3,841m (2007: £1,323m).

Review of the year - Directors' work in 2007-08

As I was able to report in my Statement last year, some 28% of the Fund's interest in BE was realised on 31 May 2007. On that date the Fund converted and immediately sold 450m of BE shares at a price per share of 520p, raising £2,340m. This sum has been invested in HM Government's ("HMG") National Loans Fund, at the request of HMG.

We have observed with interest this year the various announcements by HMG of the intention to seek new nuclear build in the United Kingdom. We have considered the contents of the White Paper 'Meeting the Energy Challenge – A White Paper on Nuclear Power', published in January 2008, and the subsequent consultation document, 'Consultation on funded decommissioning programme guidance for new nuclear power stations', published on 22 February 2008. We were able to submit to the Secretary of State our observations on the various proposals and recommendations set out in the latter document and we hope that our comments, informed by twelve years of managing a segregated fund, will be helpful.

NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT (continued)
YEAR ENDED 31 MARCH 2008

Conclusion

I would like to thank and pay tribute to the four directors who retired during the year. Sir Raymond Johnstone (who preceded me as Chairman) and John Kennedy retired as directors on 31 December 2007, and Dr James Porteous and Gordon Bagot on 31 March 2008. Sir Raymond, John Kennedy and Dr Porteous had been in office since inception in 1996 and Gordon Bagot since 2002. All have served the Fund with great energy, dedication and skill. I know my new colleagues, our advisers and all others involved with our work will join me in thanking them for their considerable contribution. Anne Richards and Sir James Sassoon became new directors on 1 January 2008, and were joined by George Jenkins and David Stewart on 1 April 2008. Their collective expertise and experience will serve the Fund well.

This has been another busy year and as always we have worked closely with other related organisations. We would like to thank the Department for Business Enterprise and Regulatory Reform, particularly the Shareholder Executive, BE, the Nuclear Decommissioning Authority, the Nuclear Installations Inspectorate and others for engaging with us and for their continuing help and cooperation. We would also like to thank our various advisers for their assistance and support.

The Lady Balfour of Burleigh
Chairman

Date: 22 July 2008

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2008

The directors submit their annual report and the financial statements of Nuclear Liabilities Fund Limited ("the Fund") for the year ended 31 March 2008.

Results

The Fund's value increased by **£2,519,522,731** to **£3,841,494,529** (2007: increased by £343,540,281 to £1,321,971,798).

The rate of return for the year achieved by the Fund was 4.08% before tax (2007: 5.31%). This percentage has been calculated by HSBC Bank Plc, who are retained by the Fund as performance measurers.

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

Future developments concerning the Fund's investment policy are set out on page 4.

Presentation of financial statements

The directors are bound by the Companies Act 1985 and United Kingdom accounting 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 BE at 29 March 1996 and to make payments for such approved costs. Accordingly, in the directors' opinion, a more meaningful method of presenting the financial statements would be to use a fund account approach as follows:

	2008	2007
	£	£
Assets held to meet qualifying liabilities - fund value at 1 April	1,321,971,798	978,431,517
Contributions from BE	126,417,935	305,169,034
BE cashsweep converted into BE shares	2,340,000,000	-
Payments to BE	(93,890)	(156,483)
Realised net investment income	152,385,886	43,213,665
Taxation	(50,139,935)	(11,906,172)
(Decrease)/increase in unrealised gains and losses-securities	(41,007,265)	995,237
(Decrease)/increase in unrealised gains and losses-properties	(8,040,000)	6,225,000
	<hr/> 3,841,494,529 <hr/>	<hr/> 1,321,971,798 <hr/>

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.

NUCLEAR LIABILITIES FUND LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 MARCH 2008

Principal activity and review of business (continued)

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

In the Annual Report for the year ended 31 March 2003, the directors set out a summary of the results of their analysis of the Fund against the ten principles set out by the Myners Review of Institutional Investment. The Myners Principles are, at this stage, a largely voluntary code of conduct applying to pension schemes and, therefore, are not of specific application to the Fund. The directors though do believe that they should be guided by the Principles to the extent that they are appropriate to the circumstances of the Fund.

More recently, HM Government has consulted on measures to strengthen the Myners Principles in some areas. The directors have not, as yet, considered the Myners Principles any further pending clarification of the extent of their responsibilities for investment strategy and decision making.

