Company Number: SC164685

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

ANNUAL REPORT

YEAR ENDED 31 MARCH 2005

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning 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 Farringdon Place 20 Farringdon Road London EC1M 3AP
Company Number	SC164685
Registered Office	16 Rothesay Place Edinburgh EH3 7SQ
Auditors	Deloitte & Touche LLP London
Solicitors	Linklaters 1 Silk Street London EC2Y 8HQ Anderson Strathern 1 Rutland Court Edinburgh EH3 8EY
Bankers	National Westminster Bank Plc City of London Office P O Box 12258 1 Princes Street London EC2R 8PA
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
(formerly Nuclear Generation Decommissioning Fund Limited)

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NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

CHAIRMAN'S STATEMENT

YEAR ENDED 31 MARCH 2005

I am pleased to present the ninth Annual Report of the Nuclear Liabilities Fund Limited for the year to 31 March 2005. The name of the company changed from Nuclear Generation Decommissioning Fund Limited to Nuclear Liabilities Fund Limited ("the Fund") with effect from 18 January 2005.

Purpose of the Fund

The Fund was incorporated on 28 March 1996 with a principal object of providing arrangements for funding certain long-term costs of decommissioning the nuclear power stations of British Energy Group plc ("BE"), the successor to British Energy plc, existing at 29 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"), which was established by deed dated 27 March 1996 (as amended with effect from 14 January 2005) between BE, the Secretary of State for Trade and Industry, and five trustees, of whom three were appointed by the Secretary of State for Trade and Industry 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 with effect from 14 January 2005 and replaced by a Contribution Agreement ("CA") and by the Nuclear Liabilities Funding Agreement ("NLFA") of the same date.

Restructuring

The restructuring of BE ("Restructuring") was completed on 14 January 2005 (full details can be found on BE's website at www.british-energy.com). The terms of Restructuring include various changes to the manner in which the decommissioning liabilities of BE nuclear power stations are to be funded and also for the funding of certain of BE's contracted and uncontracted nuclear liabilities (together called the "qualifying liabilities").

The main changes to the terms and structure of the Fund, effective from the date of Restructuring, are:

The existing Fund, having a market value of £497m at 31 December 2004, was restructured as the Nuclear Liabilities Fund Limited. Broadly the CA provides for:

- the receipt by the Fund of £275m in 7% Guaranteed Bonds 2005-2022 issued by BE;
- an annual contribution to the Fund initially equal to 65% ("the Payment Percentage") 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 65%;
- £150k (stated in March 2003 monetary values and indexed to RPI) per tonne of uranium fuel loaded into the Sizewell B reactor after Restructuring, payable by BE to the Fund;
- fixed decommissioning contributions from BE totalling £20m per annum stated in March 2003 monetary values and indexed to RPI, but tapering down as the BE stations are currently scheduled to close; and

Restructuring (continued)

- the Fund has the right from time to time to convert all or part of the NLF Cash Sweep Payment into convertible shares in BE.

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

At 31 March 2005 the Fund's assets were valued at £786m.

Conclusion

I would like to thank my fellow directors and all our professional advisers for their hard work during the long, and sometimes difficult, process of Restructuring. This has been a particularly demanding period of over two years and I am very grateful for the skill and dedication shown by my colleagues during this time.

Lady Balfour of Burleigh
Chairman

Date: 24 August 2005

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

DIRECTORS' REPORT

YEAR ENDED 31 MARCH 2005

The directors submit their annual report and the financial statements of Nuclear Liabilities Fund Limited ("the Fund") for the year ended 31 March 2005.

Results

The Fund's value increased by **£345,166,998** to **£785,893,549** (2004: increased by £107,199,213 to £440,726,551).

The rate of return for the year achieved by the Fund as calculated by HSBC, was +12.16% before tax (2004: +26.85%).

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

Future developments concerning the Fund include a change in investment policy as set out on page 5. Payments from the Fund to meet qualifying liabilities are anticipated to commence during the year to 31 March 2006 in accordance with Part 2 of the Annual Liabilities Report that BE is required to produce in accordance with the terms of the NLFA.

