Company Number: SC164685

NUCLEAR LIABILITIES FUND LIMITED

ANNUAL REPORT

YEAR ENDED 31 MARCH 2007

NUCLEAR LIABILITIES FUND LIMITED

COMPANY INFORMATION

Directors	The Lady Balfour of Burleigh Sir Raymond Johnstone Mr G Bagot Mr J M Kennedy Dr J Porteous
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 Anderson Strathern 1 Rutland Court Edinburgh EH3 8EY
Bankers	HSBC Bank Plc Mariner House Pepys Street London EC3N 4DA
Investment Managers	State Street Global Advisors 21 St James's Square London SW1 4SS LaSalle Investment Management 19 Hanover Square London W1R 9DA
Custodians	HSBC Bank Plc Global Investor Services Mariner House Pepys Street London EC3N 4DA

NUCLEAR LIABILITIES FUND LIMITED

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NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT
YEAR ENDED 31 MARCH 2007

The directors are pleased to present the eleventh Annual Report of Nuclear Liabilities Fund Limited (the "Fund") for the year to 31 March 2007.

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 (formerly the Secretary of State for Department of Trade and Industry), 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 for the Department for Business, Enterprise and Regulatory Reform has agreed to fund the qualifying liabilities to the extent they exceed all the assets of the Fund.

At 31 March 2007 the Fund's assets were valued at £1,323m.

Review of the year - Directors' work in 2006-07

In his 2006 Budget Speech, the Chancellor of the Exchequer announced the intention to direct the Fund to sell part of its interest in BE via a capital markets transaction. This sale took place on 31 May 2007. In total, the Fund converted and immediately sold 450m of BE shares at a price per share of 520p, raising £2,340m which now forms part of the Fund's assets. While the sale did not take place until after the year-end, much preparatory work was conducted during the year and I would like to thank my fellow directors and our advisers for their commitment, hard work and skill throughout the process.

In July 2006, The Committee on Radioactive Waste Management ("CORWM") provided its main recommendations to Government on the long-term management of radioactive waste. Two key elements of the recommendations were that the waste be managed by means of geological disposal and that implementation should be based on the principles of voluntarism and partnership between communities and implementers. On 25 October 2006, David Miliband, the then Environment Secretary, announced that the Government had accepted CORWM's recommendations and was investigating suitable sites for a deep store repository for high - level waste. We await further developments and progress with interest.

Conclusion

We have continued to work closely with the Shareholder Executive within the Department for Business, Enterprise and Regulatory Reform, BE, the Nuclear Decommissioning Authority and others. We are very grateful for their continued assistance and cooperation with various aspects of our work. I would like to end by again thanking my fellow directors for all they have contributed during a demanding year.

The Lady Balfour of Burleigh
Chairman

Date: 22 August 2007

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2007

The directors submit their annual report and the financial statements of Nuclear Liabilities Fund Limited ("the Fund") for the year ended 31 March 2007.

Results

The Fund's value increased by **£343,540,281** to **£1,321,971,798** (2006: increased by £192,537,968 to £978,431,517).

The rate of return for the year achieved by the Fund as calculated by HSBC, was +5.31% before tax (2006: +22%).

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:

	2007	2006
	£	**£**
Qualifying liabilities - fund value at 1 April	**978,431,517**	785,893,549
Contributions from BE	**305,169,034**	27,461,301
Payments to BE	**(156,483)**	(17,861)
Realised net investment income	**43,213,665**	44,547,913
Taxation	**(11,906,172)**	(9,495,730)
Increase in unrealised gains and losses - securities	**995,237**	124,349,843
Increase in unrealised gains and losses - properties	**6,225,000**	5,692,502
Qualifying liabilities - fund value at 31 March	**1,321,971,798**	978,431,517

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.

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

Subsequent to the year end, 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 is widely diversified, and has no credit risk in its fixed income portfolio. As such, it has been affected by falling equity markets with the FTSE-100 index falling 6% from the end of March to August 16th, and other markets suffering similar losses.

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 taking place whilst liquidity concerns are to the fore mean that prices may be depressed below fair value until real money investors return later in the year. Should US earnings begin to slip as a result of a more widespread economic slowdown the valuation picture would worsen.

Investment policy

The Secretary of State for Department for Business, Enterprise and Regulatory Reform (formerly the Secretary of State for Department of Trade and Industry) 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 who served throughout the year had no beneficial interests in the share capital of the Fund:

The Lady Balfour of Burleigh
Sir Raymond Johnstone
Mr G Bagot
Mr J M Kennedy
Dr J Porteous

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. Twenty one 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.

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.