Market background

During the year, financial markets have experienced periods of extreme stress. During July and August 2007, credit markets were unable to find buyers for leveraged debt and a wide range of asset backed debt securities. This firstly affected credit spreads, but latterly the equity markets too, with many leveraged investors reducing risk in a disorderly fashion. The NLF portfolio has limited credit risk in its fixed income portfolio. It has been affected by falling equity markets with the FTSE-World excluding UK index falling 8.5% over the last quarter of the financial year-end.

Market outlook

A prolonged period of volatility seems likely in financial markets. There is a substantial overhang of unsold leveraged buyout debt, and the asset backed commercial paper market has become frozen as buyers have become cautious. Despite the reasonable value equities offer, the de-risking that is taking place means that whilst liquidity concerns are to the fore, prices may be depressed below fair value for some time. Should US earnings begin to slip as a result of a more widespread economic slowdown, the valuation picture would worsen. However, declining gilt yields have continued to make equities look more attractive relative to bonds.

Investment policy

The Secretary of State for Department for Business, Enterprise and Regulatory Reform 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.

NUCLEAR LIABILITIES FUND LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 MARCH 2008

Directors

The following directors who served throughout the year had no beneficial interests in the share capital of the Fund:

The Lady Balfour of Burleigh

Sir Raymond Johnstone (resigned 31 December 2007)

Mr G Bagot (resigned 31 March 2008)

Mr J M Kennedy (resigned 31 December 2007)

Dr J Porteous (resigned 31 March 2008)

Ms A Richards (appointed 1 January 2008)

Sir James Sassoon (appointed 1 January 2008)

Mr G Jenkins and Mr D Stewart were appointed as directors on 1 April 2008.

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, Enterprise and Regulatory Reform, 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

In the case of each of the persons named as directors above, being directors at the date of approval of this report, as far as each is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditors are aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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 to the Fund.

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. Seventeen Board meetings were held during the course of the year (including meetings held by conference call) together with a great many other meetings between various Board members, advisers, officials from the Department for Business, Enterprise and Regulatory Reform, the Nuclear Decommissioning Authority and others. The directors are responsible for monitoring the prescribed investment policy of the Fund and, at Board meetings, they considered, within the confines of this policy, matters relating to financial risk and objectives and the exposure of the Fund to such financial risk. This was achieved 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 15 "Financial Instruments" to the financial statements.

The directors liaised regularly with their advisers and kept in frequent contact with the Nuclear Installations Inspectorate, industry specialists and regulators as appropriate.

NUCLEAR LIABILITIES FUND LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 MARCH 2008

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 which is used for publication 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. 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 have continued their ongoing review of 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.

Auditors

A resolution to re-appoint the auditors, Deloitte & Touche LLP, will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

The Lady Balfour of Burleigh
Chairman

Date: 22 July 2008

NUCLEAR LIABILITIES FUND LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the financial statements for the Fund in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company Law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Fund and of the profit or loss of the Fund for that period and comply with UK GAAP and Companies Act 1985.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operational existence.

The directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Nuclear Liabilities Fund Limited for the year ended 31 March 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
NUCLEAR LIABILITIES FUND LIMITED (continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

Date: 22 July 2008

NUCLEAR LIABILITIES FUND LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2008

	Notes	2008 £	2007 £
Investment income	2	170,876,989	47,201,240
Realised gains on investments	10	12,350,128	7,096,930
Realised losses on investments	10	(11,870,767)	(1,094,129)
Net foreign exchange gains/(losses)		89,502	(75,985)
Investment expenses	3	(18,123,059)	(8,982,111)
Administrative expenses		(936,907)	(932,280)
		152,385,886	43,213,665
(Increase)/decrease in unrealised losses on other fixed asset investments	6	(26,530,273)	240,469
		125,855,613	43,454,134
Operating profit on ordinary activities before decommissioning provision and taxation	4	125,855,613	43,454,134
Transfer to decommissioning provisions	16	(53,198,686)	(38,527,730)
		72,656,927	4,926,404
Profit on ordinary activities before taxation		72,656,927	4,926,404
Tax on ordinary activities	7	(50,139,935)	(11,906,172)
		22,516,992	(6,979,768)
Profit/(loss) on ordinary activities after taxation transferred to/(from) profit and loss reserve	8	22,516,992	(6,979,768)

All amounts relate to continuing activities.