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:

	2005	2004
	£	**£**
Qualifying liabilities - fund value at 1 April	**440,726,551**	333,527,338
Contributions from BE in cash	**19,846,782**	18,899,444
Contributions from BE in bonds	**275,000,000**	-
Realised net investment income	**18,809,196**	13,596,813
Taxation	**(3,136,507)**	(1,718,156)
Increase in unrealised gains and losses - securities	**30,277,275**	73,907,329
Increase in unrealised gains and losses - properties	**4,370,252**	2,513,783
Qualifying liabilities - fund value at 31 March	**785,893,549**	440,726,551

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 unirraditated, operational or spent nuclear fuel and associated waste.

There have been various changes to the structure of the Fund since the last Annual Report as a result of the restructuring of BE effective from 14 January 2005. These include:

- the change of the name of the Fund from Nuclear Generation Decommissioning Fund Limited to Nuclear Liabilities Fund Limited with effect from 18 January 2005;

Principal activity and review of business (continued)

- the Fund will continue to seek to meet qualifying liabilities of BE;
- the Secretary of State for Trade and Industry has agreed to fund these qualifying liabilities to the extent they exceed the assets of the Fund. To the extent there is any surplus remaining in the Fund this amount will be paid to the Secretary of State for Trade and Industry;
- the Fund has been enlarged by receipt of £275m in Guaranteed Bonds 2005 - 2022 issued by BE;
- BE will make an annual contribution to the Fund initially equal to 65% 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 65%. The Fund has the right from time to time to convert all or part of the NLF Cash Sweep Payment into a number of convertible shares in BE. On a full conversion, the Fund would hold up to 65% of the thereby enlarged equity share capital of BE. However, for as long as these shares are held by the Fund, they will be non-voting to the extent they would otherwise carry 30% or more of the voting rights of BE;
- £150k (stated in March 2003 monetary values and indexed to RPI) per tonne of uranium fuel loaded into the Sizewell B reactor; and
- fixed decommissioning contributions totalling £20m per annum (stated in March 2003 monetary values and indexed to RPI) but tapering off as the Stations are currently scheduled to close.

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 ending 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 comply with 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, the UK economy continued to slow but showed no sign of slipping into recession. With earnings growth still running at just below 5%, the inflationary outlook remained relatively benign. Indicators in the US were decidedly mixed, although signs of increasing inflationary pressures drove long-term yields and mortgage rates higher. Interest rates were increased twice, to 2.75%.

The state of domestic demand remained patchy across the Eurozone, with some smaller countries growing well while Germany continued to struggle.

Market background (continued)

Japanese growth signs weakened and the Tankan survey fell sharply in March 2005. Weaker exports caused the initial slowdown in the second half of 2004, with the effects spreading to business investment and household consumption. There appeared to be no sign yet of a sharp slowdown in China, although signs from other Asian countries indicated a fall off in exports of finished goods to China. Commodity prices remained strong, boosting producer price indices globally.

Investment policy

The Secretary of State for Trade and Industry has amended the investment policy of the Fund with effect from 14 January 2005, the date of Restructuring. The investments will in due course comprise index-linked gilts and the Guaranteed Bonds received from BE on Restructuring. There is a three year transition period during which the directors will realise the equity and property portfolios as appropriate and reinvest the proceeds in index-linked gilts. In the meantime, 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 Trade and Industry, 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.

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

There are five directors who meet regularly to review the overall affairs of the Fund and to consider business specifically reserved for the Board's decision. Ten Board meetings were held during the course of the year together with a number of other meetings between various Board members, advisers, officials from the Department of Trade and Industry and others. At these Board meetings, amongst other matters, the directors reviewed the performance of its investment managers and advisers and monitored the performance of the Fund's portfolio against prescribed benchmarks.

The directors liaise regularly with their advisers and keep 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.

Auditors

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

BY ORDER OF THE BOARD

Lady Balfour of Burleigh
Chairman

Date: 24 August 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare the financial statements in accordance with applicable United Kingdom law and accounting standards for each financial year which give a true and fair view of the state of affairs of the Fund as at the end of the financial year and of the profit or loss of the Fund for that period. In preparing those 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.

The directors are responsible for ensuring that the directors' report is prepared in accordance with company law in the United Kingdom.

