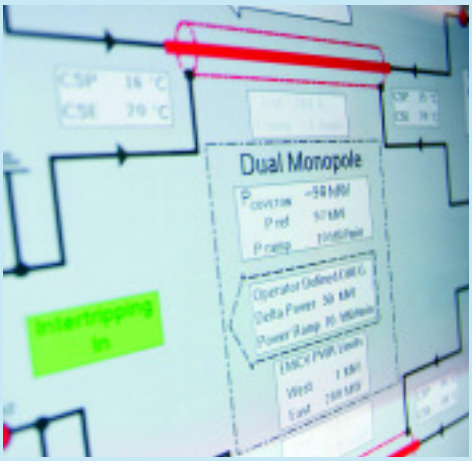
Northern Ireland
Energy
HOLDINGS

Annual **Report 2006**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Northern Ireland Energy HOLDINGS

Annual Report and Accounts 2006


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Contents

“A **mutual** energy company working for **consumers**”

Northern Ireland Energy HOLDINGS

Chairman's Statement

Alasdair Locke
Chairman

"As a Group dedicated to the interests of energy consumers, we measure our success by the returns we make to them. At the end of the year, we have set aside £12.4m from Moyle's accumulated surpluses, supported by the capital refund which Moyle reported last year. These funds will be used in 2006-07 to make a significant contribution to lower electricity prices in Northern Ireland, in a time of increasing upward pressures on energy costs generally."

I am very pleased to present the inaugural set of accounts for the Northern Ireland Energy Holdings ("NIEH") Group of companies.

The period since the incorporation of NIEH in January 2005 has been most eventful, with the acquisition of the Premier Transmission Limited ("PTL") group, the merger with the Moyle Holdings Limited ("Moyle") group and our commencing the development of a new area of business in the setting up of the Irish Renewable and Sustainable Energy Fund.

In a successful first year for the expanded Group, we have built on the achievements of the Moyle group and further demonstrated the success of our mutual business model in acting for the benefit of and in the long term interests of the energy consumers of Northern Ireland.

As a Group dedicated to the interests of energy consumers, we measure our success by the returns we make to them. At the end of the year, we have set aside £12.4m from Moyle's accumulated surpluses, supported by the capital refund which Moyle reported last year.

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SIEMENS
moyle
interconnector
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interconnector

Chairman's Statement

The acquisition and refinancing of the PTL group in March 2005 enabled us to deliver further returns to energy consumers. For the gas year which ended in September 2005 the actual revenue required to run PTL's business, which is ultimately borne by gas and electricity consumers, was reduced by £5.5m compared to the forecast requirement under PTL's previous ownership.

The financial structure of the Group was set up to achieve lower costs to consumers. While we have delivered on that objective, we do not expect to be profitable in every year and in this initial period, we report an after tax loss for the Group of £4.5m. The Group's strong cash flow and the operating cost savings already made in this first year give us confidence in our ability to meet and deliver our corporate goals into the future.

The operating performance of the Group has been most satisfactory. During the year, we have delivered the excellent availabilities of our energy transmission capacity on which Northern Ireland depends. We are particularly pleased with the smooth transition of operational control of PTL's SNIP pipeline to our Belfast-based management team. Performance against our Key Performance Indicators ("KPIs") demonstrates how we have met the financial and operational targets important to our various stakeholders.

The strong cash flows and debt service cover ratios essential to the long term viability and stability of the Group have been maintained at levels comfortably above those required by our financing arrangements. Our ongoing asset maintenance programmes will ensure that our ability to meet all our obligations over the long term is not compromised.

During the year, significant changes continued in the gas and electricity markets of Northern Ireland and the Republic of Ireland. These will continue to affect our businesses in the coming years. In particular, the work on the development of the new electricity market arrangements for the island of Ireland, due to take effect in November 2007, reached a high level and will continue in the coming year. We continue to work closely with the regulatory authorities and the other parties in the industry throughout Ireland.

"The Group's strong cash flow and the operating cost savings already made in this first year give us confidence in our ability to meet and deliver our corporate goals into the future."

Chairman's Statement

Your board is confident that the Group's management of the issues arising will ensure that the interests of the Group and the consumer interests it represents are adequately protected as the new market arrangements are put in place.

Since the Group is dedicated to the long term interests of the energy consumers of Northern Ireland, as was the Moyle group now included within it, we remain committed to the highest standards of corporate governance.

We believe that the new arrangements put in place in consultation with the Northern Ireland Authority for Energy Regulation ("NIAER") at the time of the PTL acquisition have strengthened our corporate governance practices.

I am particularly pleased to welcome the new members of the company who took office early in the year. The board appreciates their support in approving the merger with the Moyle group.

I look forward to continuing to work closely with the members into the future in furthering the interests of the energy consumers of Northern Ireland.

During the year, the Group embarked on a new venture in the setting up of the Irish Renewable and Sustainable Energy Fund. Your board believes that the returns from this venture will further strengthen the Group and will enhance our ability to advance the interests of Northern Ireland's energy consumers. The board greatly appreciates the approval of NIAER for this enterprise.

I would like to thank my colleagues on the board and the Managing Directors of our subsidiary companies for their significant contribution to the business of our Group in its inaugural year.

I wish particularly to place on record my appreciation of the very substantial work carried out by the non-executive directors who have carried a significant burden in supporting good governance and our overall business transition. This workload, involving participation in the affairs of our subsidiary companies as well as the board committees, made considerable demands on their time. I look forward to working with all of them in meeting our goals for the future and continuing to deliver value to all our stakeholders.

"During the year, the Group embarked on a new venture in the setting up of the Irish Renewable and Sustainable Energy Fund. Your board believes that the returns from this venture will further strengthen the Group and will enhance our ability to advance the interests of Northern Ireland's energy consumers."

The Business of the Group

Northern Ireland Energy Holdings (NIEH) was founded in 2005 with the objective of owning and operating energy infrastructure in the island of Ireland, in the long-term interest of the energy consumers of Northern Ireland.

The principal subsidiaries of the NIEH Group are the Premier Transmission group of companies, acquired in March 2005 on the re-financing and mutualisation of Premier Transmission Limited (PTL), and the Moyle group, of which NIEH took control through the merger of October 2005. Moyle Interconnector Limited (Moyle) had previously been re-financed and mutualised in April 2003.

Following the merger, the principal activities of the Group at 31st March 2006 were the ownership and operation of Northern Ireland's energy links with Great Britain:

- the Moyle Interconnector providing 500 MW of electricity transmission capacity between Northern Ireland and Scotland, owned by Moyle and debt-financed through a 30 year bond; and

- the Scotland to Northern Ireland Pipeline (SNIP), the 24 inch diameter pipeline providing the entire gas transmission capacity to Northern Ireland, owned by PTL and debt-financed through a 25 year bond.

At year end, the Group was developing a new area of business in the setting up of the Irish Renewable and Sustainable Energy Fund. This will be a substantial private equity fund aiming to invest in a wide range of renewable energy projects throughout Ireland.

NIEH is a company limited by guarantee with no shareholders. The Group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of our debt-financed subsidiaries.

Our business is to provide a safe, reliable and efficient transmission service to the electricity and gas systems of Northern Ireland and in particular to the traders in electricity between the markets of Ireland and Great Britain and to the shippers of gas to Northern Ireland. The Group aims to maximise value to our stakeholders through the provision of that service.

The Group's principal revenues are earned by its two operating companies, Moyle and PTL. Moyle's revenue is earned from sales of the transmission capacity of the Moyle Interconnector, on contracts ranging from one month to three years, sold in monthly and annual auctions. PTL receives its revenue from the postalised gas transmission system of Northern Ireland (the POT) and earns revenue for the POT through its capacity and commodity sales to gas shippers.

As a mutual company, NIEH manages major energy assets on behalf of energy consumers with the benefits of efficiency gains and financial surpluses being returned ultimately to consumers. The mutual model offers an immediate gain to consumers in that the assets have been refinanced at a lower cost of capital, resulting in lower annual charges. The mutualisation of Moyle in 2003 and PTL in 2005 has yielded substantial financial savings, which will continue to benefit customers for many years to come. There is undoubtedly scope to extend the mutual model to other significant assets.

The quality of the service we provide to our customers through both of our main businesses is determined by the performance of our assets in delivering high availability electricity and gas transmission to electricity traders and gas shippers and to the electricity and gas systems of Northern Ireland. To date under the mutualised regime very high levels of availability have been achieved on both the Moyle and PTL assets. In addition, proactive and coordinated management of both assets has meant that further opportunities for operational savings have been identified and captured. Innovation in trading arrangements has contributed positively to overall financial performance.

> *"The mutual model offers an immediate gain to consumers in that the assets have been refinanced at a lower cost of capital, resulting in lower annual charges."*

Consumers' Returns and Receipts

As the Group has no shareholders, the directors consider it appropriate to report here any returns made to or receipts from the energy consumers of Northern Ireland, in whose long-term interest our businesses are run.

At year end, Moyle set aside £12.4m as a substantial contribution towards lower electricity prices in Northern Ireland in the coming year. This contribution, from Moyle's Distributions Account and its accumulated operating surplus, means that there will be no cash call on electricity customers in 2006-07 under Moyle's collection agency agreement with Northern Ireland Electricity plc (NIE). After making this contribution, Moyle was able to increase the cash reserves in its Distributions Account by £15.8m, which will enable further consumer returns to be made in future years.

The energy consumers of Northern Ireland meet PTL's costs through the company's revenue from the POT. The required revenue is determined in advance, in dialogue with the Northern Ireland Authority for Energy Regulation (NIAER), based on anticipated costs. Any efficiency gains or surpluses achieved by PTL through reduction in its costs are returned to shippers by way of a year end reconciliation payment. The company's success in maximising its returns to and minimising receipts from consumers is therefore reflected in a lowering of the required revenue from the POT. For the gas year ended 30th September 2005, PTL's actual required revenue from the POT was £16.2m. Under its previous ownership, the forecast required revenue for the same year was £21.7m. The reduction is due to the combination of the cost of capital savings resulting from mutualisation (part year only) and operational cost savings of £0.7m. The operational cost savings, combined with outperformance on volume, allowed PTL to return £2.0m to the POT in reconciliation payments.

"At year end, Moyle set aside £12.4m as a substantial contribution towards lower electricity prices in Northern Ireland in the coming year."

Key Performance Indicators

In setting the Key Performance Indicators (KPIs) for the Group in its first year, the directors have taken account of the nature of the Group and the changes in its business. The directors consider that the performance of the Group in maximising value to our stakeholders can most appropriately be measured by reference to a set of KPIs chosen to reflect what is important to those stakeholders.

The Group's main businesses are in the operation of regulated debt-financed infrastructure assets. These businesses generate cash and are structured to meet the requirements of their financiers and to minimise costs to consumers. By their nature, they are not necessarily profitable in their early years. While the Group strives towards profitability, its contribution to the energy consumers of Northern Ireland is best measured by its cash returns to or receipts from consumers.

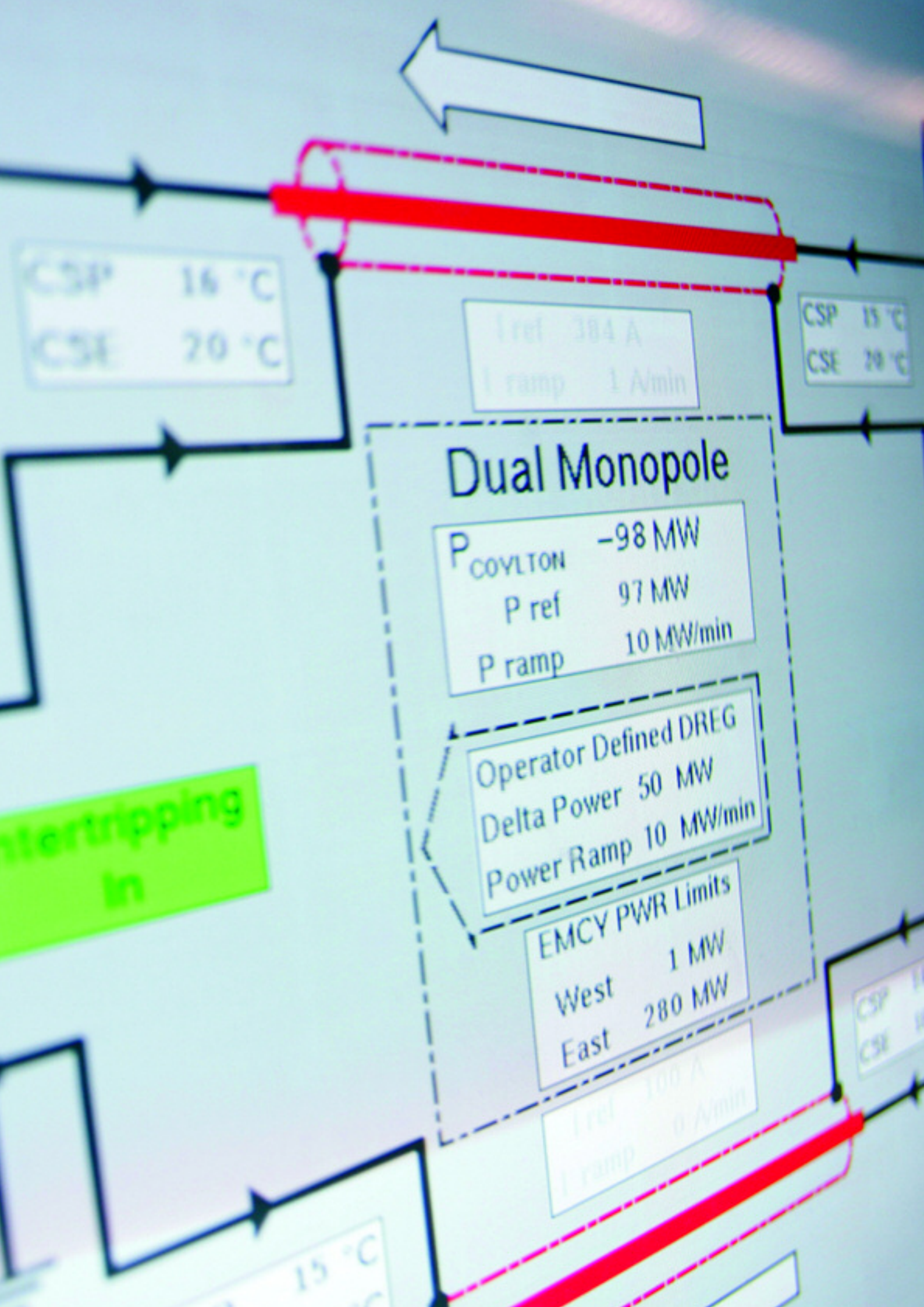
The electricity customers of Northern Ireland underwrite any revenue shortfalls incurred by Moyle and the Group's surpluses are used on their behalf. The relevant KPIs therefore measure cash required from consumers or transferred to Moyle's Distributions Account or disbursed on consumers' behalf.