Post balance sheet events

Under the arrangements entered into at the time of the restructuring of BE, the Fund has the right to receive a proportion of BE's annual adjusted net cash flow ("Cash Sweep") and to convert all or part of this Cash Sweep into convertible shares in BE.

Following receipt of a Direction from the Secretary of State for Department for Business, Enterprise and Regulatory Reform, the Fund exercised its right to sell down part of its Cash Sweep entitlement on 31 May 2007. 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 were £2,340m. The effect of this disposal was to reduce the Fund's interest in BE by way of Cash Sweep from approximately 64% to approximately 36%.

Cash Sweep payable to the Fund by BE for the year ended 31 March 2007 in accordance with the terms of the CA, is agreed at £305m. However as part of the share transaction described above and by agreement dated 31 May 2007, the Fund agreed to waive its entitlement to receive £134m of this Cash Sweep. Accordingly the amount payable to the Fund in terms of the CA for the year ended 31 March 2007 is £171m.

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 August 2007

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, subject to any material departures disclosed and explained in the financial statements; 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 2007 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 26. 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

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. In addition, we also 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 the other information 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 judgements 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 2007 and of its loss 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

Date: 22 August 2007

NUCLEAR LIABILITIES FUND LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2007

	Notes	2007 £	2006 £
Investment income	2	**47,201,240**	38,855,616
Realised gains on investments	10	**7,096,930**	10,532,014
Realised losses on investments	10	**(1,094,129)**	(2,524,930)
Net foreign exchange losses		**(75,985)**	(203,226)
Investment expenses	3	**(8,982,111)**	(1,543,801)
Administrative expenses		**(932,280)**	(842,760)
Other operating income		**-**	275,000
		43,213,665	44,547,913
Decrease in unrealised losses on other fixed asset investments	6	**240,469**	15,071,620
Operating profit on ordinary activities before decommissioning provision and taxation	4	**43,454,134**	59,619,533
Transfer to decommissioning provisions	16	**(38,527,730)**	(165,094,528)
Profit/(loss) on ordinary activities before taxation		**4,926,404**	(105,474,995)
Tax on ordinary activities	7	**(11,906,172)**	(9,495,730)
Loss on ordinary activities after taxation transferred from profit and loss reserve	8	**(6,979,768)**	(114,970,725)

All amounts relate to continuing activities.

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MARCH 2007

	2007	2006
	£	£
Loss on ordinary activities after taxation	**(6,979,768)**	(114,970,725)
Increase in cumulative unrealised gains on property investments	**6,225,000**	5,692,502
Increase in cumulative unrealised gains on other fixed asset investments	**754,768**	109,278,223
	-	-

NUCLEAR LIABILITIES FUND LIMITED

BALANCE SHEET
31 MARCH 2007

	Notes		2007 £		2006 £
FIXED ASSETS					
Investment properties	**9**		**61,990,000**		55,765,000
Other fixed asset investments	**10**		**798,283,003**		821,627,998
			860,273,003		877,392,998
CURRENT ASSETS					
Debtors	**11**	**176,047,386**		3,396,301	
Short-term deposits	**12**	**291,801,275**		103,604,759	
Cash at bank		**1,829,115**		1,096,646	
		469,677,776		108,097,706	
CREDITORS: amounts falling due within one year	**13**	**(7,020,941)**		(6,165,617)	
NET CURRENT ASSETS			**462,656,835**		101,932,089
TOTAL ASSETS LESS CURRENT LIABILITIES	**14**		**1,322,929,838**		979,325,087
PROVISIONS FOR LIABILITIES					
Qualifying liabilities	**16**	**(1,321,971,798)**		(978,431,517)	
Deferred taxation	**16**	**(957,940)**		(893,470)	
			(1,322,929,738)		(979,324,987)
NET ASSETS			**100**		100
CAPITAL AND RESERVES (including non-equity interests)					
Called up share capital	**17**		**100**		100
Unrealised capital reserve	**18**		**202,259,077**		199,568,049
Profit and loss account	**18**		**(202,259,077)**		(199,568,049)
SHAREHOLDERS' FUNDS (including £2 non-equity interest)	**19**		**100**		100

The financial statements were approved and authorised for issue by the Board on 22 August 2007

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 2007

	2007 £	2006 £
Net cash inflow from operating activities (note 22)	**35,788,000**	30,305,034
Taxation (note 20)	**(10,918,154)**	(5,074,644)
Capital expenditure and financial investment (note 20)	**30,343,033**	29,961,814
	55,212,879	55,192,204
Management of liquid resources (note 20)	**(188,196,516)**	(82,571,379)
Financing - contributions from British Energy plc (note 20)	**133,716,106**	27,443,440
Increase in cash (note 21)	**732,469**	64,265

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 64% 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.