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MARCH 2008

	2008	2007
	£	£
Profit/(loss) on ordinary activities after taxation	22,516,992	(6,979,768)
(Decrease)/increase in cumulative unrealised gains and losses on property investments	(8,040,000)	6,225,000
(Decrease)/increase in cumulative unrealised gains on other fixed asset investments	(14,476,992)	754,768
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NUCLEAR LIABILITIES FUND LIMITED

BALANCE SHEET

31 MARCH 2008

	Notes	2008 £	2007 £
FIXED ASSETS			
Investment properties	9	53,950,000	61,990,000
Other fixed asset investments	10	740,808,107	798,283,003
		794,758,107	860,273,003
CURRENT ASSETS			
Debtors	11	152,737,036	176,047,386
Short-term deposits	12	2,922,078,497	291,801,275
Cash at bank		1,896,911	1,829,115
		3,076,712,444	469,677,776
CREDITORS: amounts falling due within one year	13	(29,162,770)	(7,020,941)
NET CURRENT ASSETS		3,047,549,674	462,656,835
TOTAL ASSETS LESS CURRENT LIABILITIES	14	3,842,307,781	1,322,929,838
PROVISIONS FOR LIABILITIES			
Qualifying liabilities	16	(3,841,494,529)	(1,321,971,798)
Deferred taxation	16	(813,152)	(957,940)
		(3,842,307,681)	(1,322,929,738)
NET ASSETS		100	100
CAPITAL AND RESERVES (including non-equity interests)			
Called up share capital	17	100	100
Unrealised capital reserve	18	169,518,954	202,259,077
Profit and loss account	18	(169,518,954)	(202,259,077)
SHAREHOLDERS' FUNDS (including £2 non-equity interest)	19	100	100

The financial statements were approved and authorised for issue by the Board on 22 July 2008

Signed on behalf of the Board of Directors

The Lady Balfour of Burleigh - Chairman

NUCLEAR LIABILITIES FUND LIMITED
CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2008

	2008	2007
	£	£
Net cash inflow from operating activities (note 22)	105,340,119	35,788,000
Taxation (note 20)	(27,604,454)	(10,918,154)
Capital expenditure and financial investment (note 20)	16,946,992	30,343,033
	<u>94,682,657</u>	<u>55,212,879</u>
Management of liquid resources (note 20)	(2,630,277,222)	(188,196,516)
Financing - contributions from British Energy plc (note 20)	2,535,662,361	133,716,106
Increase in cash (note 21)	<u>67,796</u>	<u>732,469</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2008

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards under the historical cost convention, modified by the revaluation of fixed asset investments.

The principal accounting policies applied in the preparation of the financial statements are as follows:

(a) Decommissioning liabilities

In accordance with the 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 CA provides for the making of contributions to the Fund from BE by way of the following: receipt of £275m in 7% Guaranteed Bonds 2005-2022, a contribution of £150k adjusted to RPI for every tonne of uranium loaded into Sizewell B reactor power station, an annual contribution equal to 36% of BE's adjusted net cash flow 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 not exceeding £1m. Accordingly, these contributions from BE represent an increase in the decommissioning provisions as set out in note 16, not an accretion to shareholders' funds.

(b) 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 company's right to receive payment is established. Income from fixed interest securities, other investment income and deposit interest are included on an accruals basis. Where the company 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.

(c) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising on translation are dealt with in the profit and loss account. Income and expenditure arising in foreign currencies have been converted to sterling at the rates ruling at the dates of the transactions.

(d) Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items.

Deferred tax is provided for by using the incremental liability method. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet 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 balance sheet date. In particular, provision is not made in respect of unrealised gains and losses on investments as at the balance sheet date because there was no binding obligation to dispose of those investments at that date. Deferred tax assets and liabilities are not discounted.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

1 ACCOUNTING POLICIES (continued)

(e) Fixed asset investments

Investment properties

Investment properties are included in the balance sheet at their open mid market value at the close of business in London, in accordance with Statement of Standard Accounting Practice No. 19 (SSAP 19) and are not depreciated. This treatment is not in accordance with the Companies Act 1985 which states that fixed assets should be depreciated but is, in the opinion of the directors, necessary in order to give a true and fair view of the financial position of the company. If this departure from the Act had not been made, the profit for the financial year would have been decreased by depreciation. However, the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified. Unrealised gains and losses are dealt with in the unrealised capital reserve account.