The gas and electricity customers of Northern Ireland provide PTL's required revenue through the POT. The relevant KPI therefore measures PTL's forecast required revenue for the gas year (the year ending 30th September 2006), which will be collected from customers through the POT. The saving to customers from mutualisation is shown by the comparison with the amount which would have been collected in the previous gas year based on the forecast required revenue under the previous ownership.

In addition to compliance with the respective financing covenants, the principal requirements of Moyle's and PTL's financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle and 1.25 for PTL.

The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. As availability should be at or close to 100%, the KPI is expressed as its inverse, unavailability. Moyle measures its unavailability in accordance with the international standard reporting protocol for the performance of High Voltage Direct Current (HVDC) links published by CIGRÉ (the international committee of electricity transmission networks), against the independent estimate of 2.1% made by the technical advisers to its financiers. As PTL provides the only supply of gas to Northern Ireland, the directors have set a target of 0% unavailability.

Key Performance Indicator	2006	2005
Cash called under Moyle Collection Agency	Nil	Nil
Cash transferred to Moyle Distributions Account	£15.6m	£4.2m
Moyle Distributions Account disbursements	£4.8m	£2.3m
PTL forecast required revenue from the POT	£14.4m	£21.7m
ADSCR - Moyle	1.85	2.28
ADSCR - PTL	2.30	N/A
Unavailability - Moyle	1.1%	0.4%
Unavailability - PTL	0%	N/A
Group loss after tax	£4.5m	N/A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Operating Company Performance

Revenue and Profitability - Moyle Group

The market for electricity transmission capacity between Northern Ireland and Great Britain changed significantly early in 2005 with the result that there was no demand for Moyle capacity in the annual auctions for 2005-06. The introduction of monthly auctions offering flexible capacity products resulted in capacity sales for the year reaching 85.2% of available east-west transmission capacity, albeit at much lower prices than achieved in the previous year. There continued to be no market demand for west-east capacity. A new contract with the system operator permitted inter-system trading and provided additional revenue. Annual revenue, at £12.2m, was nevertheless markedly reduced from 2005 (£20.8m before customer rebate).

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £6.6m (2005 - £10.6m). The group made an operating profit of £3.0m (2005 - £7.2m).

Revenue and Profitability - Premier Transmission Group

Under PTL's licence, the company's revenue is regulated so as to match its debt service costs and operating expenditure in cash terms, with an annual reconciliation of actual to forecast being agreed with the Northern Ireland Authority for Energy Regulation (NIAER). At the November 2005 reconciliation, the achievement by PTL of reduced operating costs together with increased gas volumes resulted in the company being able to return £2.0m to shippers.

Being regulated in this way, all of PTL's operating cost savings are passed through to consumers as reduced revenue from the POT. As a result, although the PTL group is cash generative and able to meet its debt service obligations, the group is not expected to be profitable for some years.

The directors consider that the performance of the PTL group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £4.6m. The group made an operating profit of £1.1m in the year to 31st March 2006.

Operational Performance - Moyle group

Moyle's operational performance was again better than the technical adviser's predictions, with an overall availability of 98.9% for the year (99.6% in 2005) against the prediction of 97.9%. The cable system continued to perform without incident. This high availability was of considerable benefit to the electricity system of Northern Ireland on a number of occasions during the year, enabling the system operator to obtain energy from Scotland when supplies throughout Ireland were under severe pressure.

The necessary maintenance was carried out when customer demand for interconnector capacity was at its lowest and advantage was taken of the low summer demand to carry out additional condition monitoring which will enhance reliability in future years. A remedial work programme carried out during the year on the converter station filters has eliminated a design defect which had been responsible for a small number of unplanned outages.

Operational Performance - Premier Transmission group

The availability of PTL's assets in the 15 months to 31st March 2006 was 100%. Following the acquisition by NIEH, the new management team progressively took over operational control. This process was completed on 1st July 2005, with no adverse effect on safe operations or service to shippers and consumers.

Group Financial Review

Revenue, Profitability and Surplus

Group revenue in the period to 31st March 2006 was £26.9m. It should be noted that the PTL turnover of £14.8m included in this figure was for 15 months due to its change of financial year to align with the Group's financial year. The corresponding figure for the 12 months to the same date was £13.7m. Group operating profit before interest and tax was £4.3m. After accounting for debt service, the Group made an after-tax loss of £4.5 m.

The funds of £4.8m in Moyle's Distributions Account prior to year end will be used, together with previous year's operating surpluses, to meet the deficit expected by the company in 2006-07 thus avoiding any cash call on electricity customers. The remainder of Moyle's cash surplus of £15.6m at year end was transferred to the company's Distributions Account as required under its regulatory and financing arrangements. Moyle has received approval from NIAER to transfer £10.3m from the Distributions Account to the Group for the purpose of investment in the renewable energy investment fund which NIEH is to co-found. The remainder of the funds are available for use for the benefit of electricity consumers in Northern Ireland in consultation with NIAER.

Debt Service and Liquidity

Under their respective financing documents, the ongoing ability of Moyle and PTL to meet their debt service obligations is measured by the ADSCR at the level of Moyle and PTL. For the year under review, the ADSCRs, calculated by comparing the actual cash flows with the debt service payments which they funded, were 1.85 against a required figure of 1.15 for Moyle and 2.30 against a required figure of 1.25 for PTL.

The Group has minimal liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts were fully funded and liquidity facilities were in place throughout the year for both Moyle and PTL.

Treasury

The Group's only borrowings are those of its operating subsidiaries - the Index Linked Guaranteed Secured Bonds 2033 issued by Moyle Interconnector (Financing) plc and the Guaranteed Secured Bonds 2030 issued by Premier Transmission Financing plc. The latter company has also entered into a derivative transaction which has the effect of index-linking the payments on its bonds. The purpose of these arrangements is to manage the index risk arising from the Group's sources of long-term finance. The Group does not enter into any other derivative transactions or trade in financial instruments.

The Group's treasury policies, determined by the terms of its long-term bond financing, are aimed at minimising the risks associated with the Group's financial assets and liabilities. Where the Group provides its transmission services on deferred terms to parties who do not hold an appropriate credit rating, security cover is required. The cash reserves of the Group are held in interest-bearing accounts or invested in fixed term deposits of up to one year spread across a panel of approved banks and financial institutions having high credit ratings.

Interest received for the period was £3.4 m.

Business Trends

Investment Plans

The Group is developing its investment plans for the best use of the funds available to it, so as to maximise long term value to the energy consumers of Northern Ireland. Conscious of the pressures on consumers both now and into the future and taking account of the responses to NIAER's February 2006 consultation on the options for the Group, these plans will be based on achieving the most appropriate balance of short-, medium- and long-term considerations.

The first investment by the Group outside its present Moyle and PTL businesses will be in the Irish Renewable and Sustainable Energy Fund, which is expected to attract funds of up to £150m for investment in renewable energy projects throughout Ireland. The NIEH Group, as the founding investor, intends to invest up to £10m in the Fund. The directors are confident that this investment will provide a good return to the energy consumers of Northern Ireland as well as contributing to the implementation of government policies on renewable energy and the environment. The directors greatly appreciate the support of NIAER for this project.

Electricity Markets

The market trends causing low demand for Moyle capacity in 2005-06 - high wholesale electricity prices in Great Britain, excess generating capacity in Northern Ireland and limitations on North-South Interconnector capacity between Northern Ireland and the Republic of Ireland - continue to depress demand into 2006-07.

In the January 2006 auction, for the second year running, no bids were received for the annual east-west transmission capacity contracts offered to the market. Although the effect of this will be offset to some extent by the sale of west-east transmission capacity contracts for the first time, revenue in 2006-07 will nevertheless be significantly below that of the year under review, further affecting profitability and cash reserves. To meet Moyle's financing and operating costs in 2006-07 without recourse to electricity customers, the company will apply Distributions Account funds and draw down cash reserves totalling £12.4m.

Work is in hand to develop new revenue streams derived both from capacity offerings to the market and from other services which the interconnector can provide to the system.

Gas Markets

Wholesale gas prices spiked in November 2005 and have remained high since then. This reduced PTL's gas volumes transported in winter 2005-06, with the power stations in Northern Ireland switching to alternative fuels. This situation is expected to reverse through summer 2006 when additional gas will be shipped.

An 18 inch pipeline from Dublin to Belfast ("the South/North Pipeline") is under construction and is expected to be commissioned by the end of 2006. This will provide supplies to customers south of Belfast and an alternative route for gas transportation into Northern Ireland. It will also provide enhanced security of supply for distribution companies in the unlikely event that SNIP is unavailable. Network studies indicate that SNIP has the capacity to supply Northern Ireland until the winter of 2008-9.

Regulatory Developments

The work led by the energy regulatory authorities in Ireland (NIAER in Northern Ireland and the Commission for Energy Regulation (CER) in the Republic of Ireland) on the creation of a single electricity market (SEM) for the island of Ireland has continued. The SEM, scheduled to come into operation in November 2007, will have a major effect on Moyle's business. The market rules are approaching the final stage of development and important decisions which will determine how Moyle's business will be affected are to be made in the near future. Moyle continues to work closely with the regulatory authorities on these developments.

In relation to gas regulation, activity is continuing to accommodate the South/North Pipeline and to simplify gas transportation to Northern Ireland. PTL is actively involved in these developments.

Resources and Relationships

The business model of the expanded Group continues to be based on debt financing and outsourcing. The PTL acquisition and the Moyle merger have permitted improved management arrangements to be put in place.

The Group has four employees, including the Managing Directors of Moyle and PTL. This integrated management team, together with the Group's relationships with its professional advisers and appropriate insurance arrangements, is considered to be robust against management contingencies and effective in succession terms. The management team has had considerable support from the non-executive directors throughout the major changes to the Group over the last year.

For most of its business activities, the Group relies on its network of professional advisers and contractors. While ensuring that contracts are at market rates, the Group aims to build relatively long-term relationships of the order of five years.

During the year, the Group ensured full compliance with all terms of the financing of Moyle and PTL and maintained good relations with the respective bond financiers, represented by, for Moyle, Financial Security Assurance (U.K.) Limited as controlling creditor and the Bank of New York as trustee and, for PTL, Financial Guaranty Insurance Company as controlling creditor and Prudential Trustee Company Limited as trustee.

Moyle and PTL, the operating companies of the Group, are regulated by NIAER under the terms of their electricity transmission and gas conveyance licences respectively and the directions issued by NIAER under those licences. The Group aims to work closely with NIAER to build a long-term co-operative relationship in the interest of consumers and meets regularly with NIAER at various levels to this end.

Environment and Safety

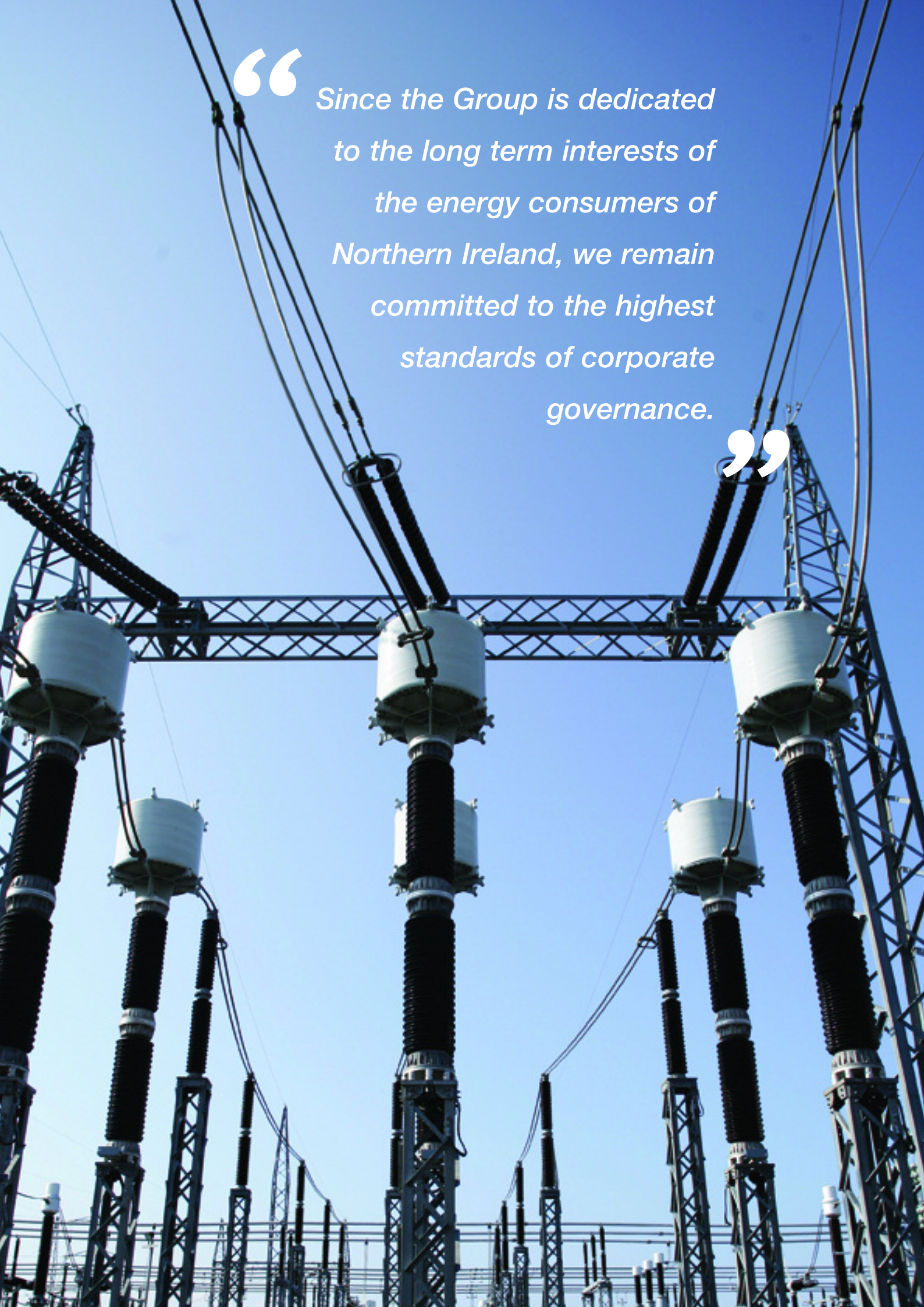
The Group puts a high value on the safety of its operations and recognises the importance of minimising the impact of its activities on the environment, both locally and in the global context.