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 contrary to 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 loss for the financial year would have been increased 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.

(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

	2007	2006
	£	£
Interest on fixed-term bonds	**17,217,868**	18,588,062
Interest on cash and short-term deposits	**9,546,456**	1,999,556
Income from listed investments	**16,782,618**	14,621,710
Rent receivable	**3,654,298**	3,646,288
	47,201,240	38,855,616

3 INVESTMENT EXPENSES

	2007	2006
	£	£
Investment management charges	**729,668**	718,575
Other investment expenses	**7,005,325**	639,120
Irrecoverable VAT thereon	**1,247,118**	186,106
	8,982,111	1,543,801

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:

	2007	2006
	£	£
Directors' emoluments	**624,239**	121,286
Auditors' remuneration - audit fees	**23,000**	29,265

5 STAFF COSTS

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

	2007	2006
	£	£
Wages and salaries	**624,239**	121,286
Social security costs	**65,473**	10,196
	689,712	131,482

Wages and salaries are comprised wholly of directors' emoluments. The number of persons acting as directors during the year remained at five (2006: five).

The highest paid director's emoluments amounted to £253,883 (2006 - £33,078).

6 DECREASE IN UNREALISED LOSSES ON OTHER FIXED ASSET INVESTMENTS

	2007	2006
	£	£
Decrease in unrealised losses	**240,469**	15,071,620

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2007 £	2006 £
Current year taxation		
UK corporation tax at 30% (2006 - 30%)	**11,924,202**	9,245,479
Adjustments in respect of prior periods corporation tax	**(82,500)**	72,906
Total current tax	**11,841,702**	9,318,385
Deferred tax	**64,470**	177,345
Tax on ordinary activities	**11,906,172**	9,495,730

(b) Factors affecting tax charge for year

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

	2007 £	2006 £
Operating profit on ordinary activities before decommissioning provision and taxation	**43,454,134**	59,619,533
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006:30%)	**13,036,240**	17,885,860
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	**(1,302,464)**	(2,984,061)
Increase/(decrease) in unrealised investment losses on equities not allowable for tax purposes	**385,055**	(3,007,278)
Capital allowances for tax purposes in excess of depreciation	**(91,223)**	(111,095)
Movement in accrued overseas income taxable on a receipts basis but recognised in the financial statements on an accruals basis	**2,348**	(41,840)
Capital gains carried forward	**(105,754)**	(2,496,107)
Adjustments to tax charge in respect of previous periods	**(82,500)**	72,906
Current tax charge for year	**11,841,702**	9,318,385

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.

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 £3,000,000 (2006 - £2,100,000) could become payable if properties were sold for their market value. It is estimated that tax of £25,000,000 (2006 - £23,300,000) 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.

A potential deferred tax asset not recognised in these financial statements, amounts to approximately £Nil (2006 - £165,000) in respect of capital losses arising carried forward as at 31 March 2007. These losses are available to set-off against capital gains of future periods, but a deferred tax asset has not been recognised as there is insufficient certainty that there will be future capital gains against which the losses could be offset.

8 LOSS ON ORDINARY ACTIVITIES AFTER TAXATION TRANSFERRED FROM PROFIT AND LOSS RESERVE

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

9 INVESTMENT PROPERTIES

	Freehold £
Valuation	
At 1 April 2006	**55,765,000**
Increase in unrealised gains	**5,601,395**
Decrease in unrealised losses	**623,605**
At 31 March 2007	**61,990,000**

The properties' valuations as at 31 March 2007 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 2006 and 31 March 2007	**43,610,890**

10 OTHER FIXED ASSET INVESTMENTS

	Total £
Valuation	
At 1 April 2006	**821,627,998**
Additions	**23,954,315**
Disposals proceeds	**(54,297,348)**
Realised gains on disposals	**7,096,930**
Realised losses on disposals	**(1,094,129)**
Increase in unrealised investment gains	**754,768**
Decrease in unrealised investment losses	**240,469**
At 31 March 2007	**798,283,003**
Cost	
At 1 April 2006	**669,235,383**
Additions	**23,954,315**
Disposals	**(45,184,285)**
At 31 March 2007	**648,005,413**

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

	2007 £	2006 £
UK index linked gilts	**56,673,254**	55,597,939
UK equities	**319,879,826**	308,713,114
UK bonds	**226,765,460**	263,187,383
Overseas equities:		
North America	**58,543,172**	60,737,502
Europe	**74,208,929**	68,181,880
Japan	**48,397,829**	53,305,824
Pacific	**13,814,533**	11,904,356
	798,283,003	821,627,998

No deferred taxation has been provided to reflect the tax charges which would arise if these investments were sold at 31 March 2007 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 £20.9m was paid on 31 March 2007 (31 March 2006: £19.6m).