Other investments

Funds are invested in listed securities by external fund managers on behalf of the Fund and are regarded as fixed asset investments. They are valued at mid market value at the close of business in London. The excess over cost of such valuation is credited to the unrealised capital reserve. On disposal of a revalued investment, the gain or loss previously not recognised from the last revaluation is taken to the profit and loss account in the current year and a transfer made from the unrealised capital reserve to the profit and loss reserve to reflect previously recognised unrealised amounts. Increases/decreases in unrealised losses are dealt with in the profit and loss account.

(f) Short-term deposits

Short-term deposits comprise cash held by investment managers and cash on deposit with the National Loans Fund.

(g) Unrealised capital reserve

Accounted for in this reserve are increases and decreases in the valuation of investments above cost held at the balance sheet date.

(h) Segmental disclosure

The Fund has a single class of business and a single geographical segment. Accordingly, segmental disclosure is not required per Statement of Standard Accounting Practice 25 'Segmental reporting' ("SSAP 25").

2 INVESTMENT INCOME

	2008	2007
	£	£
Interest on fixed-term bonds	15,751,750	17,217,868
Interest on cash and short-term deposits	133,118,566	9,546,456
Income from listed investments	18,114,965	16,782,618
Rent receivable	3,891,708	3,654,298
	<u>170,876,989</u>	<u>47,201,240</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

3 INVESTMENT EXPENSES

	2008 £	2007 £
Investment management charges	831,045	798,230
Other investment expenses	17,292,014	8,183,881
	<u>18,123,059</u>	<u>8,982,111</u>

4 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE DECOMMISSIONING PROVISION AND TAXATION

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

	2008 £	2007 £
Directors' emoluments	399,543	624,239
Auditors' remuneration - audit fees	26,000	23,000
	<u>399,543</u>	<u>624,239</u>

5 STAFF COSTS

Staff costs, including directors' emoluments, were as follows:

	2008 £	2007 £
Wages and salaries	399,543	624,239
Social security costs	41,168	65,473
	<u>440,711</u>	<u>689,712</u>

Wages and salaries are comprised wholly of directors' emoluments. The average number of persons acting as directors during the year remained at five (2007: five).

The highest paid director's emoluments amounted to £165,476 (2007 - £253,883).

6 (INCREASE)/DECREASE IN UNREALISED LOSSES ON OTHER FIXED ASSET INVESTMENTS

	2008 £	2007 £
(Increase)/decrease in unrealised losses	(26,530,273)	240,469
	<u>(26,530,273)</u>	<u>240,469</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2008 £	2007 £
Current year taxation		
UK corporation tax at 30% (2007 - 30%)	50,660,616	11,924,202
Adjustments in respect of prior periods corporation tax	(375,893)	(82,500)
Total current tax	50,284,723	11,841,702
Origination and reversal of timing differences	(85,223)	64,470
Effect of reduced tax rate on opening liability	(59,565)	-
Total deferred tax	(144,788)	64,470
Tax on ordinary activities	50,139,935	11,906,172

(b) Factors affecting tax charge for year

The tax assessed for the year is higher (2007: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2008 £	2007 £
Operating profit on ordinary activities before decommissioning provision and taxation	125,855,613	43,454,134
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007 : 30%)	37,756,684	13,036,240
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	711,539	(1,302,464)
Increase in unrealised investment losses on equities not allowable for tax purposes	12,313,161	385,055
Capital allowances for tax purposes in excess of depreciation	(76,319)	(91,223)
Movement in accrued overseas income taxable on a receipts basis but recognised in the financial statements on an accruals basis	(44,449)	2,348
Capital gains carried forward	-	(105,754)
Adjustments to tax charge in respect of previous periods	(375,893)	(82,500)
Current tax charge for year	50,284,723	11,841,702

There is no allowable deduction for the provision for decommissioning 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 130 ICTA 1988.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

7 TAXATION ON ORDINARY ACTIVITIES (continued)

(c) Factors that may affect future tax charges

No provision has been made for deferred taxation on gains or losses recognised on revaluing fixed asset investments to market value. Corporation tax would become payable on the sale of such investments to the extent that proceeds exceeded historical cost, adjusted by indexation allowance. It is estimated that tax of £800,000 (2007 - £3,000,000) could become payable if properties were sold for their market value. It is estimated that tax of £7,500,000 (2007 - £25,000,000) could be payable if shares and securities were sold for their market value.

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 fixed assets investments. There are numerous transactions in shares and securities each year and the actual tax liability depends on the particular investments disposed of.