Both of the operating companies of the Group have delivered highly reliable energy transmission services to their customers without lost time accidents or public safety incidents.

Both PTL and Moyle maintain regular contact with all the landowners through whose land our pipeline and cables pass, to ensure that any land issues are addressed and that no works by others are taking place in the vicinity of our installations.

PTL uses significant quantities of gas for compressing and heating the gas we transport. The company measures the quantities used and will set targets to reduce these in coming years. All gas vented during operations will in future also be calculated.

Moyle has taken the necessary measures to minimise any possible telephone interference effects due to harmonic emissions from its converter stations. Final resolution has yet to be reached with BT in relation to earlier claims in relation to such interference.



"Since the Group is dedicated to the long term interests of the energy consumers of Northern Ireland, we remain committed to the highest standards of corporate governance."

Board of Directors

Alasdair J.D. Locke (52) Chairman
Alasdair Locke is the executive chairman of Abbot Group plc, an international energy services provider to the oil and gas industry, and holds directorships in a range of other companies. He has been involved in the oil and shipping industries since 1974 and held senior executive positions within the banking industry. Mr Locke was formerly a member of the International Oil and Gas Business Advisory Board which advised the Department of Trade and Industry.

Alan McClure (57) Senior Independent Director
Alan McClure is the former President and CEO of Perfecseal Inc. and is the past Chairman of Ilex Urban Regeneration Company Limited, a public-private sector body set up by Government to oversee the social and economic regeneration of Derry City Council area. A former Chairman of the Northern Ireland Institute of Directors and President of Londonderry Chamber of Commerce. Dr. McClure holds executive and non-executive roles in a number of companies across a range of disciplines in the United Kingdom.

David Montgomery (57)
David Montgomery has held a range of editorial positions at major newspapers since 1980. In 1992 he reconstructed the Mirror Group and grew it into a broader based media business. He was Chief Executive of the Group until 1999. Since then he has advised on numerous media acquisition projects, most recently with Local Press in Northern Ireland and remains actively involved in the media industry.

Felicity Huston (43)
Felicity Huston is a Partner in Huston and Co Tax Consultants, having been a partner for eleven years and prior to that a tax inspector for six years. She was Chairman of the Northern Ireland Consumer Committee for Electricity - the electricity consumer's watchdog - for three years until abolition in 2003. Before that Mrs Huston was Deputy Chairman and Energy Convenor of the General Consumer Council Northern Ireland, specialising in gas issues. She currently holds a number of public appointments, including that of Commissioner for the House of Lords Appointments Commission since 2000, and was appointed Commissioner for Public Appointment for Northern Ireland in August 2005. Felicity is a Board Member of Belfast Charitable Society - Clifton House - and a Trustee of Assisi Animal Sanctuary in Newtownards.

Damian McAteer (50)
Damian McAteer is a graduate of University of Ulster and Strathclyde University Business School. He has extensive experience in business, community and the public sector. Mr. McAteer holds a number of directorships in private business and serves in a voluntary capacity on the boards of a range of community and voluntary organisations. He is a former special advisor to both the Minister of Finance and the Deputy First Minster in the Northern Ireland Executive.

Nuala Sheeran (33)
Director of Northern Ireland Energy Holdings Limited since August 2005. A partner in the firm of solicitors Mills Selig, Nuala Sheeran has experience in the acquisition and disposal of businesses and companies, equity investments, MBOs, director's roles, forensic investigations, corporate banking, general corporate work and joint venture agreements.

Alan Rainey (59) Executive Director
Alan Rainey has been Managing Director of the Moyle Group since its inception, having previously directed the Moyle Interconnector project in the ownership of Viridian Group PLC since the initial feasibility studies. An electrical engineer by profession he has worked on and directed the development and maintenance of generation, transmission and distribution systems throughout Ireland and overseas, working initially for ESB in the Republic and latterly for the Viridian Group in Northern Ireland.

Corporate Governance Statement

The Group is committed to high standards of corporate governance. This statement explains how the Group has applied the main and supporting principles of corporate governance and describes the Group's compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council in July 2003 and appended to the listing rules.

As the only listed securities of the Group are the debt securities of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc, the Group is not obliged to comply with the Code, but instead uses its provisions as a guide to the extent considered appropriate to the circumstances of the Group.

Statement of Compliance

Subject to the matter below the Group has complied with the provisions set out in Section 1 of the revised Code throughout the year.

One of the Group's directors had a business relationship with the Group during the period. This relationship was initially in place prior to the Group being incorporated.

The Board

An effective board of directors leads and controls the Group. The board, which met 13 times during the year, has adopted a schedule of matters reserved for its approval.

The board is responsible for:

- the development of strategy and major policies;
- the review of management performance;
- the approval of the annual operating plan and the financial statements;
- the system of internal control;
- corporate governance; and
- other reserved matters.

Comprehensive briefing papers, including financial information, are circulated to each director in advance of board meetings. The directors also receive regular updates on changes and developments to the business, legislative and regulatory environments. A procedure is in place for directors to obtain independent professional advice in respect of their duties. All directors have access to the advice and services of the Company Secretary.

New directors receive induction on their appointment to the board covering the activities of the Group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the Group.

The committees of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc meet concurrently with those of Northern Ireland Energy Holdings Limited.

Board Membership

Directors & Meetings Attended	Board	Nominations Committee	Remuneration Committee	Audit Committee
Alasdair Locke	12	1	2	
Alan McClure	11	2	2	2
David Montgomery	10	1	2	1
Felicity Huston	12	2	2	4
Damian McAteer	13	2	2	4
Nuala Sheeran	8	1	1	3
Alan Rainey	7			

Nuala Sheeran became a member of the Group board on 3rd August 2005.

Since 12th October 2005, there has been one executive director, Alan Rainey, on the Group board. He is the managing director of Moyle Interconnector (Financing) plc and is also a director of Premier Transmission Financing plc.

William Cargo is not a member of the Group board. He is the managing director of Premier Transmission Financing plc and is also a director of Moyle Interconnector (Financing) plc.

The names of the directors of each of the Group companies and their details appear on the first page of the Directors' Report for that company.

Throughout the year, the Chairman and the other non-executive directors were independent of management and, except for David Montgomery, were independent of any business relationship with the Group. The Senior Independent Director was Alan McClure. From time to time the non-executive directors, including the Chairman, met independently of management. In 2005/06, the

Chairman's performance was appraised as part of the board evaluation process (see below).

During the period Mecom UK Management Company Limited, a company of which David Montgomery is a director and significant shareholder via its parent Mecom Group plc, received a consultancy fee of £200,000 for the successful completion of the acquisition of Premier Transmission Limited. This was approved in advance by the Northern Ireland Authority for Energy Regulation (NIAER).

Board appointments and evaluation

There is a formal, rigorous and transparent procedure for the appointment of new directors to the board. All directors joining the board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election after three years. The non-executive directors can serve only two terms of three years.

During the year an internal review of the board was conducted covering the role and organisation of the board, meeting arrangements, information provision and committee effectiveness. Where areas for improvement have been identified, actions have been agreed. Alan McClure as Senior Independent Director led a meeting of the non-executive directors to appraise the performance of the Chairman and the results of the appraisal were subsequently discussed with the Chairman.

Board committees

The following committees deal with specific aspects of the Group's affairs.

Audit Committee

The members of the Audit Committee are Felicity Huston (Chairman), Alan McClure, David Montgomery, Damian McAteer and Nuala Sheeran. The board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience. Meetings were also attended, by invitation, by the external audit partner and the executive directors of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc.

The role and responsibilities of the Audit Committee are set out in its terms of reference and are described in more detail in the Audit Committee Report.

Remuneration Committee

The Remuneration Committee is chaired by Alasdair Locke. Its members comprise all the non-executive directors. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report.

Nominations Committee

The Nominations Committee comprises all the non-executive directors and is chaired by the Chairman.

The committee makes recommendations to the board for the appointment or replacement of directors. The Nominations Committee is also responsible for succession planning and board evaluation. The committee regularly reviews the balance of skills, knowledge and experience on the board against current and future requirements of the Group and, as appropriate, draws up a list of required attributes.

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the Company and two independent representatives of NIAER. During the year, Alan McClure (Chairman) and Felicity Huston were the non-executive director members of the Committee.

The role of the Membership Selections Committee is to select suitable potential members of the Company (see section below) and to recommend their appointment to the board. The Committee assesses potential members on the basis of their possession of the necessary skills, expertise, industry experience and/or capacity to contribute to the membership's key governance roles and, in particular, to represent effectively the interests of consumers.

During the year, the Membership Selections Committee selected candidates through two routes:-

- key stakeholders and consumer groups were asked to put forward candidates for consideration; and
- the Committee held an open and transparent recruitment process similar to that used for public appointments.

The Membership Selections Committee assessed applications from potential members after interview and recommended a list of candidates to the board.

Strategic Planning Committee

During the year, the Strategic Planning Committee met four times to progress and monitor the development of the Group's strategy. The Committee was chaired by Alan McClure and its members were Felicity Huston, Damian McAteer and Nuala Sheeran.

Remuneration Committee Report

The only listed securities of the Group are the debt securities of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc. The Group therefore makes the following disclosures voluntarily and they are not intended to and do not comply with the requirements of Schedule 7(A) of the Companies (Northern Ireland) Order 1986.

The Remuneration Committee is chaired by Alasdair Locke and comprises all of the non-executive directors. The executive directors of the Group companies do not attend meetings of the Remuneration Committee. All non-executive directors of the Committee are independent and save for their directors' fees have no financial interest in the Group. The Remuneration Committee met twice during the year with attendance as listed in the Corporate Governance Statement. The role of the Remuneration Committee is to approve and implement the remuneration policy and specifically:

- to review annually and agree the broad policy and framework for the remuneration of the non-executive and executive directors;
- to agree the terms of the executive directors' service contracts and remuneration; and
- to determine the nature and scale of performance arrangements that encourage enhanced performance and reward the executive directors in a fair and responsible manner for their contributions to the success of the Company.

In its work the Committee considers the principles of best practice. The Company Secretary, Arthur Cox Northern Ireland, normally attends its meetings.

Remuneration Policy

The policy of the Committee is that levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the companies of the Group successfully in the interests of their stakeholders. The executive directors' remuneration packages include basic salary, benefits, performance related bonus and pension benefits, with a significant proportion based on performance measured by the achievement of corporate targets. Non-cash benefits include private health insurance.

Specifically, the remuneration policy seeks to:

- set fees and base salaries at market level for companies of a similar size, market and profile; and
- set incentive bonuses across a broad range of performance measures relevant to stakeholders.

The Group maintains liability insurance for the directors and officers of the Group and its subsidiaries.

Non-Executive Remuneration

The chairman and the non-executive directors are appointed under letters of appointment, which may be terminated by either party. No compensation is payable by the Group on termination of an appointment.

The time commitment of the non-executive directors to the development of the Group is significant and involves the operation of the full board of Northern Ireland Energy Holdings Limited and its subsidiaries together with the Audit, Remuneration, Nominations, Membership Selections and Strategic Planning Committees. During the 15 month period under review, the non-executive directors were deeply involved in consultation with the Northern Ireland Authority for Energy Regulation on the strategic direction for the Group and in the monitoring of the major developments in its operations.

Non-executive directors do not receive any bonuses or benefits in kind.

The remuneration of individual non-executive directors of Northern Ireland Energy Holdings Limited ("NIEH") for the year was as follows:

Non-Executive Directors	Fees for 2005/06 NIEH - 15 months £000	Fees for 2004/05 Moyle - 12 months £000
Alasdair Locke	53	17
Alan McClure	39	11
David Montgomery	31	11
Felicity Huston	39	11
Damian McAteer	31	11
Nuala Sheeran	16	
Totals	**209**	**61**

Remuneration Committee Report

Other than for Nuala Sheeran, the remuneration set out in the table above for 2005/06 is the aggregate of remuneration as non-executive directors of NIEH for the period from incorporation in January 2005 to 31st March 2006 and as non-executive directors of Moyle Holdings Limited for the period from 1st April 2005 to the merger in October 2005. The remuneration stated for 2004/05 was as non-executive directors of Moyle Holdings Limited. For Nuala Sheeran, the table includes remuneration as non-executive director of NIEH for the period from August 2005 to 31st March 2006.

