

NUCLEAR LIABILITIES FUND LIMITED

ANNUAL REPORT

YEAR ENDED 31 MARCH 2006

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
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London EC1M 3AP

Company Number SC164685

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Edinburgh EH3 7SQ

Auditors Deloitte & Touche LLP
London

Solicitors Linklaters LLP
1 Silk Street
London EC2Y 8HQ

Anderson Strathern
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Edinburgh EH3 8EY

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P O Box 12258
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London SW1 4SS

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Mariner House
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NUCLEAR LIABILITIES FUND LIMITED

CONTENTS

	Page
CHAIRMAN'S STATEMENT	1 - 2
DIRECTORS' REPORT	3 - 6
STATEMENT OF DIRECTORS' RESPONSIBILITIES	7
INDEPENDENT AUDITORS' REPORT	8 - 9
PROFIT AND LOSS ACCOUNT	10
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	11
BALANCE SHEET	12
CASH FLOW STATEMENT	13
NOTES TO THE FINANCIAL STATEMENTS	14 - 28

NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT
YEAR ENDED 31 MARCH 2006

I am pleased to present the tenth Annual Report of Nuclear Liabilities Fund Limited (the "Fund") for the year to 31 March 2006.

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 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"), 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 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 Trade and Industry has agreed to fund the qualifying liabilities to the extent they exceed all the assets of the Fund.

At 31 March 2006 the Fund's assets were valued at £979m.

Review of the year - Directors' work in 2005-06

Much of the first six months of the past year was spent in close liaison and discussion with the Shareholder Executive of the DTI, with British Energy and the Nuclear Decommissioning Authority ("NDA"), regarding new procedures under the CA and the NLFA. These included the introduction of appropriate arrangements for making payments from the Fund to meet qualifying liabilities and for reviewing the Cashflow Statement required from BE at each financial year end under the terms of the NLFA. This work and other non-routine special tasks have again obliged the Fund to instruct professional advisers with attendant fees. I am grateful to my colleagues and to our Secretary for the additional time and attention they have given to these extra responsibilities.

We were pleased to note that the report of the National Audit Office into the restructuring of British Energy, published in March 2006, was generally supportive of the restructuring exercise, and that the report acknowledged the Fund's role in the arrangements for providing funds to discharge decommissioning and other qualifying liabilities.

We also noted with interest the recommendations of the Committee on Radioactive Waste Management ("CoRWM") set out in its final report published in July 2006.

NUCLEAR LIABILITIES FUND LIMITED
CHAIRMAN'S STATEMENT (continued)
YEAR ENDED 31 MARCH 2006

Conclusion

The directors have continued to enjoy close liaison and regular meetings with the Shareholder Executive of the DTI, with British Energy, the NDA, and others. We would like to thank the management and staff of all these organisations for their co-operation and assistance. I would also like to thank my fellow directors and our professional advisers for their continuing commitment to the work of the Fund and for their attention to the detail of its complexities.

The Lady Balfour of Burleigh
Chairman

Date: 10 August 2006

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2006

The directors submit their annual report and the financial statements of Nuclear Liabilities Fund Limited ("the Fund") for the year ended 31 March 2006.

Results

The Fund's value increased by **£192,537,968** to **£978,431,517** (2005: increased by £345,166,998 to £785,893,549).

The rate of return for the year achieved by the Fund as calculated by HSBC, was +22% before tax (2005: +12.16%).

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 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:

	2006	2005
	£	£
Qualifying liabilities - fund value at 1 April	785,893,549	440,726,551
Contributions from BE in cash	27,461,301	19,846,782
Contributions from BE in bonds	-	275,000,000
Payments to BE in cash	(17,861)	-
Realised net investment income	44,547,913	18,809,196
Taxation	(9,495,730)	(3,136,507)
Increase in unrealised gains and losses - securities	124,349,843	30,277,275
Increase in unrealised gains and losses - properties	5,692,502	4,370,252
	<hr/> 978,431,517 <hr/>	<hr/> 785,893,549 <hr/>

Principal activity and review of business

The principal activity of the Fund is to provide arrangements for funding the costs of decommissioning the Stations and for meeting all costs and liabilities relating to the management, storage, retrieval and disposal of unirradiated, operational or spent nuclear fuel and associated waste.