11 DEBTORS

	2007	2006
	£	£
BE cashsweep debtor	**171,296,445**	-
Other debtors	**40,817**	106,112
Prepayments and accrued income	**4,710,124**	3,290,189
	176,047,386	3,396,301

12 SHORT-TERM DEPOSITS

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

	2007	2006
	£	£
United Kingdom	**291,170,943**	102,882,403
North America	**323,746**	112,423
Europe	**33,028**	464,755
Japan	**187,701**	43,643
Pacific	**85,857**	101,535
	291,801,275	103,604,759

13 CREDITORS

Amounts falling due within one year

	2007	2006
	£	£
Trade creditors	**754,344**	1,055,107
Corporation tax	**4,772,819**	3,849,271
Other tax and social security	**383,905**	170,654
Other creditors	**242,811**	194,330
Accruals and deferred income	**867,062**	896,255
	7,020,941	6,165,617

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	**665,308,540**	**293,000,058**	**175,624,219**	**(7,020,941)**	**1,126,911,876**
US Dollar	**58,543,172**	**323,746**	**58,174**	**-**	**58,925,092**
Euro	**56,824,774**	**2,536**	**43,894**	**-**	**56,871,204**
Norwegian Krone	**1,216,693**	**1,842**	**-**	**-**	**1,218,535**
Swedish Krona	**4,318,310**	**2,640**	**18,784**	**-**	**4,339,734**
Danish Krone	**1,335,702**	**12,243**	**-**	**-**	**1,347,945**
Swiss Franc	**10,513,450**	**13,767**	**187**	**-**	**10,527,404**
Japanese Yen	**48,397,829**	**187,701**	**255,118**	**-**	**48,840,648**
Singapore Dollar	**1,399,080**	**5,744**	**-**	**-**	**1,404,824**
Indonesian Rupiah	**-**	**15**	**-**	**-**	**15**
Hong Kong Dollar	**4,040,189**	**10,209**	**5,072**	**-**	**4,055,470**
Australian Dollar	**8,190,314**	**58,657**	**40,770**	**-**	**8,289,741**
New Zealand Dollar	**184,950**	**11,232**	**1,168**	**-**	**197,350**
	860,273,003	**293,630,390**	**176,047,386**	**(7,020,941)**	**1,322,929,838**

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.

16 PROVISIONS FOR LIABILITIES

	Deferred taxation	**Qualifying liabilities**	**Total 2007**	Total 2006
	£	**£**	**£**	£
At 1 April	**893,470**	**978,431,517**	**979,324,987**	786,609,674
BE cashsweep payment for 2005-06	**-**	**104,688,641**	**104,688,641**	-
BE cashsweep payment for 2006-07	-	**171,296,445**	**171,296,445**	-
BE other contributions in cash	**-**	**29,183,948**	**29,183,948**	27,461,301
Transfer from profit and loss account	**-**	**38,527,730**	**38,527,730**	165,094,528
Payments to BEH in cash	**-**	**(156,483)**	**(156,483)**	(17,861)
Deferred taxation	**64,470**	**-**	**64,470**	177,345
At 31 March	**957,940**	**1,321,971,798**	**1,322,929,738**	979,324,987

Deferred tax balance consists of:

	2007	2006
	£	**£**
Overseas income receivable	**126,950**	129,297
Accelerated capital allowances	**830,990**	764,173
	957,940	893,470

In accordance with the CA, 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 64% of BE's adjusted net cash flow is payable to the Fund ("BE cashsweep payment"). The annual contribution percentage reduced to approximately 36% after the year-end (see note 26 Post Balance Sheet Events). The accounting policy for BE cashsweep payment has not changed given that the payments for both 2005-06 and 2006-07 are included in the above table. BE cashsweep payment in respect of 2005-06 is included above because the payment was received during 2006-07. No payment was accrued in 2005-06 accounts as the amount of the BE cashsweep payment for 2005-06 was not confirmed at the time of publishing 2005-06 accounts. BE cashsweep payment of £171,296,445 relating to 2006-07 is included in these accounts as the amount has been confirmed and paid after the year-end.

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. 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 costs (together the "qualifying liabilities") at £11,689m at current prices. The equivalent sum discounted at 3% per annum is approximately £3,389m 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).

16 PROVISIONS FOR LIABILITIES (Continued)

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 (formerly the Secretary of State for Department of Trade and Industry) 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.