Executive Remuneration

The remuneration of the executive directors of the Group was as follows:

Executive Directors	Basic salary for 2005/6 £000	Benefits in kind for 2005/6 £000	Performance Bonus for 2005/6 £000	Total £000
Alan Rainey	111	1	58	170
William Cargo	99	2	41	142

William Cargo is a director of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc but not of NIEH.

Alan Rainey's basic salary for 2004/5 was £101,000, with benefits in kind of £1,000 and a performance bonus of £46,000 equating to a total package of £148,000.

Performance Related Bonus

The executive performance related bonus arrangements are designed to align executive bonuses with improved customer service and the financial performance of the respective businesses.

The executive directors may earn an annual bonus of up to 50% of basic salary of which up to 75% is assessed against achievement of essential performance targets (for Moyle, asset performance, cost management and compliance; and for PTL, asset performance, cost management, compliance and business transition) and up to 25% is based on the level of outperformance over the essential performance targets and, in the case of Moyle, revenue. Annual bonus payments are non pensionable.

Service Contracts

The executive directors have service contracts that are subject to three months notice. The service contracts do not provide for compensation to be payable in the event of early termination by the Company and the policy of the Committee in the event of termination would be to mitigate any contractual liability to the fullest extent possible.

Pension

The Group operates a pension scheme for the Group's executive director. Contributions are assessed annually to ensure that the pension on retirement remains equivalent to comparable defined benefit schemes for employees in the electricity industry. For the executive director of the subsidiary companies, the Group makes defined contributions to the employee's personal pension plan.

Audit Committee Report

The main responsibilities of the Audit Committee are to:

- monitor the integrity of the Group's financial statements, reviewing the financial reporting judgements made;
- review the Group's internal controls and risk management systems;
- consider the need for an internal audit function;
- make recommendations to the board for approval by the members in general meeting, in relation to the appointment of the external auditors;
- approve the remuneration and terms of the external auditors and monitor their independence, objectivity and effectiveness; and
- develop policy on the engagement of the external auditors to supply non-audit services and report to the board with recommendations.

The Audit Committee comprises Felicity Huston (Chairman), Alan McClure, David Montgomery, Damian McAteer and Nuala Sheeran. The requirement in the Committee's Terms of Reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience is fulfilled by the Chairman.

The Committee met four times during the year with attendance as listed in the Corporate Governance Statement. Other than the Chairman, members receive no additional remuneration for their service on the Committee.

The Committee monitors and reviews the Group's financial statements, internal controls and risk management by receiving reports from and conducting formal meetings with management and the external auditors. Based on its review of the reports and the answers to its enquiries, the Committee was satisfied as to the integrity of the financial statements and the effectiveness of the external audit for the year under review.

The Committee has met with the external auditor on the subject of auditor independence. All non-audit assignments awarded to the external auditors are reported to the Audit Committee on an annual basis, along with a full breakdown of non-audit fees incurred during the year. The auditors have confirmed their independence in writing.

Based on their assessment of the independence and satisfactory performance of the external auditors, the Committee recommended to the Board that they be reappointed at the AGM.

The Committee continues to keep under review the need for an internal audit function. The Committee is satisfied for the present, given the scope of the Group's activities, internal controls and risk management are adequate without such a function.

Audit Committee Report

Bondholders

The directors are very conscious of their obligations to the bondholders in the finance documents. In addition to complying with their other reporting obligations, they make available to bondholders copies of the Annual Report.

Internal control

The board of directors is responsible for the Group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place for the year under review and up to the date of approval of the annual report and financial statements. The Group's key risk management processes and system of internal control procedures include the following:

Management structure

Authority to operate the various subsidiary companies is delegated to the executive directors of the Moyle Holdings Limited and Premier Transmission Holdings Limited subgroups within limits set by the board. Functional, operating and financial reporting standards are established by the executive directors, and are set out in the corporate procedures.

Identification of business risks

The major financial, commercial, legal, regulatory and operating risks within the Group are identified through the annual reporting procedures. The Audit Committee regularly reviews these risks to ensure that they are being effectively managed.

Budgetary process

The Group's financial reporting procedures include detailed operational budgets. The board reviews and approves these.

Going concern

After making enquiries, the board has a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the financial statements.

Members

As Northern Ireland Energy Holdings Limited, the holding company of the Group, is a company limited by guarantee, the board of directors are supervised in their leadership and control of the Group by the members. On the recommendation of the Membership Selections Committee at the conclusion of the procedure described on page 22, the board issued invitations to the recommended candidates and appointed the current members. The 30 members comprise the 6 non-executive directors of Northern Ireland Energy Holdings (see page 20) and 24 independent members, who are:

Clarke Black is a Fellow of the Royal Agricultural Societies and has an MBA. Currently CEO of the Ulster Farmers Union, he is a Director of several agricultural related companies, a member of the NI Food Strategy Implementation Partnership and a NI CBI Council member. He has 18 years experience in the banking industry, initially with UFB Humberclyde and latterly with Northern Bank and National Irish Bank.

Ashley Boreland has been employed in the public sector for over twenty-five years, eighteen of which have been with Ards Borough Council where he holds the post of Chief Executive. He has an LLB from the University of London, is a Fellow of the Institute of Chartered Secretaries and Administrators and is a Justice of the Peace.

Noel Brady has a BA in Business Studies and has his own management consultancy company, Consult Nb1 Limited. He is Chair and Fellow of the Sales Institute of Ireland and sits on the main committee of the IoD NI Division. He was formerly MD of SX3 from 1999-2004 and a Director of the CFM Group. Noel is a Non-Executive Director with the Driver and Vehicle Testing Agency and Real Time Systems Ltd of Carryduff.

David Brown has an MA in International Marketing, he is currently the Sales & Marketing Director at Airtricity and was formerly Head of Group Enterprise at BT, Group Commercial Director at AnswerCall Direct, Managing Director at Simentra and Business Development Director at Yates TR (NI) Ltd.

Jim Burgess Member of Moyle Holdings Limited since 2003. Formerly Director of the Consumer Power Corporation, James W Burgess Surveyors and Kenlin Properties.

John Campbell studied BA Tech Electrical & Electronic Engineering with further studies in Cert Applied Economics, Dip Management Studies, Dip Marketing, MBA MA in Human Resource Mgt, and Certified Dip in Accounting and Finance. John is currently the Chief Executive of Dungannon & South Tyrone Borough Council. Previous positions include heading up the Commercial Services Operations from 1999-2005 in Translink, Business Development and Improvement at Lamont Holdings PLC, and a variety of positions in British Telecom. John is a Board Member on the Sports Council for Northern Ireland, the Central Services Agency and Playing for Peace. He is also a lay magistrate.

Boyd Carson has a FCA qualification, and was a former Director of PricewaterhouseCoopers LLP in their New York office, before he returned to NI in 2005. He is currently pursuing interests in his family business, as well as acting as a Director of a property development company, Pearl Capital Limited, he is also the founder and Director of a travel related company, www.WhereWiseMenFish.com

Alan Clarke has a BSc in Geography, MSc in Tourism, MSc in Urban & Regional Planning, and a Diploma in Marketing and Company Direction. He is the CEO of the Northern Ireland Tourist Board. He has been CEO Aberdeen & Grampian Trust and has previously held various senior positions in tourism in Edinburgh & England.

Michael Doran is the Business Development Director with Rural Generation, a biomass company based in Londonderry. He is a Chartered Surveyor and Chairman of the RICS Environment faculty. He also represents the European Biomass Association on the Energy Crops sub-committee of the European Commission.

Seamus Downey has an M.Eng in Electrical & Electronic Engineering and an MBA. He is Power & Utilities Manager Invista Textiles (formerly Dupont). He is CBI Large User Representative and was Senior Electrical Manager with Dupont/Invista.

Malcolm Emery has an Advanced Diploma in Management Practice and an Agricultural Diploma. He is CEO of Rural Support and was MD LB Meats from 1997-2002. He is also Chairman of the Northern Ireland Food and Drinks Association.

Corporate Governance Statement

David Gavaghan Member of Moyle Holdings Limited since 2003. Chief Executive of the Strategic Investment Board for Northern Ireland since 2004. Extensive experience in project finance from his five years with David Wylde Project Finance. Formerly with SG Hambros and on secondment to DTI as Head of the Industrial Development Unit.

Dave Kirwan has a BE in Electronic Engineering and an MBA. He is Head of Strategic Investment (with responsibility for Northern Ireland) at Bord Gáis Eireann (NI). He was formerly General Manager Bord Gáis (NI) and he has held positions as Senior Business Analyst Bord Gáis Eireann and worked at ESB from 1992-1998.

Eddie Magowan is a qualified Accountant (FCCA) and holds an MSc in Computing and Information Systems. He is currently Director of Development and Corporate Services at Northern Ireland Hospice Care and has held various Board positions including FD of First Software (UK) Ltd and Commercial Director of Service and Systems Solutions Ltd. (Sx3). He also spent 16 years with NIE, latterly specialising in Financial Modelling.

Jim McCusker Member of Moyle Holdings since 2003, nominated by the Irish Congress of Trade Unions. Formerly director of the Consumer Power Corporation. Most of his working life has been spent with NIPSA (Northern Ireland Public Service Alliance), where he held the position of General Secretary from 1977 until his retirement in 2003. In addition to being a Board member of the Labour Relations Agency, Jim holds a number of other appointments including membership of the European Economic and Social Committee, Council for Healthcare Regulatory Excellence, Economic Development Forum and Concordia.

Colm McGarry has a MSc Social Policy Planning & Admin, FCIPD. He recently retired as CEO Larne Borough Council, and was formerly General Manager ORTUS and worked at the Northern Ireland Housing Executive from 1973 to 1998 latterly as assistant director (Corporate Services).

John McLean has a BEng, and an MSc in Computer Engineering Design, an MBA and is Member of the Institute of Engineers of Ireland. He is CEO of FOLD Housing, formerly Commercial Director NIE Powerteam, and was with TYCO as Commercial Director from 1996 to 1999 and Rotary Ltd as Commercial Director from 1994 to 1996.

Gordon Millington has a DSc (Honoris Causa) and is a Fellow of the Institution of Civil Engineers, Fellow of Engineers Ireland, Fellow of the Institution of Highways and Transportation and Fellow of the Irish Academy of Engineering. He is retired and was formerly Senior Partner at Kirk McClure & Morton.

Allister Murphy has a HND in Electrical Engineering. He is a Consultant at Hays IT and was formerly IT Manager NIGEN and 1st Engineer NIE 1980-1992. Allister is also a member of the Institute of Measurement & Control.

Neville Orr Member of Moyle Holdings Limited since 2003. Formerly Director of the Consumer Power Corporation. Managing Director of Herdmans Limited. Former Chairman for the Northern Ireland Regional Euro Forum initiative (out of 12 regional business leaders throughout the UK). Neville is also a non-executive director of Altnagelvin Hospitals Health and Social Services Trust.

Niall Rafferty has an ACMA and is Regional Manager Ireland, SCA Packaging. He was Finance Manager with BE Aerospace 1989-1997.

George Senniger has a Master of Science (Paris University) and an MBA. He is Managing Director at Thermomax. He was formerly MD at Montupet (UK) Ltd and has had various senior executive roles in large global organisations.

Karen Shearer is a Chartered Director and Fellow of the Institute of Chartered Accountants in Ireland. She is Finance Director at MSO Cleland and was previously employed by Lamont Holdings plc and Coopers & Lybrand.

Janice Tracey is currently the Chief Executive of the Chamber of Commerce in Derry. After graduating with a First in Business Studies, she held various positions in the public sector and moved into the private sector in 1998. Janice's key areas of responsibility within the Chamber are Strategy, Policy, PR and Finance.

Northern Ireland Energy Holdings Limited

(a private company limited by guarantee and not having a share capital)

Report and Financial Statements

31 March 2006

Directors

Alasdair Locke	Chairman
Alan McClure	Senior Independent Director
David Montgomery	
Felicity Huston	
Damian McAteer	
Nuala Sheeran	
Alan Rainey	

Secretary

Arthur Cox Northern Ireland

Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast BT2 7DT

Bankers

Royal Bank Of Scotland
London Corporate Service Centre
PO Box 39952
2 ½ Devonshire Square
London EC2M 4XJ

Barclays
Imperial House
Donegal Square East
Belfast BT1 5HD

Solicitors

Arthur Cox Northern Ireland
Capital House
3 Upper Queen Street
Belfast BT1 6PU

Registered Office

Capital House
3 Upper Queen Street
Belfast BT1 6PU

Registered No: NI 053759

Directors' Report

The directors are pleased to present their report and financial statements for the period ended 31 March 2006.

Results

The loss for the period after taxation was £4,524,000.

Principal activity and review of the business

The company was incorporated on 31 January 2005.

The Group's principal activities during the period were the financing and operation through its subsidiaries of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, and the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the interconnector and the pipeline. The business of the Group and future developments in relation to the interconnector and pipeline are reviewed in the Chairman's Statement and the Operating and Financial Review.

Directors and their interests

The present directors of the Company are listed on page 30.

The directors have no beneficial interests in the share capital of the Company or any other Group Company.

In accordance with Article 22 of the Company's Articles of Association the directors are not required to retire by rotation.

Director's appointments and resignations from the date of incorporation to present are summarised below:

On incorporation of the Company, MD Directors Limited and MD Secretaries Limited were appointed as directors of the Company, and MD Secretaries Limited was appointed as the Company secretary.

On 2 February 2005 MD Directors Limited and MD Secretaries Limited resigned as directors of the Company, and MD Secretaries Limited resigned as the Company secretary. At the same date, Alasdair Locke, Alan McClure, Felicity Huston, Damian McAteer and David Montgomery were appointed as directors to the Company, and Arthur Cox Northern Ireland was appointed as Company Secretary.

On 3 August 2005, Nuala Sheeran was appointed as a director to the Company.

On 12 October 2005, Alan Rainey was appointed as a director to the Company.