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT (continued)
YEAR ENDED 31 MARCH 2006

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 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 last twelve months, equities outperformed lower risk assets substantially as economic resilience was reflected in rising bond yields and more optimistic equity valuations. European and Far Eastern equities continued the pattern of outperforming the US market by 3%-5%. Fixed income markets responded belatedly to growing evidence of strong global growth and a determination by the Federal Reserve Bank and other central banks to stave off any incipient secondary inflation from commodities as well as control core inflation.

Market outlook

The global growth outlook remains positive for 2006, matched by rising short term interest rate expectations in most currencies. These opposing factors present a dilemma for equity valuation, but on balance equities are not expensive and may therefore be propelled further by rising earnings and dividends. Yield increases in most bond markets may continue at a slower pace for the remainder of the year as yield curves remain flat or even inverted. UK gilt yields have been more resistant to global upward pressure than most.

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. By agreement with the Secretary of State for Trade and Industry, the amendment has not yet been implemented. State Street Global Advisers continue to manage the Fund's equity and index-linked investments, while LaSalle Investment Management manage the properties owned by the Fund.

NUCLEAR LIABILITIES FUND LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 MARCH 2006

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.

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, and that each has taken all 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.

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. Eight 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, the Nuclear Decommissioning Authority and others. The directors are responsible for monitoring the prescribed investment policy of the Fund and, at Board meetings, they considered, within the confines of this policy, matters relating to financial risk and objectives and the exposure of the Fund to such financial risk. This was achieved by reviewing the performance of its investment managers and advisers and by monitoring the performance of the Fund's portfolio against prescribed benchmarks. The directors' approach to the management of financial risk is given in note 15 "Financial Instruments" to the financial statements.

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

NUCLEAR LIABILITIES FUND LIMITED
DIRECTORS' REPORT (continued)
YEAR ENDED 31 MARCH 2006

Internal financial controls

The directors have overall responsibility for the internal financial control systems of the Fund. These systems aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which decisions are made and which is used for publication and that the assets of the Fund are safeguarded. The financial controls operated by the Board include the monitoring of the investment strategy and regular reviews of the financial results and investment performance. The Board has contractually delegated to external agencies, including investment managers, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), and the day-to-day accounting and company secretarial requirements. The investment managers have established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls on behalf of its client. The effectiveness of the internal financial controls is assessed by the investment managers' compliance and internal audit department on an ongoing basis.

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

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

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

Auditors

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

BY ORDER OF THE BOARD

The Lady Balfour of Burleigh
Chairman

Date: 10 August 2006

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.

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 2006 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 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. 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 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 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 2006 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: 11 August 2006

NUCLEAR LIABILITIES FUND LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2006

	Notes	2006 £	2005 £
Investment income	2	38,855,616	19,966,135
Realised gains on investments	10	10,532,014	2,042,873
Realised losses on investments	10	(2,524,930)	(1,408,551)
Foreign exchange (losses)/gains		(203,226)	1,488
Investment expenses	3	(1,543,801)	(675,018)
Administrative expenses		(842,760)	(1,117,731)
Other operating income		275,000	-
		44,547,913	18,809,196
Decrease in unrealised losses on other fixed asset investments	6	15,071,620	4,683,475
		59,619,533	23,492,671
Operating profit on ordinary activities before decommissioning provision and taxation	4		
Transfer to decommissioning provisions	16	(165,094,528)	(50,320,216)
		(105,474,995)	(26,827,545)
Loss on ordinary activities before taxation			
Tax on ordinary activities	7	(9,495,730)	(3,136,507)
		(114,970,725)	(29,964,052)
Loss on ordinary activities after taxation transferred from profit and loss reserve	8	(114,970,725)	(29,964,052)

All amounts relate to continuing activities.

NUCLEAR LIABILITIES FUND LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MARCH 2006

	2006 £	2005 £
Loss on ordinary activities after taxation	(114,970,725)	(29,964,052)
Increase in cumulative unrealised gains on property investments	5,692,502	4,370,252
Increase in cumulative unrealised gains on other fixed asset investments	109,278,223	25,593,800
	<hr/> - <hr/>	<hr/> - <hr/>