17 SHARE CAPITAL

	Authorised	Allotted, called up and fully paid	
	£	No.	£
At 1 April 2006 and 31 March 2007			
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 Trade and Industry ("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 2006	**199,568,049**
Transfer of realised profit on disposal of investments	**(4,288,740)**
Increase in unrealised gains	**6,979,768**
At 31 March 2007	**202,259,077**

Profit and loss account	**£**
At 1 April 2006	**(199,568,049)**
Loss for the year	**(6,979,768)**
Transfer of realised profit on disposal of investments	**4,288,740**
At 31 March 2007	**(202,259,077)**

19 SHAREHOLDERS' FUNDS

	2007 £	2006 £
Shareholders' funds at 1 April	**100**	100
Revenue loss for the financial year	**(6,979,768)**	(114,970,725)
Increase in capital reserve	**6,979,768**	114,970,725
Shareholders' funds at 31 March	100	100
Comprising:		
Non-equity shareholders' interest	**2**	2
Equity shareholders' interest	**98**	98
	100	100

20 GROSS CASH FLOWS

	2007 £	2006 £
Taxation		
Corporation tax paid	**(10,700,000)**	(5,800,000)
Overseas tax paid	**(570,148)**	(505,505)
Income tax repayment	**127,623**	133,665
Corporation tax repayment	**224,371**	1,097,196
	(10,918,154)	(5,074,644)
Capital expenditure and financial investment		
Payments to acquire investment properties	**-**	(2,498)
Payments to acquire fixed asset investments	**(23,954,315)**	(32,249,109)
Purchase of futures	**-**	(20,544,795)
Receipts from sale of fixed asset investments	**54,297,348**	54,559,576
Sale of futures	**-**	28,198,640
	30,343,033	29,961,814
Management of liquid resources		
Short-term deposits	**(188,196,516)**	(82,571,379)
	(188,196,516)	(82,571,379)
Financing		
Contributions from BE	**133,872,589**	27,461,301
Payments to BE	**(156,483)**	(17,861)
	133,716,106	27,443,440

21 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2006 £	Cash flows £	At 31 March 2007 £
Cash at bank and in hand	**1,096,646**	**732,469**	**1,829,115**
Short-term deposits	**103,604,759**	**188,196,516**	**291,801,275**
	104,701,405	**188,928,985**	**293,630,390**

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

	2007	2006
	£	£
Operating profit on ordinary activities before decommissioning provision and taxation	**43,454,134**	59,619,533
Decrease in unrealised losses on other fixed asset investments	**(240,469)**	(15,071,620)
Net gain on sale of fixed assets investments	**(6,002,801)**	(8,007,084)
Increase in debtors	**(1,354,640)**	(612,105)
Decrease in creditors	**(68,224)**	(5,623,690)
Net cash inflow from operating activities	**35,788,000**	30,305,034

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2007	2006
	£	£
Increase in cash in the year	**732,469**	64,265
Cash used to increase liquid resources	**188,196,516**	82,571,379
Change in net funds	**188,928,985**	82,635,644
Net funds at 1 April	**104,701,405**	22,065,761
Net funds at 31 March	**293,630,390**	104,701,405

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 (formerly the Secretary of State for Department of Trade and Industry). 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 Cash Sweep 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 Cash Sweep 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 (formerly the Secretary of State for Department of Trade and Industry) in order to exercise the conversion option, or may be directed to exercise the conversion option by order of the Secretary of State (see note 26 Post Balance Sheet Events). On a full conversion, the Fund would hold approximately 64% 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 £5,214m (2006: £6,776m) 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. 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 two 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.

26 POST BALANCE SHEET EVENTS

Under the arrangements entered into at the time of the restructuring of BE, the Fund has the right to receive a proportion of BE's annual adjusted net cash flow ("Cash Sweep") and to convert all or part of this Cash Sweep into convertible shares in BE.

Following receipt of a Direction from the Secretary of State for Department for Business, Enterprise and Regulatory Reform (formerly the Secretary of State for Department of Trade and Industry), the Fund exercised its right to sell down part of its Cash Sweep entitlement on 31 May 2007. 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 were £2,340m. The effect of this disposal was to reduce the Fund's interest in BE by way of Cash Sweep from approximately 64% to approximately 36%.

Cash Sweep payable to the Fund by BE for the year ended 31 March 2007 in accordance with the terms of the CA, is agreed at £305m. However as part of the share transaction described above and by agreement dated 31 May 2007, the Fund agreed to waive its entitlement to receive £134m of this Cash Sweep. Accordingly the amount payable to the Fund in terms of the CA for the year ended 31 March 2007 is £171m.