Financial Instruments

The Group's financial risk management objectives and policies are discussed in the Treasury Policies section of the Group Operating and Financial Review.

Political and charitable donations

No charitable or political donations have been made during the year.

Auditors

Ernst & Young LLP were appointed as auditors on 17 March 2005 and have expressed their willingness to continue in office. A resolution proposing their re-appointment will be submitted at the annual general meeting.

Payment of suppliers

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The Group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The Group had trade payable days of 18 days at 31 March 2006.

Directors' statement as to disclosure of information to auditors.

The directors who were members of the board at the time of approving the directors' report are listed on page 30. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

To the best of each directors' knowledge and belief there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board
Arthur Cox Northern Ireland
Secretary
27 June 2006

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the shareholders of Northern Ireland Energy Holdings Limited (a private company limited by guarantee and not having a share capital)

We have audited the Group and parent Company financial statements (the "financial statements") of Northern Ireland Energy Holdings Limited for the period ended 31 March 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets and the Group and Company Cash Flow Statements and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and that the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Audit Committee Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Independent Auditors' Report

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its loss for the period then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the parent Company's affairs as at 31 March 2006; and;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and;
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
Belfast
27 June 2006

Group Income Statement

for the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Revenue – continuing operations	3	26,920	18,512
Operating costs	5	(22,629)	(11,341)
Earnings before depreciation and amortisation of intangible assets		11,215	10,605
Amortisation of intangible assets		(3,063)	(1,661)
Depreciation net of amortisation of government grants		(3,861)	(1,773)
Profit on ordinary activities before finance costs and taxation	6	4,291	7,171
Finance revenue	8	3,394	882
Finance costs	9	(13,258)	(8,179)
Loss before taxation		(5,573)	(126)
Taxation	10	1,049	113
Loss for the year		(4,524)	(13)

Group and Company Statement of Recognised Income and Expense

for the year ended 31 March 2006

	Group 2006 £000	Group 2005 £000	Company 2006 £000
Income and expense recognised directly in equity:			
Losses on cash flow hedges taken to equity	(7,301)	-	-
Taxation on items taken directly to equity	2,190	-	-
Net expense recognised directly in equity	(5,111)	-	-
Profit/(loss) for the year	(4,524)	(13)	1
Total recognised income and expense for the year	(9,635)	(13)	1

Group and Company Balance Sheet

At 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000
Assets				
Non current assets				
Property, plant and equipment	12	222,514	228,570	-
Intangible assets	13	93,172	96,235	-
Investment in subsidiaries	15	-	-	-
Other receivables		-	508	-
Financial assets	14	-	12,036	-
Deferred taxation asset	10	2,993	267	-
		318,679	337,616	-
Current assets				
Trade and other receivables	16	6,378	7,807	69
Income tax receivable		20	-	-
Financial Assets	14	12,036	18,053	-
Cash and short term deposits		56,726	35,111	-
		75,160	60,971	69
Total assets		393,839	398,587	69
Equity and liabilities				
Equity				
Equity share capital	22	-	-	-
Retained earnings	22	17,996	20,330	1
Cash flow hedge reserve	22	(7,301)	-	-
Total equity		10,695	20,330	1
Non current liabilities				
Interest bearing loans and borrowings	18	227,889	229,135	-
Provisions	19	3,694	3,543	-
Deferred tax liabilities	10	49,954	50,468	-
Government grants	20	80,522	83,211	-
Cash flow hedge	18	7,301	-	-
		369,360	366,357	-
Current liabilities				
Trade and other payables	17	4,843	5,249	68
Interest bearing loans and borrowings	18	6,253	3,963	-
Government grants	20	2,688	2,688	-
		13,784	11,900	68
Total liabilities		383,144	378,257	68
Total equity and liabilities		393,839	398,587	69

Directors: Alasdair Locke Felicity Huston (27 June 2006)

Group and Company Cash Flow

for the year ended 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000
Operating activities				
Profit on ordinary activities before finance costs and taxation		4,291	7,171	1
Adjustments to reconcile profit on ordinary activities before finance costs and taxation to cash generated from operations:				
Depreciation of property, plant and equipment		6,549	3,364	-
Amortisation of government grant		(2,688)	(1,591)	-
Amortisation of intangible assets		3,063	1,661	-
Decrease in trade and other receivables		20,652	1,699	(69)
Increase/(decrease) in trade and other payables		295	(1,334)	68
Movement in provisions		151	191	-
Cash generated from operations		32,313	11,161	-
Income tax paid		(456)	(125)	-
Net cash flow from operating activities		31,857	11,036	-
Investing activities				
Interest received		3,351	842	-
Purchase of property, plant and equipment		(493)	-	-
Acquisition of subsidiaries, net of cash acquired		-	(47,334)	-
Receipt for tax losses from previous owner		-	2,933	-
Net cash flow from investing activities		2,858	(43,559)	-
Financing activities				
Interest paid		(6,923)	(4,007)	-
Repayment of borrowings		(6,177)	(45,844)	-
Borrowing costs		-	(4,983)	-
Proceeds from borrowings		-	107,000	-
Net cash flow from financing activities		(13,100)	52,166	-
Increase in cash and cash equivalents		21,615	19,643	-
Cash and cash equivalents at the beginning of the year		35,111	15,468	-
Cash and cash equivalents at the year end	26	56,726	35,111	-

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group's and Company's financial statements of Northern Ireland Energy Holdings Limited for the period ended 31 March 2006 were authorised for issue by the board of the directors on 27 June 2006 and the balance sheets were signed on the board's behalf by Alasdair Locke and Felicity Huston.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as they apply to the financial statements of the Group and Company for the year ended 31 March 2006 applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The Group and Company financial statements are also consistent with International Financial Reporting Standards as issued by the IASB.

The Company has taken advantage of the exemption provided under Article 236 of the Companies (Northern Ireland) Order 1986 not to publish its individual income statement and related notes.

2. Accounting policies

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2006. Under the pooling method (refer to business combinations below), the Group accounts have been prepared for a 12 month period. The period of account for the Company of 14 months is longer than 12 months to ensure alignment of year end for all Group companies.

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of consolidation

The Group financial statements consolidate the financial statements of Northern Ireland Energy Holdings Limited and its subsidiary undertakings drawn up to the year end. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. All inter-Company balances and transactions, including unrealised profits arising from them, are eliminated.

Business combinations

Business combinations are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement.
After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory Company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Business combinations which are excluded from the scope of IFRS3 are accounted for using the pooling of interest method.

This method requires that the financial statement items of the combining entities for the period in which the combination occurred and for any comparative periods presented are to be included as if they had been combined from the beginning of the earliest period presented. The pre and post combination results of the pooled entities are included in the income statements. The existing carrying values of the assets and liabilities of the separate entities are combined in the balance sheets with no fair value adjustments made. Any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets, and the amount recorded for the share capital acquired is adjusted against equity; there is no recognition of any new goodwill or negative goodwill. Expenses relating to effecting the pooling of interests are recognised as expenses in the period in which they are incurred.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, is taken to the income statement in the year in which it is incurred.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

Licence – over the duration of the legal agreement;

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline and interconnector assets	40 years
Control and protection equipment	20 years
Office equipment	3 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the income statement. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate for new circumstances or changes in law or technology. The decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with Group policy.

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or Group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
Income tax is charged or credited directly to equity if it relates to items that are credited or charge to equity. Otherwise income tax is recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Derivative financial instruments and hedging activities

The Group uses a derivative financial instrument to hedge its risks associated with indexation fluctuations. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

The fair value of derivative contracts is determined by reference to market values for similar instruments.
For those derivatives designated as hedges and for

which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective proportion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the profit or loss, such as when the forecast sale occurs.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement. If the related transaction is not expected to occur, the amount is taken to the income statement.

Government grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by instalments over the expected useful lives of the related assets, in line with the depreciation policy. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

The Company's investment in subsidiaries

In its financial statements, the Company recognises its investment in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post acquisitions profits. Distribution received in excess of post acquisition profits are deducted from the cost of investment.

Pensions and other post-retirement benefits

The Group operates a defined contribution pension scheme for the managing director of Moyle Interconnector Limited, which requires contributions to be made to a separately administered fund. Under IAS19 this scheme has been treated as defined contributions, which is invested in a contracted in money purchase scheme with a major insurer. The insurance policy can only fund the employee's benefits and cannot be made available to the company. The company has no other liability other than to make a payment to the insurance policy until the employee's retirement. The targeted benefits are those which the employee was entitled from his previous employer. The cost of providing benefits under the plan is determined using an independent actuarial valuation. Contributions are recognised in the income statement in the period in which they become payable.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the pipeline and interconnector for the transmission of gas and electricity respectively between Scotland and Northern Ireland and recognised on a unit of capacity sold and provided basis.

Interest income is recognised as revenue as interest accrues using the effective interest method.

Borrowing costs

Interest on funding directly attributable to the construction of the interconnector was capitalised during the period of construction and is written off as part of the total cost over the operational life of the asset. All other finance income and costs are reflected in the income statement as they arise.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements (ie applicable to accounting periods beginning on or after the effective date). In addition, Northern Ireland Energy Holdings Limited has elected to early adopt IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures, as described in the accounting policy and relevant note.

International Accounting Standards (IAS / IFRSs)		*Effective date*
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	The Fair Value Option	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Net investment in a foreign operation	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Financial instruments, disclosures IAS 1 amendments	1 March 2006
IFRIC 8*	Scope of IFRS 2	1 May 2006
IFRIC 9*	Reassessment of embedded derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

* These standards have not yet been adopted by the European Union.

3. Revenue

Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland and the sale of capacity on the Scotland Northern Ireland pipeline for the transmission of gas between Northern Ireland and Scotland. All revenue is generated within the United Kingdom.

4. Segment information

The primary segment reporting format is determined to be business segments, as the Group's risks and rates of return are affected predominantly by differences in the services provided and as the operating Companies are separately financed and regulated. The operating businesses are organised and managed separately according to the nature of the services provided. The Moyle Interconnector sells capacity on an interconnector for the transmission of electricity between Scotland and Northern Ireland and Premier Transmission sells capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland.

All revenue is generated within the United Kingdom and as a result no secondary reporting format has been identified.

Year ended 31 March 2006	*Moyle Interconnector £000*	*Premier Transmission £000*	*Other £000*	*Total £000*
Segment revenue	12,159	14,761	-	26,920
Segment expenses	(9,014)	(13,616)	1	(22,629)
Segment results and profit before Finance costs and taxation	3,145	1,145	1	4,291
Finance revenue				3,394
Finance costs				(13,258)
Loss before taxation				(5,573)
Taxation				1,049
Loss for the year				(4,524)
Assets and liabilities				
Segment assets	171,814	147,858	92	319,764
Inter-group eliminations				(135)
Unallocated assets				74,210
Total assets				393,839
Segment liabilities	(53,005)	(38,772)	(90)	(91,867)
Inter-group eliminations				120
Unallocated liabilities				(291,397)
Total liabilities				(383,144)
Other segment information:				
Capital expenditure:				
Property, plant and equipment	348	145	-	493
Amortisation of intangible assets	(1,661)	(1,402)	-	(3,063)
Depreciation	(3,374)	(3,175)	-	(6,549)

4. Segment information (continued)

Year ended 31 March 2005

	Moyle Interconnector £000	*Premier Transmission £000*	*Other £000*	*Total £000*
Segment revenue	18,512	-	-	18,512
Segment expenses	(11,341)	-	-	(11,341)
Segment results and profit before Finance costs and taxation	7,171	-	-	7,171
Finance revenue				882
Finance costs				(8,179)
Loss before taxation				(126)
Taxation				113
Loss for the year				(13)
Assets and liabilities				
Segment assets	176,870	153,815	-	330,685
Unallocated assets				67,902
Total assets				398,587
Segment liabilities	(54,149)	(40,542)	-	(94,691)
Unallocated liabilities				(283,566)
Total liabilities				(378,257)
Other segment information:				
Capital expenditure:				
Property, plant and equipment	-	-	-	-
Property, plant and equipment acquired through business combinations	-	(108,043)	-	(108,043)
Amortisation of intangible assets	(1,661)	-	-	(1,661)
Depreciation	(3,364)	-	-	(3,364)

5. Operating costs

Operating costs were as follows:

	2006 £000	*2005 £000*
Cost of sales	18,218	9,999
Administrative expenses	4,411	1,342
	22,629	11,341

6. Operating profit

Operating profit is stated after charging:

	2006 £000	2005 £000
Depreciation charge on property, plant and equipment	6,549	3,364
Amortisation of deferred government grants	(2,688)	(1,591)
Auditors' remuneration in respect of services to the Group:		
- Audit services	48	15
- Non-audit services	22	6
Operating lease costs	139	82
Amortisation of intangible asset	3,063	1,661

7. Staff costs and directors' emoluments

(a) Staff costs

	2006 £000	2005 £000
Wages and salaries	500	166
Pension costs - defined contribution plan	51	24
	551	190

The average monthly number of employees during the year (including directors holding contracts of service with the Group) was 4 (2005:1).

(b) Directors' emoluments

	2006 £000	2005 £000
Emoluments	170	166
Contributions paid to defined contribution pension scheme	24	24
	No.	No.
Members of defined contribution pension scheme	1	1

The directors' emoluments figures reflect the remuneration of the Company's executive director, Alan Rainey. The remaining directors of the Company, who are also directors of Northern Ireland Energy Holdings Limited, Moyle Holdings Limited and Moyle Interconnector Limited, received total remuneration for the year of £209,000 (2005 - £61,000), all of which was paid by Moyle Holdings Limited and Northern Ireland Energy Holdings Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Northern Ireland Energy Holdings Limited, Moyle Holdings Limited and Moyle Interconnector Limited.