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

(formerly Nuclear Generation Decommissioning Fund Limited)

We have audited the financial statements of Nuclear Liabilities Fund Limited for the year ended 31 March 2005 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 23. 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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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)
(formerly Nuclear Generation Decommissioning Fund Limited)

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 23 to the financial statements concerning the uncertainty over the combined effect of the cash sweep payment and the possible conversion of all or part of the right to receive the cash sweep payment from British Energy Group plc ("BE") into shares in BE. The combined effect of the cash sweep payment and the option to convert creates a material accounting issue of potential consolidation of BE in the financial statements of Nuclear Liabilities Fund Limited, which is not capable of resolution due to the uncertainty as to the combined effect. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
Date: 25 August 2005

NUCLEAR LIABILITIES FUND LIMITED
(formerly Nuclear Generation Decommissioning Fund Limited)
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2005

	Notes	2005 £	2004 £
Investment income	2	**19,966,135**	13,674,595
Realised gains on investments	10	**2,042,873**	5,017,485
Realised losses on investments	10	**(1,408,551)**	(3,465,244)
Foreign exchange gains/(losses)		**1,488**	(18,686)
Investment expenses	3	**(675,018)**	(628,444)
Administrative expenses		**(1,117,731)**	(982,893)
		18,809,196	13,596,813
Decrease in unrealised losses on other fixed asset investments	6	**4,683,475**	33,658,140
Operating profit on ordinary activities before decommissioning provision and taxation	4	**23,492,671**	47,254,953
Transfer to decommissioning provisions	16	**(50,320,216)**	(88,299,769)
Loss on ordinary activities before taxation		**(26,827,545)**	(41,044,816)
Tax on ordinary activities	7	**(3,136,507)**	(1,718,156)
Loss on ordinary activities after taxation transferred from profit and loss reserve	8	**(29,964,052)**	(42,762,972)

All amounts relate to continuing activities.

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 MARCH 2005

	2005	2004
	£	**£**
Loss on ordinary activities after taxation	**(29,964,052)**	(42,762,972)
Increase in cumulative unrealised gains on property investments	**4,370,252**	2,513,783
Increase in cumulative unrealised gains on other fixed asset investments	**25,593,800**	40,249,189
	-	-

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

BALANCE SHEET

31 MARCH 2005

	Notes	2005 £	2005 £	2004 £	2004 £
FIXED ASSETS					
Investment properties	**9**		**50,070,000**		45,695,000
Other fixed asset investments	**10**		**719,235,383**		393,950,739
			769,305,383		439,645,739
CURRENT ASSETS					
Debtors	**11**	**3,178,666**		2,653,323	
Short-term deposits	**12**	**21,033,380**		7,575,214	
Cash at bank		**1,032,381**		1,402,204	
		25,244,427		11,630,741	
CREDITORS: amounts falling due within one year	**13**	**(7,940,036)**		(10,450,395)	
NET CURRENT ASSETS			**17,304,391**		1,180,346
TOTAL ASSETS LESS CURRENT LIABILITIES	**14**		**786,609,774**		440,826,085
PROVISIONS FOR LIABILITIES AND CHARGES					
Qualifying liabilities	**16**	**(785,893,549)**		(440,726,551)	
Deferred taxation	**16**	**(716,125)**		(99,434)	
			(786,609,674)		(440,825,985)
NET ASSETS			**100**		100
CAPITAL AND RESERVES (including non-equity interests)					
Called up share capital	**17**		**100**		100
Unrealised capital reserve	**18**		**88,596,753**		60,597,256
Profit and loss account	**18**		**(88,596,753)**		(60,597,256)
SHAREHOLDERS' FUNDS (including £2 non-equity interest)	**19**		**100**		100

The financial statements were approved by the Board on 24 August 2005

Signed on behalf of the Board of Directors

Lady Balfour of Burleigh - Chairman

NUCLEAR LIABILITIES FUND LIMITED

(formerly Nuclear Generation Decommissioning Fund Limited)

CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2005

	2005	2004
	£	£
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit on ordinary activities before decommissioning provision and taxation	**23,492,671**	47,254,953
Decrease in unrealised losses on other fixed asset investments	**(4,683,475)**	(33,658,140)
Net profit on sale of fixed assets investments	**(634,322)**	(1,552,241)
Increase in debtors	**(180,116)**	(506,418)
(Decrease)/increase in creditors	**(2,510,359)**	6,079,027
Net cash inflow from operating activities	**15,484,399**	17,617,181

CASH FLOW STATEMENT (note 20)

	2005	2004
Net cash inflow from operating activities	**15,484,399**	17,617,181
Taxation	**(2,865,043)**	(2,538,211)
Capital expenditure and financial investment	**(19,377,795)**	(26,869,948)
	(6,758,439)	(11,790,978)
Management of liquid resources	**(13,458,166)**	(7,092,416)
Financing - contributions from British Energy plc	**19,846,782**	18,899,444
(Decrease)/increase in cash	**(369,823)**	**16,050**

Reconciliation of net cash flow to movement in net funds (note 21)

	2005	2004
(Decrease)/increase in cash in the year	(369,823)	16,050
Cash used to increase liquid resources	**13,458,166**	7,092,416
Change in net funds	**13,088,343**	7,108,466
Net funds at 1 April	**8,977,418**	1,868,952
Net funds at 31 March	**22,065,761**	8,977,418

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom 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 for every tonne of uranium loaded into Sizewell B reactor power station, an annual contribution equal to 65% 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 will also receive 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.