8 PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION TRANSFERRED TO/(FROM) PROFIT AND LOSS RESERVE

This corresponds to an equivalent decrease in the unrealised capital reserve of the Fund during the year (see note 18).

9 INVESTMENT PROPERTIES

	Freehold £
Valuation	
At 1 April 2007	61,990,000
Decrease in unrealised gains	(6,786,395)
Increase in unrealised losses	(1,253,605)
	53,950,000
At 31 March 2008	53,950,000

The properties' valuations as at 31 March 2008 were determined on an open market valuation basis by the Fund's property managers, LaSalle Investment Management, chartered surveyors.

The movements in unrealised gains and losses on investment properties are included in the Statement of Total Recognised Gains and Losses on page 11.

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

	Total £
Cost	
At 1 April 2007 and 31 March 2008	43,610,890

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

10 OTHER FIXED ASSET INVESTMENTS

	Total £
Valuation	
At 1 April 2007	798,283,003
Additions	39,336,699
Disposals proceeds	(56,283,691)
Realised gains on disposals	12,350,128
Realised losses on disposals	(11,870,767)
Decrease in unrealised investment gains	(14,476,992)
Increase in unrealised investment losses	(26,530,273)
	740,808,107
	740,808,107
Cost	
At 1 April 2007	648,005,413
Additions	39,336,699
Disposals	(46,648,667)
	640,693,445
	640,693,445

All other fixed asset investments are managed by State Street Global Advisors and are listed on recognised stock exchanges. These investments comprise the following:

	2008 £	2007 £
UK index linked gilts	63,734,304	56,673,254
UK equities	286,491,899	319,879,826
UK bonds	206,185,368	226,765,460
Overseas equities:		
North America	53,932,713	58,543,172
Europe	74,283,708	74,208,929
Japan	41,066,666	48,397,829
Pacific	15,113,449	13,814,533
	740,808,107	798,283,003
	740,808,107	798,283,003

No deferred taxation has been provided to reflect the tax charges which would arise if these investments were sold at 31 March 2008 at their market valuation. An estimate of the unprovided deferred tax is shown in Note 7(c).

On 14 January 2005, British Energy Holdings plc ("BEH") issued £275m in principal amount of 7% Guaranteed Bonds 2005-2022 ("the Bonds"), for nil consideration, credited as fully paid, to the Fund. The issuance of the Bonds forms part of the total contributions to be made by BEH to the Fund, as provided for in the CA (see note 1a) and as such, represents an increase in the qualifying liabilities of the Fund as set out in note 16, not an accretion to shareholders' funds. BEH redeems the principal amount of the Bonds in instalments payable to the Fund on 31 March annually in accordance with the CA, and accordingly £22.4m was paid on 31 March 2008 (31 March 2007: £20.9m).

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

11 DEBTORS

	2008	2007
	£	£
BE cashsweep debtor	101,958,129	171,296,445
Other debtors	116,036	40,817
Prepayments and accrued income	50,662,871	4,710,124
	<u>152,737,036</u>	<u>176,047,386</u>

12 SHORT-TERM DEPOSITS

These comprise the cash deposits, equated into sterling, denominated in currencies of the following geographical markets:

	2008	2007
	£	£
United Kingdom	2,921,105,969	291,170,943
North America	246,881	323,746
Europe	562,318	33,028
Japan	84,906	187,701
Pacific	78,423	85,857
	<u>2,922,078,497</u>	<u>291,801,275</u>

13 CREDITORS

Amounts falling due within one year

	2008	2007
	£	£
Trade creditors	320,627	754,344
Corporation tax	27,453,088	4,772,819
Other tax and social security	182,220	383,905
Other creditors	150,650	242,811
Accruals and deferred income	1,056,185	867,062
	<u>29,162,770</u>	<u>7,020,941</u>

14 CURRENCY CLASSIFICATION OF TOTAL ASSETS LESS CURRENT LIABILITIES

Total assets less current liabilities are analysed by currency as follows:

Currency	Investments	Cash	Debtors	Creditors	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
	<u>794,758,107</u>	<u>2,923,975,408</u>	<u>152,737,036</u>	<u>(29,162,770)</u>	<u>3,842,307,781</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

15 FINANCIAL INSTRUMENTS

The company's investment objective is to fund long-term costs of decommissioning certain nuclear generating plants from an international investment portfolio.

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

Risk

Credit

Failure by counterparties to deliver securities which the company has paid for, or to pay for securities which the company has delivered.