NUCLEAR LIABILITIES FUND LIMITED

BALANCE SHEET

31 MARCH 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Investment properties	9	55,765,000	50,070,000
Other fixed asset investments	10	821,627,998	719,235,383
		877,392,998	769,305,383
CURRENT ASSETS			
Debtors	11	3,396,301	3,178,666
Short-term deposits	12	103,604,759	21,033,380
Cash at bank		1,096,646	1,032,381
		108,097,706	25,244,427
CREDITORS: amounts falling due within one year	13	(6,165,617)	(7,940,036)
NET CURRENT ASSETS		101,932,089	17,304,391
TOTAL ASSETS LESS CURRENT LIABILITIES	14	979,325,087	786,609,774
PROVISIONS FOR LIABILITIES AND CHARGES			
Qualifying liabilities	16	(978,431,517)	(785,893,549)
Deferred taxation	16	(893,470)	(716,125)
		(979,324,987)	(786,609,674)
NET ASSETS		100	100
CAPITAL AND RESERVES (including non-equity interests)			
Called up share capital	17	100	100
Unrealised capital reserve	18	199,568,049	88,596,753
Profit and loss account	18	(199,568,049)	(88,596,753)
SHAREHOLDERS' FUNDS (including £2 non-equity interest)	19	100	100

The financial statements were approved by the Board on 10 August 2006

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 2006

	2006 £	2005 £
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit on ordinary activities before decommissioning provision and taxation	59,619,533	23,492,671
Decrease in unrealised losses on other fixed asset investments	(15,071,620)	(4,683,475)
Net gain on sale of fixed assets investments	(8,007,084)	(634,322)
Increase in debtors	(612,105)	(180,116)
Decrease in creditors	(5,623,690)	(2,510,359)
Net cash inflow from operating activities	30,305,034	15,484,399
CASH FLOW STATEMENT (note 20)		
Net cash inflow from operating activities	30,305,034	15,484,399
Taxation	(5,074,644)	(2,865,043)
Capital expenditure and financial investment	29,961,814	(19,377,795)
	55,192,204	(6,758,439)
Management of liquid resources	(82,571,379)	(13,458,166)
Financing - contributions from British Energy plc	27,443,440	19,846,782
Increase/(decrease) in cash	64,265	(369,823)
Reconciliation of net cash flow to movement in net funds (note 21)		
Increase/(decrease) in cash in the year	64,265	(369,823)
Cash used to increase liquid resources	82,571,379	13,458,166
Change in net funds	82,635,644	13,088,343
Net funds at 1 April	22,065,761	8,977,418
Net funds at 31 March	104,701,405	22,065,761

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2006

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 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.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

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.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

1 ACCOUNTING POLICIES (continued)

(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 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

	2006 £	2005 £
Interest on fixed-term bonds	18,588,062	4,040,385
Interest on cash and short-term deposits	1,999,556	229,626
Income from listed investments	14,621,710	12,196,192
Rent receivable	3,646,288	3,499,932
	<u>38,855,616</u>	<u>19,966,135</u>

3 INVESTMENT EXPENSES

	2006 £	2005 £
Investment management charges	718,575	611,111
Other investment expenses	639,120	-
Irrecoverable VAT thereon	186,106	63,907
	<u>1,543,801</u>	<u>675,018</u>

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:

	2006 £	2005 £
Directors' emoluments	121,286	217,199
Auditors' remuneration - audit fees	29,265	13,870
	<u>150,551</u>	<u>231,069</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

5 STAFF COSTS

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

	2006 £	2005 £
Wages and salaries	121,286	217,199
Social security costs	10,196	20,084
	<u>131,482</u>	<u>237,283</u>

Wages and salaries are comprised wholly of directors' emoluments. The number of persons acting as directors during the year remained at five (2005: five).

The highest paid director's emoluments amounted to £33,078 (2005 - £51,963)

**6 DECREASE IN UNREALISED LOSSES ON OTHER
FIXED ASSET INVESTMENTS**

	2006 £	2005 £
Decrease in unrealised losses	<u>15,071,620</u>	<u>4,683,475</u>

7 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in year

	2006 £	2005 £
Current year taxation		
UK corporation tax at 30% (2005 - 30%)	9,245,479	2,984,144
Adjustments in respect of prior periods corporation tax	72,906	(464,328)
	<u>9,318,385</u>	<u>2,519,816</u>
Total current tax		
Deferred tax	177,345	616,691
	<u>9,495,730</u>	<u>3,136,507</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

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:

	2006 £	2005 £
Operating profit on ordinary activities before decommissioning provision and taxation	59,619,533	23,492,671
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004:30%)	17,885,860	7,047,801
Effects of:		
Income not taxable (mainly dividends) and other permanent differences	(2,984,061)	(2,755,568)
Decrease in unrealised investment losses on equities not allowable for tax purposes	(3,007,278)	(1,516,172)
Capital allowances for tax purposes in excess of depreciation	(111,095)	(137,590)
Movement in accrued overseas income taxable on a receipts basis but recognised in the financial statements on an accruals basis	(41,840)	3,284
Capital (gains)/losses carried forward	(2,496,107)	342,389
Adjustments to tax charge in respect of previous periods	72,906	(464,328)
Current tax charge for year	9,318,385	2,519,816

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.