8. Finance Revenue

	2006 £000	2005 £000
Bank interest receivable	3,394	882

9. Finance costs

	2006 £000	2005 £000
Unwinding of discount on provisions	151	191
Bond interest and indexation	13,107	7,988
	13,258	8,179

10. Taxation

(a) Tax on profit on ordinary activities

Tax credited in the income statement

	2006 £000	2005 £000
Current income tax:		
UK corporation tax	-	-
	-	-
Current income tax charge	-	-
Amounts overprovided in previous years	-	(12)
Total current income tax	-	(12)
Deferred tax		
Deferred tax– prior year	(13)	-
Origination and reversal of temporary differences	(1,036)	(101)
Total deferred tax	(1,049)	(101)
Tax credit in the income statement	(1,049)	(113)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the year varies from the standard rate of corporation tax in the UK of 30% (2005 – 30%). The differences are reconciled below:

	2006 £000	2005 £000
Loss before taxation	(5,573)	(126)
Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2005 – 30%)	(1,672)	(38)
Deferred tax assets not recognised	217	(63)
Surrender of tax losses for nil consideration	419	-
Tax overprovided in previous years	(13)	(12)
Total tax expense reported in the income statement	(1,049)	(113)

10. Taxation (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2006 *£000*	*2005* *£000*
Deferred tax liability		
Accelerated capital allowances	22,732	22,058
Valuation of intangible asset on acquisition	27,222	28,410
Deferred tax liability	49,954	50,468
Deferred tax asset		
Deferred tax on cash flow hedge	2,190	-
Temporary differences arising from proceeds taxed on receipt	263	267
Tax losses carried forward	540	-
Deferred tax asset	2,993	267

The deferred tax included in the Group income statement is as follows:

	2006 *£000*	*2005* *£000*
Deferred tax in the income statement		
Accelerated capital allowances	406	383
Tax losses carried forward	(540)	(12)
Valuation of intangible assets	(919)	(498)
Temporary difference	4	14
Deferred income tax credit	(1,049)	(113)

	2006 *£000*	*2005* *£000*
Deferred tax relating to items charged to equity		
Cash flow hedge – tax impact	2,190	-
Tax credit in statement of recognised income and expenses	2,190	-

(d) An unrecognised tax asset of £228,000 exists at the year end within the Group. There is no expiry date for the use of these losses.

11. Profit attributable to members of the parent Company

The profit dealt with in the financial statements of the parent Company is £1,225.

12. Property, Plant and Equipment

Group

	Pipeline £000	*Interconnector £000*	*Control equipment £000*	*Office equipment £000*	*Total £000*
Cost					
At 1 April 2004	-	158,489	3,785	13	162,287
Capital rebate	-	(30,089)	-	-	(30,089)
Acquisition of subsidiary	108,043	-	-	-	108,043
At 31 March 2005	108,043	128,400	3,785	13	240,241
Additions	-	348	-	145	493
At 31 March 2006	108,043	128,748	3,785	158	240,734
Depreciation					
At 1 April 2004	-	7,925	378	4	8,307
Provided during the year	-	3,170	190	4	3,364
At 31 March 2005	-	11,095	568	8	11,671
Provided during the year	3,127	3,180	189	53	6,549
At 31 March 2006	3,127	14,275	757	61	18,220
Net book value					
At 31 March 2006	104,916	114,473	3,028	97	222,514
At 31 March 2005	108,043	117,305	3,217	5	228,570
At 1 April 2004	-	150,564	3,407	9	153,980

Included in the cost of the interconnector are amounts in respect of capitalised interest of £8,137,000 (2005- £8,137,000).

The Group became entitled to a repayment of £30,089,000 during 2004/05 from the original cost of the interconnector as a result of changes to the electricity trading market in Great Britain. £12,036,000 of this rebate is due in less than one year.

Company

The Company has no property, plant and equipment.

13. Intangible assets

Group

	Goodwill £000	*Licences £000*	*Total £000*
Cost			
At 1 April 2004	-	56,477	56,477
Acquisition of subsidiary	2,435	40,645	43,080
At 31 March 2005 and 31 March 2006	2,435	97,122	99,557
Amortisation			
At 1 April 2004	-	1,661	1,661
Provided during the year	-	1,661	1,661
At 31 March 2005	-	3,322	3,322
Provided during the year	-	3,063	3,063
At 31 March 2006	-	6,385	6,385
Net book value			
At 31 March 2006	2,435	90,737	93,172
At 31 March 2005	2,435	93,800	96,235
At 1 April 2004	-	54,816	54,816

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years and a minimum of 35 years. The Group has concluded that these assets have a useful life of 29 or 35 years.

Impairment testing

Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the gas pipeline.

The recoverable amount of the goodwill is based on value-in-use which has been determined using discounted future cashflows. The cashflow projections cover a 29 year period which matches the licence duration, and the useful life of the related assets. The key assumptions, which have been determined on the basis of managements experience, relate to all costs being pass through costs and that under the terms of the licence the Group can collect sufficient cash to service interest and loan repayment.

The projections are based on a financial model for a period of 29 years which has been approved by the board.

Discount rates reflect management's estimate of the weighted average cost of capital of the Group being 5.3226%.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

Company

The Company has no intangible assets.

14. Financial assets

Group	*2006 £000*	*2005 £000*
Financial assets – current:		
Capital rebate	12,036	18,053
Financial assets – non current	-	12,036

The capital rebate attracts interest at a range of rates between 5.8% and 6% and was due in less than two years on inception.

15. Investments

Company

	Subsidiary Undertaking £000
Cost and net book value at 31 March 2006	-

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital is as follows:

Name of Company	*Country of incorporation or registration*	*Holding*	*Proportion held*	*Nature of business*
Moyle Holdings Limited	Northern Ireland			Holding Company
Moyle Interconnector (Financing) plc*	Northern Ireland	Ordinary shares	100%	Financing
Moyle Interconnector Limited*	Northern Ireland	Ordinary shares	100%	Operation of Moyle Interconnector
Premier Transmission Holdings Limited	Northern Ireland			Holding Company
Premier Transmission Financing plc*	Northern Ireland	Ordinary shares	100%	Financing
Premier Transmission Limited*	Northern Ireland	Ordinary shares	100%	Operation of Scotland Northern Ireland Pipeline
Moyle Energy Investments Limited	Northern Ireland	Ordinary shares	100%	Dormant
Interconnector Services Limited	Northern Ireland	Ordinary shares	100%	Dormant

* held by subsidiary undertaking

The Company accounts for its investments in its subsidiaries at cost.

15. Investments (continued)

On 18 March 2005 the Group acquired 100% of the ordinary share capital of Premier Transmission Limited for a consideration of £51,307,000 in cash (including costs).

Analysis of the acquisition of Premier Transmission Limited

	Book Values £000	*Fair value to group £000*
Property, plant and equipment	108,043	108,043
Intangible assets	-	40,645
Other current assets	8,060	8,060
Bank	3,973	3,973
Other current liabilities	(2,764)	(2,764)
Deferred tax liability	(17,235)	(29,429)
Deferred income	(37,776)	(37,776)
Debt	(41,880)	(41,880)
Net assets	20,421	48,872
Goodwill arising on acquisition		2,435
		51,307
Discharged by:		
Cash		51,307

The business combination has contributed £1,145,000 to the net profit of the group, and £14,761,000 of revenue in 2006.

Included in the £2,435,000 of goodwill recognised are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include customer loyalty and an assembled workforce.

16. Trade and other receivables

		Group	*Company*
	2006 £000	*2005 £000*	*2006 £000*
Amounts falling due within one year:			
Trade receivables	1,931	559	-
Prepayments	1,503	1,595	-
Other debtors	2,944	5,653	-
Amounts owed by subsidiary undertakings	-	-	69
	6,378	7,807	69

17. Trade and other payables

	Group 2006 £000	Group 2005 £000	Company 2006 £000
Trade payables	674	451	5
Accruals and deferred income	3,611	1,894	30
Other tax and social security	488	812	-
Amounts owed to subsidiary undertakings	-	-	33
Other creditors	70	2,092	-
	4,843	5,249	68

18. Financial liabilities

Group

	2006 £000	2005 £000
Current instalments due on interest bearing loans and borrowings	6,253	3,963
Non current instalments due on interest bearing loans and borrowings	227,889	229,135
Cash flow hedge	7,301	-
	241,443	233,098
Interest bearing loans and borrowings comprise the following:		
2.937% index linked Guaranteed Secured Bond	131,030	131,081
5.2022% Guaranteed Secured Bond	103,112	102,017
	234,142	233,098

The 2.9376% index linked Guaranteed Secured Bonds 2033 were issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC. The indexation is based upon RPI. The bond is secured by fixed and floating charges over all the assets of the Moyle Group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Security Assurance (U.K) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the Group pays an index linked fee of 0.125% of the outstanding balance of the bond.

The 5.2022% Guaranteed Secured Bonds 2030 were issued during the period to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the Premier Transmission Group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, excluding default interest.

19. Provisions

Group

	Decom-missioning provision £000
At 1 April 2004	3,352
Unwinding of discount	191
At 31 March 2005	3,543
Unwinding of discount	151
At 31 March 2006	3,694

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 36 years, at the end of its useful economic life. This provision is expected to be utilised within 36 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 5.7% (2005 – 4.25%).

20. Government grants

Grants

	Deferred grants £000
Opening balance	49,713
Amortised during the year	(1,591)
Acquired with subsidiary	37,776
At 31 March 2005	85,898
Amortised during the year	(2,688)
At 31 March 2006	83,210

The current portion of the government grants is £2,688,000 (2005: £2,688,000) the non current portion is £80,522,000 (2005: £83,211,000).

The current portion of deferred income is £2,688,000. The non-current portion is £80,522,000

21. Members guarantee

In accordance with the Company Articles of Association the members have undertaken to contribute in the event of a winding up, a sum not exceeding £1. The number of members at the balance sheet date was 30, six of whom were directors of the Company.

22. Reconciliation of movements in equity

Group

	Equity share capital £000	*Cash flow hedge reserve £000*	*Retained earnings £000*	*Total £000*
Opening balance	-	-	20,343	20,343
Total recognised income and expense for the year	-	-	(13)	(13)
Balance at 31 March 2005	-	-	20,330	20,330
Total recognised income and expense	-	(7,301)	(2,334)	(9,635)
Balances at 31 March 2006	-	(7,301)	17,996	10,695

Company

	Equity Share Capital £000	*Retained earnings £000*	*Total £000*
At incorporation	-	-	-
Total recognised income and expense for the year	-	1	1
Balance at 31 March 2006	-	1	1

Cash flow hedge reserve

The cash flow hedge reserve is used to record the unrealised gains and losses incurred on the swap designated as a hedge of index-linked revenues received.

23. Obligations under leases

Operating lease agreements where the Group is lessee

The Group has entered into two commercial leases on land and these leases have a duration of 29 and 36 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2006 £000	*2005 £000*
Not later than one year	139	139
After one year but not more than five years	556	556
After five years	9,158	9,297
	9,853	9,992

24. Related parties

During the year the Group and Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

Company

	Amounts owed by related party £000	*Amounts owed to related party £000*
Subsidiaries		
2006	69	33

Compensation of key management personnel (including directors)

	2006 £000	*Group 2005 £000*	*Company 2006 £000*
Short term employee benefits	500	166	-
Post-employment benefits	51	24	-

During the year Mecom UK Management Company Limited of which David Montgomery is a Director and a significant shareholder via its parent Mecom Group Plc received a consultancy fee of £200,000 for the successful completion of the acquisition of Premier Transmission Limited.

25. Financial Instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies in the Operating and Financial Review.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 March is as follows:

Year ended 31 March 2006

Group

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Fixed Rate							
2.9376% index linked bond	(4,156)	(4,229)	(4,401)	(4,673)	(5,404)	(108,167)	(131,030)
5.2022% bond	(2,096)	(2,242)	(2,390)	(2,546)	(2,707)	(91,131)	(103,112)
Floating Rate							
Cash	56,726	-	-	-	-	-	56,726
Capital rebate	12,036	-	-	-	-	-	12,036

Year ended 31 March 2005

Group

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Fixed Rate							
2.9376% index linked bond	(3,963)	(4,033)	(4,102)	(4,269)	(4,534)	(110,180)	(131,081)
Floating Rate							
Cash	35,111	-	-	-	-	-	35,111
Capital rebate	18,053	12,036	-	-	-	-	30,089

25. Financial Instruments (continued)

Floating rate

Floating rate financial assets earn interest at a range of Bank of England base rate to Bank of England base rate plus 2%. The interest on the fixed rate financial assets is 3.75% to 4.88% which mature in less than one month. Financial assets on which no interest is earned are due to mature in one month.

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Fair values of financial assets and liabilities

The directors estimate fair value of all financial assets and liabilities to be equal to the book values with the exception of the 2.9375% index linked bond which has fair value of £79,717,000 (2005: £77,758,000) and the 5.2022% bond which has a fair value of £119,601,000. These fair values have been calculated by discounting the expected future cash flows at prevailing interest rates.

Hedge Activity

Cash flow hedges

At 31 March 2006, the Group held two index ratio based swaps designated as a hedge of indexed-linked revenues received. The terms of these contracts are that the Group pays a fixed amount multiplied by an index ratio based on the United Kingdom Retail Prices Index and receives an amount equal to the amount of scheduled principal repayable and scheduled interest payable under the bonds on that scheduled payment date.

The terms and length of the swap have been negotiated to match the terms and length of the commitments of the bond.

An unrealised loss of £7,301,000 was charged directly to equity during the period.

26. Cash and cash equivalents

Cash and cash equivalents are further analysed as:

		Group	*Company*
	2006	*2005*	*2006*
	£000	*£000*	*£000*
Cash at bank and in hand	31	4	-
Short term deposits	56,695	35,107	-
	56,726	35,111	-

Moyle Interconnector (Financing) plc

Report and Financial Statements

31 March 2006

Directors

Alasdair Locke	Chairman
Alan McClure	Senior Independent Director
David Montgomery	
Felicity Huston	
Damian McAteer	
Nuala Sheeran	
Alan Rainey	Managing Director
William Cargo	

Secretary

Arthur Cox Northern Ireland

Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Bankers

Royal Bank Of Scotland
London Corporate Service Centre
PO Box 39952
2 ½ Devonshire Square
London
EC2M 4XJ

Solicitors

Arthur Cox Northern Ireland
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Registered Office

Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Registered No: NI 45625

Directors' Report

The directors are pleased to present their report and financial statements for the year ended 31 March 2006.