Liquidity

Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

Market Price

The company's assets consist principally of quoted equities, fixed interest stocks and properties, the values of which are determined by market forces.

Interest Rate

Assets and net revenue may be affected by interest rate movements.

Currency

Certain of the company's assets and liabilities are denominated in currencies other than sterling. As a result, movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income.

Management of Risk

Credit

Most transactions are settled on the basis of delivery against payment.

Liquidity

The company's investments are principally quoted equities and fixed interest stocks and are readily realisable.

Market Price

The Board manages the market price risks inherent in the company's portfolio by ensuring full and timely access to relevant information from respective managers. The Board meets regularly and at each meeting reviews investment performance and financial results. It monitors compliance with the company's objectives and is directly responsible for ensuring that investment strategy and asset allocation is in accordance with the CA.

Interest Rate

The company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board. The effect of interest rate changes on the valuation of equities and properties forms part of the market price risk, which is considered separately. Investments in fixed deposits and certificates of deposits are restricted to counterparties with credit ratings of AA or better.

Currency

Income denominated in foreign currencies is converted to sterling on receipt.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

16 PROVISIONS FOR LIABILITIES

	Deferred taxation £	Qualifying liabilities £	Total 2008 £	Total 2007 £
At 1 April	957,940	1,321,971,798	1,322,929,738	979,324,987
BE cashsweep payment for 2005-06	-	-	-	104,688,641
BE cashsweep payment for 2006-07	-	361,742	361,742	171,296,445
BE cashsweep payment for 2007-08	-	101,958,129	101,958,129	-
BE cashsweep converted into BE shares	-	2,340,000,000	2,340,000,000	-
BE other contributions in cash	-	24,098,064	24,098,064	29,183,948
Transfer from profit and loss account	-	53,198,686	53,198,686	38,527,730
Payments to BEH in cash	-	(93,890)	(93,890)	(156,483)
Deferred tax movement	(144,788)	-	(144,788)	64,470
At 31 March	813,152	3,841,494,529	3,842,307,681	1,322,929,738

Deferred tax balance consists of:

	2008 £	2007 £
Overseas income receivable	159,973	126,950
Accelerated capital allowances	653,179	830,990
	813,152	957,940

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, annual contribution equal to approximately 36% (2007: 64%) of BE's adjusted net cash flow is payable to the Fund ("BE cashsweep payment"). The annual contribution percentage reduced to approximately 36% from 64% during the year. The reason for this reduction was that the Fund exercised its right to sell down part of its cashsweep entitlement on 31 May 2007, converting a proportion of the Fund's entitlement to convertible shares in BE. A total of 450m ordinary shares of 10p each in BE were placed with institutional investors at a price of 520p per share. The gross proceeds received by the Fund amounted to £2,340m, 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 BEH in the above table.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

16 PROVISIONS FOR LIABILITIES (Continued)

The amount shown under qualifying liabilities represents the Fund's future potential liability to the Licensee (British Energy Generation Limited) at the balance sheet date. By 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, Enterprise and Regulatory Reform 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.

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") at £12,130m at current prices. The equivalent sum discounted at 3% per annum is approximately £3,496m 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 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.

17 SHARE CAPITAL

	Authorised	Allotted, called up and fully paid	
	£	No.	£
At 1 April 2007 and 31 March 2008			
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
	<u>100</u>	<u>100</u>	<u>100</u>
	<u><u>100</u></u>	<u><u>100</u></u>	<u><u>100</u></u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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17 SHARE CAPITAL (Continued)

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, Enterprise and Regulatory Reform ("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").

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.

18 RESERVES

Unrealised capital reserve

	Unrealised gain on investments £
At 1 April 2007	202,259,077
Transfer of realised profit on disposal of investments	(10,223,131)
Decrease in unrealised gains	(22,516,992)
	169,518,954

Profit and loss account

	£
At 1 April 2007	(202,259,077)
Profit for the year	22,516,992
Transfer of realised profit on disposal of investments	10,223,131
	(169,518,954)

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

19 SHAREHOLDERS' FUNDS

	2008 £	2007 £
Shareholders' funds at 1 April	100	100
Revenue profit/(loss) for the financial year	22,516,992	(6,979,768)
(Decrease)/increase in capital reserve	(22,516,992)	6,979,768
	<u>100</u>	<u>100</u>
Shareholders' funds at 31 March	<u>100</u>	<u>100</u>
Comprising:		
Non-equity shareholders' interest	2	2
Equity shareholders' interest	98	98
	<u>100</u>	<u>100</u>