(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 £2,100,000 could become payable if properties were sold for their market value. It is estimated that tax of £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.

There is a potential deferred tax asset not recognised in these financial statements, amounting to approximately £165,000 in respect of capital losses arising carried forward as at 31 March 2006. 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.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

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 2005	50,070,000
Additions	2,498
Increase in unrealised gains	4,942,502
Decrease in unrealised losses	750,000
	55,765,000
At 31 March 2006	55,765,000

The properties' valuations as at 31 March 2006 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 2005	43,608,392
Additions	2,498
	43,610,890
At 31 March 2006	43,610,890

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

10 OTHER FIXED ASSET INVESTMENTS

	Total £
Valuation	
At 1 April 2005	719,235,383
Additions	52,793,904
Disposals proceeds	(82,758,216)
Realised gain on disposals	10,532,014
Realised loss on disposals	(2,524,930)
Increase in unrealised investment gains	109,278,223
Decrease in unrealised investment losses	15,071,620
	821,627,998
	821,627,998
Cost	
At 1 April 2005	689,271,151
Additions	52,793,904
Disposals	(72,829,672)
	669,235,383
	669,235,383

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

	2006	2005
	£	£
UK index linked gilts	55,597,939	51,016,526
UK equities	308,713,114	247,988,261
UK futures contracts	-	6,828,375
UK bonds	263,187,383	261,560,659
Overseas equities:		
North America	60,737,502	50,589,569
Europe	68,181,880	52,854,842
Japan	53,305,824	33,723,802
Pacific	11,904,356	14,673,349
	821,627,998	719,235,383
	821,627,998	719,235,383

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 2006 at their market valuation. An estimate of the unprovided deferred tax is shown in Note 7(c).

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

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 qualifying liabilities 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 £19.6m was paid on 31 March 2006 (31 March 2005: £9.5m).

11 DEBTORS

	2006	2005
	£	£
Other debtors	106,112	219,803
Prepayments and accrued income	3,290,189	2,564,393
Corporation tax recoverable	-	394,470
	<u>3,396,301</u>	<u>3,178,666</u>

12 SHORT-TERM DEPOSITS

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

	2006	2005
	£	£
United Kingdom	102,882,403	18,580,162
North America	112,423	34,587
Europe	464,755	66,156
Japan	43,643	2,284,786
Pacific	101,535	67,689
	<u>103,604,759</u>	<u>21,033,380</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

13 CREDITORS

Amounts falling due within one year

	2006	2005
	£	£
Trade creditors	1,055,107	279,681
Liability on futures contracts	-	6,828,375
Corporation tax	3,849,271	-
Other tax and social security	170,654	86,977
Other creditors	194,330	112,177
Accruals and deferred income	896,255	632,826
	<u>6,165,617</u>	<u>7,940,036</u>

14 GEOGRAPHICAL 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	683,263,436	103,979,049	2,965,311	(6,165,617)	784,042,179
US Dollar	60,737,502	112,423	60,026	-	60,909,951
Euro	52,198,011	348,617	56,097	-	52,602,725
Norwegian Krone	1,121,667	142	-	-	1,121,809
Swedish Krona	3,843,039	38,236	4,543	-	3,885,818
Danish Krone	1,097,492	32,026	-	-	1,129,518
Swiss Franc	9,921,671	45,734	185	-	9,967,590
Japanese Yen	53,305,824	43,643	265,167	-	53,614,634
Taiwan Dollar	-	1,274	-	-	1,274
Singapore Dollar	1,207,799	27,644	-	-	1,235,443
Chinese Yuan	26,505	-	-	-	26,505
Indonesian Rupiah	-	17	-	-	17
Hong Kong Dollar	3,485,623	18,331	4,080	-	3,508,034
Australian Dollar	6,982,406	36,704	39,680	-	7,058,790
New Zealand Dollar	202,023	17,565	1,212	-	220,800
	<u>877,392,998</u>	<u>104,701,405</u>	<u>3,396,301</u>	<u>(6,165,617)</u>	<u>979,325,087</u>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