Gains and losses on futures contracts are treated as realised, as the movements in the values of UK and overseas stock market futures contracts are recognised in margin calls, which are paid or received.

(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.

1 ACCOUNTING POLICIES (continued)

(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.

(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.

Financial futures
The Fund holds a number of investments through stock index futures. These are valued at mid market prices at the close of business in London, and to the extent that they have been entered into for the purpose of obtaining economic exposure, these have been reflected in the accounts on a full economic exposure basis. Futures contracts assets and liabilities are disclosed gross in the balance sheet at market value according to the relevant stock exchange index at the balance sheet date. This represents the amount at which the futures contracts could be exchanged in an arm's-length transaction between informed and willing parties other than in a forced or liquidation sale. Futures contracts are not held to manage risk.

1 ACCOUNTING POLICIES (continued)

(f) Short-term deposits

Short-term deposits comprise cash held by investment managers for reinvestment.

(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 Company 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

	2005	2004
	£	**£**
Interest on fixed-term bonds	**4,040,385**	-
Interest on cash and short-term deposits	**229,626**	115,627
Income from listed investments	**12,196,192**	10,146,368
Rent receivable	**3,499,932**	3,412,600
	19,966,135	13,674,595

3 INVESTMENT EXPENSES

	2005	2004
	£	**£**
Investment management charges	**611,111**	573,973
Irrecoverable VAT thereon	**63,907**	54,471
	675,018	628,444

4 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE DECOMMISSIONING PROVISION AND TAXATION

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

	2005	2004
	£	**£**
Directors' emoluments	**217,199**	264,004
Auditors' remuneration - audit fees	**13,870**	13,489
Decrease in unrealised losses	**4,683,475**	33,658,140

5 STAFF COSTS

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

	2005	2004
	£	**£**
Wages and salaries	**217,199**	264,004
Social security costs	**20,084**	19,514
	237,283	283,518

Wages and salaries are comprised wholly of directors' emoluments. The average number of persons employed during the year remained at five (2004: five).

Highest paid director's emoluments amounted to £51,963 (2004 - £60,728)

6 DECREASE IN UNREALISED LOSSES ON OTHER FIXED ASSET INVESTMENTS

	2005	2004
	£	**£**
Decrease in unrealised losses	**4,683,475**	33,658,140

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2005	2004
	£	**£**
Current year taxation		
UK corporation tax at 30% (2004 - 30%)	**2,984,144**	1,757,068
Adjustments in respect of prior periods corporation tax	**(464,328)**	(57,981)
Total current tax	**2,519,816**	1,699,087
Deferred tax	**616,691**	19,069
Tax on ordinary activities	**3,136,507**	1,718,156

7 TAXATION ON ORDINARY ACTIVITIES (continued)

(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:

	2005	2004
	£	**£**
Operating profit on ordinary activities before decommissioning provision and taxation	**23,492,671**	47,254,953
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004:30%)	**7,047,801**	14,176,486
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	**(2,755,568)**	(2,343,253)
Decrease in unrealised investment losses on equities not allowable for tax purposes	**(1,516,172)**	(10,961,511)
Capital allowances for tax purposes in excess of depreciation	**(137,590)**	(902)
Movement in accrued overseas income taxable on a receipts basis but recognised in the financial statements on an accruals basis	**3,284**	(18,167)
Capital losses carried forward	**342,389**	904,415
Adjustments to tax charge in respect of previous periods	**(464,328)**	(57,981)
Current tax charge for year	**2,519,816**	1,699,087

There is no allowable deduction for the provision for decommissioning liabilities. The Fund will not, in the view of the Inland Revenue, 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.

(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 £720,000 could become payable if properties were sold for their market value. It is estimated that tax of £439,400 could be recoverable if shares and securities were sold for their market value, provided that there were sufficient current or future capital gains on other assets against which the loss could be offset.