Results and dividends

The loss for the year after taxation was £1,458,000 (2005: loss of £13,000). The directors do not recommend the payment of a dividend.

Principal activity and review of the business

The Group's principal activity during the year was the financing and operation through its subsidiary of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the interconnector. The business of the Group and future developments in relation to it are reviewed in the Chairman's Statement and the Operating and Financial Review contained within the financial statements of Northern Ireland Energy Holdings Ltd.

Directors and their interests

The present directors of the Company are listed on page 62.

Nuala Sheeran was appointed as a director on 12th October 2005.

The directors have no beneficial interests in the share capital of the Company, or any other Group Company.
In accordance with Article 22 of the Company's Articles of Association the directors are not required to retire by rotation.

Financial Instruments

The Group's financial risk management objectives and policies are discussed in the Treasury Policies section of the Group Operating and Financial Review of Northern Ireland Energy Holdings Limited.

Political and charitable donations

No charitable or political donations have been made during the year (2005:£nil).

Auditors

Ernst & Young LLP have expressed their willingness to continue in office. A resolution proposing their re-appointment will be submitted at the annual general meeting.

Payment of suppliers

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The Group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The Group had trade payable days of 7 days at 31 March 2006 (2005 – 24 days).

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 62. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

To the best of each directors' knowledge and belief there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board
Arthur Cox Northern Ireland
Secretary
27 June 2006

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the shareholders of Moyle Interconnector (Financing) plc

We have audited the Group and Company financial statements (the "financial statements") of Moyle Interconnector (Financing) plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets and the Group and Company Cash Flow Statements and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation and that the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

We also report to you 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 other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Audit Committee Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Independent Auditors' Report

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the parent Company's affairs as at 31 March 2006; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation
- The information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
Belfast
27 June 2006

Group Income Statement

for the year ended 31 March 2006

	Notes	2006 £000	2005 £000
Revenue before customer rebate		12,159	20,812
Customer rebate		-	(2,300)
Revenue – continuing operations	3	12,159	18,512
Operating costs	4	(9,014)	(11,341)
Earnings before depreciation and amortisation of intangible assets		6,588	10,605
Amortisation of intangible assets		(1,661)	(1,661)
Depreciation net of amortisation of government grants		(1,782)	(1,773)
Profit on ordinary activities before finance costs and taxation	5	3,145	7,171
Finance revenue	7	2,486	882
Finance costs	8	(7,747)	(8,179)
Loss before taxation		(2,116)	(126)
Taxation	9	658	113
Loss for the year all attributable to the parent company		(1,458)	(13)

Group and Company Statement of Recognised Income and Expense

for the year ended 31 March 2006

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Income and expense recognised directly in equity	-	-	-	-
(Loss)/profit for the year	(1,458)	(13)	35	68
Total recognised income and expense for the year all attributable to the parent company	(1,458)	(13)	35	68

Group and Company Balance Sheet

at 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Assets					
Non current assets					
Property, plant and equipment	11	117,501	120,527	-	-
Intangible assets	12	51,494	53,155	-	-
Investment in subsidiaries	14	-	-	20,950	20,950
Other receivables	15	-	508	-	-
Financial assets	13	-	12,036	108,746	109,154
Deferred tax asset	9	803	267	-	-
		169,798	186,493	129,696	130,104
Current assets					
Trade and other receivables	15	2,819	2,680	176	176
Financial assets	13	12,036	18,053	3,563	3,404
Cash and cash equivalents	28	39,173	19,375	-	-
		54,028	40,108	3,739	3,580
Total assets		223,826	226,601	133,435	133,684
Equity and liabilities					
Equity					
Equity share capital	22	50	50	50	50
Retained earnings	22	18,824	20,282	(308)	(343)
Total equity		18,874	20,332	(258)	(293)
Non current liabilities					
Interest bearing loans and borrowings	18	126,873	127,118	126,873	127,118
Other payables	17	-	-	-	1,320
Provisions	19	3,694	3,543	-	-
Deferred tax liabilities	9	20,917	21,039	-	-
Government grants	20	44,938	46,531	-	-
		196,422	198,231	126,873	128,438
Current liabilities					
Trade and other payables	16	2,781	2,483	2,663	1,576
Interest bearing loans and borrowings	18	4,157	3,963	4,157	3,963
Government grants	20	1,592	1,592	-	-
		8,530	8,038	6,820	5,539
Total liabilities		204,952	206,269	133,693	133,977
Total equity and liabilities		223,826	226,601	133,435	133,684

Directors: Alasdair Locke Felicity Huston (27 June 2006)

Group and Company Cash Flow

for the year ended 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Operating activities					
Profit/(Loss) on ordinary activities before finance costs and taxation		3,145	7,171	(35)	-
Adjustments to reconcile profit on ordinary activities before finance costs and taxation to cash generated from operations:					
Depreciation of property, plant and equipment		3,374	3,364	-	-
Amortisation of government grant		(1,592)	(1,591)	-	-
Amortisation of intangible assets		1,661	1,661	-	-
Decrease in trade and other receivables		18,843	1,699	-	-
Increase/(decrease) in trade and other payables		298	(1,334)	-	-
Movement in provisions		151	191	-	-
Cash generated from operations		25,880	11,161	(35)	-
Income tax paid		-	(125)	-	-
Net cash flow from operating activities		25,880	11,036	(35)	-
Investing activities					
Interest received		2,430	842	8,199	7,971
Purchase of property, plant and equipment		(348)	-	-	-
Net cash flow from investing activities		2,082	842	8,199	7,971
Financing activities					
Interest paid		(4,007)	(4,007)	(4,007)	(4,007)
Repayment of borrowings		(4,157)	(3,964)	(4,157)	(3,964)
Net cash flow from financing activities		(8,164)	(7,971)	(8,164)	(7,971)
Increase in cash and cash equivalents		19,798	3,907	-	-
Cash and cash equivalents at the beginning of the year		19,375	15,468	-	-
Cash and cash equivalents at the year end	28	39,173	19,375	-	-

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group's and Company's financial statements of Moyle Interconnector (Financing) plc for the year ended 31 March 2006 were authorised for issue by the board of the directors on 27 June 2006 and the balance sheets were signed on the board's behalf by Alasdair Locke and Felicity Huston. Moyle Interconnector (Financing) plc is a public limited Company incorporated and domiciled in Northern Ireland. The Company's debt is listed on the London Stock Exchange.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as they apply to the financial statements of the Group and Company for the year ended 31 March 2006 applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The Group and Company financial statements are also consistent with International Financial Reporting Standards as issued by the IASB.

The Company has taken advantage of the exemption provided under Article 236 of the Companies (Northern Ireland) Order 1986 not to publish its individual income statement and related notes.

2. Accounting policies

Basis of preparation

This is the first year in which the Group has prepared its financial statements under IFRSs and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRSs. The reconciliations to IFRSs from the previously published UK GAAP financial statements are summarised in note 26.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2006.

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of consolidation

The Group financial statements consolidate the financial statements of Moyle Interconnector (Financing) plc and its subsidiary undertaking drawn up to the year end. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. All inter-Company balances and transactions, including unrealised profits arising from them, are eliminated.

Goodwill

Business combinations are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory Company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, is taken to the income statement in the year in which it is incurred.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

Licence – over the duration of the legal agreement;

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Interconnector assets	40 years
Control and protection equipment	20 years
Office equipment	3 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

The Company's investments in subsidiaries

In its financial statements, the Company recognises its investment in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post acquisitions profits. Distributions received in excess of post acquisitions profits are deducted from the costs of investment.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the income statement. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate for new circumstances or changes in law or technology. The costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or Group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charge to equity. Otherwise income tax is recognised in the income statement.

Government grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by instalments over the expected useful lives of the related assets, in line with the depreciation policy. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Operating lease commitments

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions and other post-retirement benefits

The Group operates a defined contribution pension scheme for the managing director of Moyle Interconnector Limited, which requires contributions to be made to a separately administered fund. Under IAS19 this scheme has been treated as defined contributions, which is invested in a contracted in money purchase scheme with a major insurer. The insurance policy can only fund the employee's benefits and cannot be made available to the company. The company has no other liability other than to make a payment to the insurance policy until the employee's retirement. The targeted benefits are those which the employee was entitled from his previous employer. The cost of providing benefits under the plan is determined using an independent actuarial valuation. Contributions are recognised in the income statement in the period in which they become payable.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Interest income is recognised as revenue as interest accrues using the effective interest method.

Borrowing costs

Interest on funding directly attributable to the construction of property, plant and equipment is capitalised during the period of construction and is written off as part of the total cost over the operational life of the asset. All other finance income and costs are reflected in the income statement as they arise.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements (ie applicable to accounting periods beginning on or after the effective date). In addition, Moyle Interconnector (Financing) plc has elected to early adopt IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures, as described in the accounting policy and relevant note.

International Accounting Standards (IAS / IFRSs)		*Effective date*
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	The Fair Value Option	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Net investment in a foreign operation	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Financial instruments, disclosures IAS 1 amendments	1 March 2006
IFRIC 8*	Scope of IFRS 2	1 May 2006
IFRIC 9*	Reassessment of embedded derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

* These standards have not yet been adopted by the European Union.

3. Revenue

Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom.

The customer rebate represents amounts credited to Moyle Interconnector Limited customers for the benefit of electricity consumers in Northern Ireland.

The Group operates in one principal area of activity as above, hence all profits and net assets are attributable to this activity.

4. Operating costs

Operating costs were as follows:

	2006 *£000*	*2005* *£000*
Cost of sales	7,720	9,999
Administrative expenses	1,294	1,342
	9,014	11,341

5. Profit on ordinary activities before finance costs and taxation

Profit on ordinary activities before finance costs and taxation is stated after charging:

	2006 *£000*	*2005* *£000*
Depreciation charge on property, plant and equipment	3,374	3,364
Amortisation of deferred government grants	(1,592)	(1,591)
Auditors' remuneration in respect of services to the Group:		
- Audit services	16	15
- Non-audit services	20	6
Operating lease costs	82	82
Amortisation of intangible asset	1,661	1,661

6. Staff costs and directors' emoluments

(a) Staff costs

	2006 £000	*2005 £000*
Wages and salaries	183	166
Pension costs	24	24
	207	190

The average monthly number of employees during the year (comprising only directors holding contracts of service with the Group) was 1 (2005 - 1).

(b) Directors' emoluments

	2006 £000	*2005 £000*
Emoluments	170	166
Contributions paid to defined contribution pension scheme	24	24
	No.	*No.*
Members of defined contribution pension scheme	1	1

The directors' emoluments figures reflect the remuneration of the Company's executive director, Alan Rainey. The remaining directors of the Company, who are also directors of Northern Ireland Energy Holdings Limited, Moyle Holdings Limited and Moyle Interconnector Limited, received total remuneration for the year of £209,000 (2005 - £61,000), all of which was paid by Moyle Holdings Limited and Northern Ireland Energy Holdings Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Northern Ireland Energy Holdings Limited, Moyle Holdings Limited and Moyle Interconnector Limited.

7. Finance Revenue

	2006 £000	*2005 £000*
Bank interest receivable	2,486	882

8. Finance costs

	2006 £000	2005 £000
Movement of discount on provisions	151	191
Bond interest and indexation	7,596	7,988
	7,747	8,179

9. Taxation

(a) Tax on profit on ordinary activities
Tax credited in the income statement

	2006 £000	2005 £000
Current income tax:		
UK corporation tax	-	-
	-	-
Current income tax charge	-	-
Amounts overprovided in previous years	-	(12)
Total current income tax	-	(12)
Deferred tax:		
Deferred tax over provided in prior years	(13)	-
Origination and reversal of temporary differences	(645)	(101)
Total deferred tax	(658)	(101)
Tax credit in the income statement	(658)	(113)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 – 30%). The differences are reconciled below:

	2006 £000	2005 £000
Loss from operations before taxation	(2,116)	(126)
Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2005 – 30%)	(634)	(38)
Utilisation of tax loses carried forward	(11)	(63)
Tax overprovided in previous years	(13)	(12)
Total tax credit reported in the income statement	(658)	(113)

9. Taxation (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2006 *£000*	*2005* *£000*
Deferred tax liability		
Accelerated capital allowances	5,468	5,092
Valuation of intangible asset on acquisition	15,449	15,947
Deferred tax liability	20,917	21,039
Deferred tax asset		
Temporary difference due to income taxed on receipt	263	267
Tax losses carried forward	540	-
	803	267

The deferred tax included in the Group income statement is as follows:

	2006 *£000*	*2005* *£000*
Deferred tax in the income statement		
Accelerated capital allowances	376	383
Tax losses carried forward	(540)	(12)
Valuation on intangible licence	(498)	(498)
Temporary differences	4	14
Deferred income tax credit	(658)	(113)

There are no restrictions or expiration of tax losses carried forward.

Company

There are no deferred tax assets or liabilities in the balance sheet of the Company.

10. Profit attributable to members of the parent Company

The profit dealt with in the financial statements of the parent Company is £35,000 (2005: profit of £68,000).

11. Property, Plant and Equipment

Group

	Interconnector £000	*Control equipment £000*	*Office equipment £000*	*Total £000*
Cost				
At 1 April 2004	158,489	3,785	13	162,287
Capital Rebate	(30,089)	-	-	(30,089)
At 31 March 2005	128,400	3,785	13	132,198
Additions	348	-	-	348
At 31 March 2006	128,748	3,785	13	132,546
Depreciation				
At 1 April 2004	7,925	378	4	8,307
Provided during the year	3,170	190	4	3,364
At 31 March 2005	11,095	568	8	11,671
Provided during the year	3,180	189	5	3,374
At 31 March 2006	14,275	757	13	15,045
Net book value				
At 31 March 2006	114,473	3,028	-	117,501
At 31 March 2005	117,305	3,217	5	120,527
At 1 April 2004	150,564	3,407	9	153,980

All labour and overheads attributable to the construction of the Moyle Interconnector were capitalised during the period of construction and are written off as part of the total cost over the operational life of the asset.