15 FINANCIAL INSTRUMENTS

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

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

Risk

Credit

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

Liquidity

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

Market Price

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

Interest Rate

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

Currency

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

Management of Risk

Credit

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

Liquidity

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

Market Price

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

Interest Rate

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

Currency

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

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation	Qualifying liabilities	Total 2,006	Total 2,005
	£	£	£	£
At 1 April	716,125	785,893,549	786,609,674	440,825,985
Contributions from BE in cash	-	27,461,301	27,461,301	19,846,782
Contributions from BEH in bonds	-	-	-	275,000,000
Transfer from profit and loss account	-	165,094,528	165,094,528	50,320,216
Payments to BEH in cash	-	(17,861)	(17,861)	-
Deferred taxation	177,345	-	177,345	616,691
At 31 March	<u>893,470</u>	<u>978,431,517</u>	<u>979,324,987</u>	<u>786,609,674</u>

Deferred tax balance consists of:

	2006	2005
	£	£
Overseas income receivable	129,297	87,455
Accelerated capital allowances	764,173	628,670
	<u>893,470</u>	<u>716,125</u>

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 for every tonne of uranium loaded into Sizewell B reactor power station.

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 £11.1bn at current prices. The equivalent sum discounted at 3% per annum is approximately £3.2bn 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).

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.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

17 SHARE CAPITAL

	Authorised £	Allotted, called up and fully paid No.	£
At 1 April 2005 and 31 March 2006			
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
	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 2005	88,596,753
Transfer of realised profit on disposal of investments	(3,999,429)
Increase in unrealised gains	114,970,725
At 31 March 2006	199,568,049
	199,568,049

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

18 RESERVES (continued)

Profit and loss account	£
At 1 April 2005	(88,596,753)
Loss for the year	(114,970,725)
Transfer of realised profit on disposal of investments	3,999,429
	<hr/>
At 31 March 2006	(199,568,049)
	<hr/> <hr/>

19 SHAREHOLDERS' FUNDS

	2006	2005
	£	£
Shareholders' funds at 1 April	100	100
Revenue loss for the financial year	(114,970,725)	(29,964,052)
Increase in capital reserve	114,970,725	29,964,052
	<hr/>	<hr/>
Shareholders' funds at 31 March	100	100
	<hr/> <hr/>	<hr/> <hr/>
Comprising:		
Non-equity shareholders' interest	2	2
Equity shareholders' interest	98	98
	<hr/>	<hr/>
	100	100
	<hr/> <hr/>	<hr/> <hr/>

20 GROSS CASH FLOWS

	2006	2005
	£	£
Taxation		
Corporation tax paid	(5,800,000)	(2,577,000)
Overseas tax paid	(505,505)	(442,419)
Income tax repayment	133,665	87,998
Corporation tax repayment	1,097,196	66,378
	<hr/>	<hr/>
	(5,074,644)	(2,865,043)
	<hr/> <hr/>	<hr/> <hr/>

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

20 GROSS CASH FLOWS (continued)

	2006	2005
	£	£
Capital expenditure and financial investment		
Payments to acquire investment properties	(2,498)	(4,748)
Payments to acquire fixed asset investments	(32,249,109)	(49,854,263)
Purchase of futures	(20,544,795)	(33,411,165)
Receipts from sale of fixed asset investments	54,559,576	30,272,346
Sale of futures	28,198,640	33,620,035
	<u>29,961,814</u>	<u>(19,377,795)</u>
Management of liquid resources		
Short-term deposits	(82,571,379)	(13,458,166)
	<u>(82,571,379)</u>	<u>(13,458,166)</u>
Financing		
Contributions from BE	27,461,301	19,846,782
Payments to BE	(17,861)	-
	<u>27,443,440</u>	<u>19,846,782</u>

21 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2005	Cash flows	At 31 March 2006
	£	£	£
Cash at bank and in hand	1,032,381	64,265	1,096,646
Short-term deposits	21,033,380	82,571,379	103,604,759
	<u>22,065,761</u>	<u>82,635,644</u>	<u>104,701,405</u>

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 the 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.

NUCLEAR LIABILITIES FUND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2006

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, but must seek agreement from the Secretary of State for 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 for Trade and Industry. 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 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 £6.8bn (2005: £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. The directors have learned that the NLF Cash Sweep Payment for the year ended 31 March 2006 (which will fall into the financial statements of the Fund for the year ending 31 March 2007) is likely to exceed £100m. The corresponding figure falling for recognition in these financial statements is £nil. 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 a year's experience of the operation of the CA, the directors are now satisfied that such consolidation is not required or justified as they do not enjoy any control over the management of BE.