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.

There is a potential deferred tax asset not recognised in these financial statements, amounting to approximately £2,500,000 in respect of capital losses arising carried forward as at 31 March 2005. 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 2004	**45,695,000**
Additions	**4,748**
Increase in unrealised gains	**3,264,654**
Decrease in unrealised losses	**1,105,598**
At 31 March 2005	**50,070,000**

The properties' valuations as at 31 March 2005 were determined on an open market valuation basis by the Fund's properties' 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 2004	**43,603,644**
Additions	**4,748**
At 31 March 2005	**43,608,392**

10 OTHER FIXED ASSET INVESTMENTS

	Total
	£
Valuation	
At 1 April 2004	**393,950,739**
Additions	**358,265,428**
Disposals proceeds	**(63,892,381)**
Realised profit on disposals	**2,042,873**
Realised loss on disposals	**(1,408,551)**
Increase in unrealised investment gains	**25,593,800**
Decrease in unrealised investment losses	**4,683,475**
At 31 March 2005	**719,235,383**
Cost	
At 1 April 2004	**395,464,485**
Additions	**358,265,428**
Disposals	**(64,458,762)**
At 31 March 2005	**689,271,151**

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

	2005	2004
	£	£
UK index linked gilts	**51,016,526**	42,687,033
UK equities	**247,988,261**	209,897,096
UK futures contracts	**6,828,375**	6,991,230
UK bonds	**261,560,659**	-
Overseas equities:		
North America	**50,589,569**	41,709,367
Europe	**52,854,842**	44,065,257
Japan	**33,723,802**	35,223,387
Pacific	**14,673,349**	13,377,369
	719,235,383	393,950,739

The majority of the company's assets are equity shares and other investments which neither pay interest nor have a maturity date. No deferred taxation has been provided to reflect the tax charges which would arise if these investments were sold at 31 March 2005 at their market valuation. An estimate of the unprovided deferred tax is shown in Note 7(c).

10 OTHER FIXED ASSET INVESTMENTS (continued)

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 decommissioning provisions as set out in note 16, not an accretion to shareholders' funds. BEH will redeem the principal amount of the Bonds in instalments payable to the Fund on 31 March annually in accordance with the CA.

11 DEBTORS

	2005	2004
	£	£
Other debtors	**219,803**	33,712
Prepayments and accrued income	**2,564,393**	2,570,368
Corporation tax recoverable	**394,470**	49,243
	3,178,666	2,653,323

12 SHORT-TERM DEPOSITS

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

	2005	2004
	£	£
United Kingdom	**18,580,162**	7,454,114
North America	**34,587**	8,472
Europe	**66,156**	11,727
Japan	**2,284,786**	58,066
Pacific	**67,689**	42,835
	21,033,380	7,575,214

13 CREDITORS

Amounts falling due within one year

	2005	2004
	£	£
Overdrawn balance	-	2,337,217
Trade creditors	279,681	148,519
Liability on futures contracts	6,828,375	6,991,230
Other tax and social security	86,977	139,424
Other creditors	112,177	191,356
Accruals and deferred income	632,826	642,649
	7,940,036	10,450,395

14 GEOGRAPHICAL CLASSIFICATION OF TOTAL ASSETS LESS CURRENT LIABILITIES

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

Currency	Investments	Cash balances	Debtors	Creditors	Total
	£	£	£	£	£
Pounds Sterling	617,463,820	19,612,543	2,887,151	(7,940,036)	632,023,478
US Dollar	50,589,569	34,587	54,858	-	50,679,014
Euro	40,604,682	19,525	13,051	-	40,637,258
Norwegian Krone	700,115	6,748	-	-	706,863
Swedish Krona	2,926,238	2,644	-	-	2,928,882
Danish Krone	1,049,456	16,846	-	-	1,066,302
Swiss Franc	7,574,352	20,394	186	-	7,594,932
Japanese Yen	33,723,802	2,284,786	191,471	-	36,200,059
Taiwan Dollar	2,645,464	32,917	-	-	2,678,381
South Korean Won	2,712,263	-	(142)	-	2,712,121
Singapore Dollar	932,386	5,667	-	-	938,053
Chinese Yuan	25,143	-	-	-	25,143
Indonesian Rupiah	-	15	-	-	15
Hong Kong Dollar	2,547,001	12,008	3,386	-	2,562,395
Australian Dollar	5,570,222	12,964	27,986	-	5,611,172
New Zealand Dollar	240,870	4,117	719	-	245,706
	769,305,383	22,065,761	3,178,666	(7,940,036)	786,609,774