20 GROSS CASH FLOWS

	2008 £	2007 £
Taxation		
Corporation tax paid	(27,200,000)	(10,700,000)
Overseas tax paid	(662,940)	(570,148)
Income tax repayment	149,625	127,623
Corporation tax repayment	108,861	224,371
	<u>(27,604,454)</u>	<u>(10,918,154)</u>
Capital expenditure and financial investment		
Payments to acquire fixed asset investments	(39,336,699)	(23,954,315)
Receipts from sale of fixed asset investments	56,283,691	54,297,348
	<u>16,946,992</u>	<u>30,343,033</u>
Management of liquid resources		
Short-term deposits	(2,630,277,222)	(188,196,516)
	<u>(2,630,277,222)</u>	<u>(188,196,516)</u>
Financing		
Contributions from BE	2,535,756,251	133,872,589
Payments to BE	(93,890)	(156,483)
	<u>2,535,662,361</u>	<u>133,716,106</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2008

21 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2007 £	Cash flows £	At 31 March 2008 £
Cash at bank and in hand	1,829,115	67,796	1,896,911
Short-term deposits	291,801,275	2,630,277,222	2,922,078,497
	<u>293,630,390</u>	<u>2,630,345,018</u>	<u>2,923,975,408</u>

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £	2007 £
Operating profit on ordinary activities before decommissioning provision and taxation	125,855,613	43,454,134
Increase/(decrease) in unrealised losses on other fixed asset investments	26,530,273	(240,469)
Net gain on sale of fixed assets investments	(479,361)	(6,002,801)
Increase in debtors	(46,027,966)	(1,354,640)
Decrease in creditors	(538,440)	(68,224)
Net cash inflow from operating activities	<u><u>105,340,119</u></u>	<u><u>35,788,000</u></u>

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2008 £	2007 £
Increase in cash in the year	67,796	732,469
Cash used to increase liquid resources	2,630,277,222	188,196,516
Change in net funds	<u>2,630,345,018</u>	<u>188,928,985</u>
Net funds at 1 April	293,630,390	104,701,405
Net funds at 31 March	<u><u>2,923,975,408</u></u>	<u><u>293,630,390</u></u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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24 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, Enterprise and Regulatory Reform. The trustees of the Nuclear Trust are the directors of the Fund. Details of payments to directors are set out in note 5.

The Fund considers the Secretary of State for the Department for Business, Enterprise and Regulatory Reform also to be a related party. There were no material payments, receipts or balances with the Secretary of State for the Department for Business, Enterprise and Regulatory Reform during the year.

25 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 receives an annual contribution from BE equal to approximately 64% of BE's adjusted net cash flow (the "NLF cashsweep payment"). The payment percentage may be adjusted for certain corporate actions but may never exceed 64%. The Fund has 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, Enterprise and Regulatory Reform in order to exercise the conversion option, or may 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 down part of its cashsweep entitlement on 31 May 2007 and 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 35.35% on 31 March 2008. Therefore, on a full conversion, the Fund would hold approximately 35.35% of the thereby enlarged equity share capital of BE. However, the terms of the new shares in BE limit the voting rights of the shares to a maximum of 29.9% whilst held by the Fund. The terms of the conversion option are thus designed to avoid the possibility that its exercise could lead to the control of BE by the Fund. In any event, the directors of the Fund have determined that they will not attempt to use the conversion option to achieve such an end as it would be inconsistent with the aims and purpose of the Fund. If the conversion option had been exercised in full on the balance sheet date, the value of the BE shares obtained would have been approximately £3,628m (2007: £5,214m) by reference to the closing mid market price listed on the London Stock Exchange that day but without consideration of the effect that exercise of the conversion option might have on the share price. This value does not appear on the Fund's balance sheet because the amount is dependent upon the option to convert being exercised and the price of the BE shares at the date of conversion.

In the financial statements of the Fund for the year ended 31 March 2005, which were the first financial statements to be drawn up following the agreement of the NLF Cash Sweep Payment and the conversion option, the directors referred to uncertainty as to whether these two aspects of the CA taken together required consolidation of BE in the financial statements of the Fund. After three years' experience of the operation of the CA, the directors are satisfied that such consolidation is not required or justified as they do not enjoy any control over the management of BE.