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 AND CHARGES

	Deferred taxation	**Qualifying liabilities**	**Total 2005**	Total 2004
	£	**£**	**£**	£
At 1 April	**99,434**	**440,726,551**	**440,825,985**	333,607,703
Contributions from BE in cash		**19,846,782**	**19,846,782**	18,899,444
Contributions from BEH in bonds		**275,000,000**	**275,000,000**	-
Transfer from profit and loss account	**-**	**50,320,216**	**50,320,216**	88,299,769
Deferred taxation	**616,691**	**-**	**616,691**	19,069
At 31 March	**716,125**	**785,893,549**	**786,609,674**	440,825,985

Deferred tax balance consists of:

	2005	2004
	£	**£**
Overseas income receivable	**87,455**	90,739
Accelerated capital allowances	**628,670**	8,695
	716,125	99,434

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. The receipt of the £275m in Bonds issued by BEH for nil consideration, as explained in note 10, gives rise to the equivalent credit entry included above.

The amount shown under qualifying liabilities represents the Fund's future potential liability to the Licensees (British Energy Generation Limited and British Energy Generation (UK) 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 £8.8bn at current prices. The equivalent sum discounted at 3% per annum is approximately £2.0bn at the same date (the difference between the undiscounted and discounted amounts reflect the fact that the majority of the qualifying liabilities will not fall due for payment for a number of years).

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 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 reduce 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 2004 and 31 March 2005			
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 2004	**60,597,256**
Transfer on disposal of investments	**(1,964,555)**
Increase in unrealised gains	**29,964,052**
At 31 March 2005	**88,596,753**

18 RESERVES (continued)

Profit and loss account	**£**
At 1 April 2004	**(60,597,256)**
Loss for the year	**(29,964,052)**
Transfer on disposal of investments	**1,964,555**
At 31 March 2005	**(88,596,753)**

19 SHAREHOLDERS' FUNDS

	2005	2004
	£	£
Shareholders' funds at 1 April	**100**	100
Revenue loss for the financial year	**(29,964,052)**	(42,762,972)
Increase in capital reserve	**29,964,052**	42,762,972
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

	2005	2004
	£	£
Taxation		
Corporation tax paid	**(2,577,000)**	(2,425,000)
Income tax paid	**-**	(7,435)
Overseas tax paid	**(442,419)**	(324,532)
Income tax repayment	**87,998**	70,706
Corporation tax repayment	**66,378**	148,050
	(2,865,043)	(2,538,211)

20 GROSS CASH FLOWS (continued)

	2005	2004
	£	£
Capital expenditure and financial investment		
Payments to acquire investment properties	**(4,748)**	(161,217)
Payments to acquire fixed asset investments	**(49,854,263)**	(41,726,116)
Purchase of futures	**(33,411,165)**	(24,597,025)
Receipts from sale of fixed asset investments	**30,272,346**	18,346,995
Sale of futures	**33,620,035**	21,267,415
	(19,377,795)	(26,869,948)
Management of liquid resources		
Short-term deposits	**(13,458,166)**	(7,092,416)
	(13,458,166)	(7,092,416)
Financing		
Contributions from BE	**19,846,782**	18,899,444
	19,846,782	18,899,444

21 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2004	**Cash flows**	**At 31 March 2005**
	£	**£**	**£**
Cash at bank and in hand	**1,402,204**	**(369,823)**	**1,032,381**
Short-term deposits	**7,575,214**	**13,458,166**	**21,033,380**
	8,977,418	**13,088,343**	**22,065,761**

22 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 Trade and Industry. The trustees of the Nuclear Trust are directors of the Fund. Details of payments to directors are set out in note 5. There are no other payments or balances with related parties.

23 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 will receive an annual contribution from BE initially equal to 65% 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 65%. The Fund has the right to convert all or part of the NLF Cash Sweep Payment into a number of shares in BE, or may be required to do so by HM Government. On a full conversion, the Fund would hold 65% 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 combined effect of the NLF Cash Sweep Payment and the potential exercise of the conversion option raises the accounting issue of potential consolidation of BE in the financial statements 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 £2.9bn (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). It is from this perspective that uncertainty is expressed.