Included in the cost of the Interconnector are amounts in respect of capitalised interest of £8,137,000 (2005 : £8,137,000).

The Group became entitled to a repayment of £30,089,000 during 2005 from the original cost of the interconnector as a result of changes to the electricity trading market in Great Britain. £12,036,000 of this rebate is due in less than one year.

Company

The Company has no property, plant and equipment.

12. Intangible assets

Group

	Licence £000	*Total £000*
Cost		
At 1 April 2004, 31 March 2005 and 31 March 2006	56,477	56,477
Amortisation		
At 1 April 2004	1,661	1,661
Provided during the year	1,661	1,661
At 31 March 2005	3,322	3,322
Provided during the year	1,661	1,661
At 31 March 2006	4,983	4,983
Net book value		
At 31 March 2006	51,494	51,494
At 31 March 2005	53,155	53,155
At 1 April 2004	54,816	54,816

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 35 years. The Group has concluded that these assets have a useful life of 35 years.

Company

The Company has no intangible assets.

13. Financial assets

Group

	2006 £000	2005 £000
Financial assets – non current:		
Capital rebate	-	12,036
Financial assets – current:		
Capital rebate	12,036	18,053

The capital rebate attracts interest at a range of rates between 5.8% to 6.1% and was due in less than two years on inception.

Company

	2006 £000	2005 £000
Financial assets – current		
Loan to subsidiary undertaking	3,563	3,404
Financial assets – non current:		
Loan to subsidiary undertaking	108,746	109,154

The loan to subsidiary undertaking has been measured using an effective interest rate of 3.6%.

14. Investments

Company – Investment in subsidiaries

	Subsidiary undertaking £000
Cost and net book value	
At 1 April 2004 and 31 March 2005 and 31 March 2006	20,950

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of Company	Country of incorporation or registration	Holding	Proportion held	Nature of business
Moyle Interconnector Limited	Northern Ireland	Ordinary Shares	100%	Operation of Moyle Interconnector

The Company accounts for its investments in its subsidiaries using the cost model.

15. Trade and other receivables

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Amounts falling due within one year:				
Trade receivables	559	997	-	-
Prepayments	1,321	1,595	176	176
Other debtors	910	76	-	-
Corporation tax recoverable	12	12	-	-
Amounts owed by parent	17	-	-	-
	2,819	2,680	176	176
Amounts falling due after one year:				
Prepayments	-	508	-	-
	-	508	-	-
	2,819	3,188	176	176

Prepayments falling due after one year represent maintenance and servicing of the converter stations.

16. Trade and other payables

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Trade payables	108	427	-	-
Accruals and deferred income	2,428	1,816	10	10
Amounts owed to parent undertaking	69	18	-	-
Other tax and social security	176	222	-	-
Amounts owed to subsidiary undertakings	-	-	2,653	1,566
	2,781	2,483	2,663	1,576

17. Other payables

	Company	
	2006	*2005*
	£000	*£000*
Loan from subsidiary undertaking – due after one year	-	1,320

18. Financial liabilities

Group and Company

2.9376% Index linked bond	*2006* *£000*	*2005* *£000*
Amounts falling due:		
In one year or less or on demand	4,157	3,963
In more than one year but not more than two years	4,229	4,033
In more than two years but not more than five years	14,477	12,905
In more than five years	108,167	110,180
	131,030	131,081

The 2.9376% Index Linked Guaranteed Secured Bonds 2033 were issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC. The indexation is based upon RPI. The bond is secured by fixed and floating charges over all the assets of the Group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Security Assurance (U.K.) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the Group pays an index linked fee of 0.125% of the outstanding balance of the bond.

19. Provisions

Group

	Decommissioning provision £000
At 1 April 2004	3,352
Movement on discount	191
At 31 March 2005	3,543
Movement on discount	151
At 31 March 2006	3,694

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 36 years, at the end of its useful economic life. This provision is expected to be utilised within 36 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 5.7% (2005 – 4.25%).

20. Government grants

Group

	Deferred grants £000
Grants	
At 1 April 2004	49,714
Amortised during the year	(1,591)
At 31 March 2005	48,123
Amortised during the year	(1,592)
At 31 March 2006	46,531

The current portion of deferred income is £1,592,000 (2005: £1,592,000).
The non current portion is £44,938,000(2005: £46,531,000).

21. Authorised and issued share capital

Group and Company

	Authorised Share Capital £000
At 1 April 2005 and 31 March 2006	
Ordinary shares of £1 each	1,000

	Allotted, called up and fully paid	
	No.	*£000*
At 1 April 2005 and 31 March 2006		
Ordinary shares of £1 each	50,000	50

22. Reconciliation of movements in equity

Group

	Equity Share capital £000	*Retained earnings £000*	*Total £000*
Balance at 31 March 2004	50	20,295	20,345
Total recognised income and expense for the year	-	(13)	(13)
Balance at 31 March 2005	50	20,282	20,332
Total recognised income and expense for the year	-	(1,458)	(1,458)
Balance at 31 March 2006	50	18,824	18,874

Company

At 1 April 2004	50	(411)	(361)
Total recognised income and expenses for the year	-	68	68
At 31 March 2005	50	(343)	(293)
Total recognised income and expense for the year	-	35	35
At 31 March 2006	50	(308)	(258)

Equity share capital

The balance classified as share capital includes the total net proceeds on issue of the Company's equity share capital, comprising £1 ordinary shares.

23. Obligations under leases

Operating lease agreements where the Group is lessee

The Group has entered into a commercial lease on land and this lease has a duration of 36 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group 2006 £000	*Group 2005 £000*
Not later than one year	82	82
After one year but not more than five years	328	328
After five years	7,790	7,872
	8,200	8,282

24. Related parties

During the year the Group and Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

Group

	Amounts owed by related party £000	*Amounts owed to related party £000*
2006		
Ultimate parent of the group	-	69
Parent of the group	4	-
Other NIEH group undertakings	13	-
2005		
Parent of the group	-	18
Other NIEH group undertakings	-	-

Company

	Funding from related party £000	*Inter Company interest received £000*	*Amounts owed by related party £000*	*Amounts owed to related party £000*
Subsidiaries				
2006	(1,282)	7,230	112,309	2,653
2005	(1,332)	7,389	112,558	1,566

Compensation of key management personnel (including directors)

	Group		*Company*	
	2006 £000	*2005 £000*	*2006 £000*	*2005 £000*
Short term employee benefits	170	166	-	-
Post-employment benefits	24	24	-	-

25. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party of the Company is Northern Ireland Energy Holdings Limited, a Company incorporated in Northern Ireland. Copies of its consolidated financial statements, which include the Company, are available from Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.

26. Transition to IFRSs

For all periods up to and including the year ended 31 March 2005, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 March 2006, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 April 2004, the Group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 April 2004 and its previously published UK GAAP financial statements for the year ended 31 March 2005.

Group reconciliation of equity at 1 April 2004

	Adjustments	*Equity Share Capital £000*	*Retained Earnings £000*	*Total £000*
As reported under UK GAAP		50	2,804	2,854
Reversal of Goodwill amortised up to 31 March 2004	1		481	481
Acquisition accounting under IFRS 3	1		20,779	20,779
Amortisation of intangible net of deferred taxation up to 31 March 2004	1		(1,163)	(1,163)
Deferred taxation discounting	2		(2,178)	(2,178)
Amortisation of bond costs	3		(428)	(428)
Balance at 31 March 2004 under IFRS		50	20,295	20,345

26. Transition to IFRSs (continued)

Group reconciliation of equity at 31 March 2005

	Adjustment	*Equity Share Capital £000*	*Retained Earnings £000*	*Total £000*
Balance at 31 March 2005 under UK GAAP		50	3,695	3,745
Reversal of goodwill amortised	1		962	962
Acquisition accounting under IFRS 3	1		20,779	20,779
Amortisation of intangible net of deferred taxation up to 31 March 2005	1		(2,326)	(2,326)
Deferred taxation discounting up to 31 March 2004	2		(2,178)	(2,178)
Effect of deferred taxation discounting for year ended 31 March 2005	2		(290)	(290)
Amortisation of bond costs at 31 March 2004	3		(428)	(428)
Effect of amortisation of bond costs for year ended 31 March 2005	3		68	68
Balance at 31 March 2005 under IFRS		50	20,282	20,332

Reconciliation of Group Income Statement for the year ended 31 March 2005

	As reported Under UK GAAP £000	*Adjustments 1*	*2*	*3*	*IFRS £000*
Revenue	20,812				20,812
Customer Rebate	(2,300)				(2,300)
Operating Costs (excluding goodwill amortisation)	(9,680)				(9,680)
Goodwill Amortisation	(481)	481			-
Intangible Amortisation		(1,661)			(1,661)
Group Operating Profit	8,351	(1,180)	-		7,171
Finance Income	882				882
Finance Costs	(8,247)			68	(8,179)
Profit on ordinary activities before taxation	986	(1,180)	-	68	(126)
Tax on profit on ordinary activities	(95)	498	(290)		113
Retained profit for the year attributable to equity shareholders	891	(682)	(290)	68	(13)

26. Transition to IFRSs (continued)

Company reconciliation of equity at 1 April 2004

	Adjustment	*Equity Share capital £000*	*Retained earnings £000*	*Total £000*
As reported under UK GAAP		50	17	67
Amortisation of bond costs	3		(428)	(428)
Balance at 31 March 2004 under IFRS		50	(411)	(361)

Company reconciliation of equity at 31 March 2005

	Adjustment	*Equity Share capital £000*	*Retained earnings £000*	*Total £000*
Balance at 31 March 2005 under UK GAAP		50	17	67
Amortisation of bond costs	3		(428)	(428)
Amortisation of bond costs for year ended 31 March 2005	3		68	68
Balance at 31 March 2005 under IFRS		50	(343)	(293)

Restatement of equity from UK GAAP to IFRS.

1. Goodwill amortisation

Moyle Interconnector (Financing) plc has elected to apply IFRS 3 (Business Combinations) to combinations occurring before 1 April 2004 and from this acquisition forward. The goodwill arising from combinations occurring before that date therefore is reversed, and the business combination is re-visited, including all intangible assets identified at the acquisition date.

The intangible asset identified (which represents the value of the licence to carry electricity across the interconnector) is to be amortised over the useful economic life of the licence (which is at least 35 years from February 2003) This produces an amortisation charge of £1,661,000 per annum, and a release of the corresponding deferred taxation liability of £498,000 per annum.

As this intangible has a tax base of £nil, a deferred taxation liability of 30% has been created. This deferred taxation liability has a value at acquisition date of £16,943,000. The following table therefore analyses the net assets and fair value at date of acquisition (8 April 2003):

	£000
Cash discharged	20,950
Intangible Asset acquired	(56,477)
Deferred taxation	16,943
Net Assets acquired	(2,195)
Excess of assets over cash discharged on acquisition	(20,779)

26. Transition to IFRSs (continued)

The Group's capital structure results in a very low weighted average cost of capital the consequences of which are high net present value of the regulated intangible asset and correspondingly the negative goodwill.

The opening UK GAAP balance sheet had a balance for goodwill of £18,274,000. This has therefore been reversed, and instead the adjustments required to reflect the intangible asset acquired, the corresponding deferred taxation liability has been created.

The excess of assets over cash has been taken to reserves.

2. Discounting of deferred tax liability

Under UK GAAP Moyle Interconnector (Financing) plc discounted its deferred taxation calculation. Under IFRS this is no longer permitted, and therefore the Group has restated the deferred taxation balance at 1 April 2004 to exclude discounting. At 31 March 2004 under UK GAAP the total discounted deferred taxation provision amounted to £2,250,000 compared to an undiscounted provision of £4,428,000. This results in an opening balance sheet adjustment of £2,178,000 at 31 March 2004, and an adjustment of £290,000 to the income statement for the year ended 31 March 2005.

3. Amortisation of bond costs

Under UK GAAP, Moyle Interconnector (Financing) plc calculated the amortisation of bond costs using the sum of the digits method. Under IFRS the Company is required to calculate this amortisation using the effective interest rate method. This has created a remeasurement of bond costs of £428,000 at 1 April 2004 and a difference to the amortised amount for 2005 of £68,000.

27. Financial Instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies in the Operating and Financial Review of the Parent Company.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group and the Company as at 31 March is as follows:

Year ended 31 March 2006

Group	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Fixed Rate							
2.9376% index linked bond	(4,157)	(4,229)	(4,400)	(4,673)	(5,404)	(108,167)	(131,030)
Floating Rate							
Cash	39,173	-	-	-	-	-	39,173
Capital Rebate	12,036	-	-	-	-	-	12,036

27. Financial Instruments (continued)

Year ended 31 March 2005

Group

	Within1year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Fixed Rate							
2.9376% index linked bond	(3,963)	(4,033)	(4,102)	(4,269)	(4,534)	(110,180)	(131,081)
Floating Rate							
Cash	19,375	-	-	-	-	-	19,375
Capital rebate	18,053	12,036	-	-	-	-	30,089

Year ended 31 March 2006

Company

	Within 1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Fixed rate							
2.9376% index linked bond	(4,157)	(4,229)	(4,400)	(4,673)	(5,404)	(108,167)	(131,030)
InterCompany loan	3,563	3,624	3,772	4,005	4,632	92,713	112,309

Year ended 31 March 2005

Company

	Within 1 year	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
2.9376% index linked bond	(3,963)	(4,033)	(4,102)	(4,269)	(4,534)	(110,180)	(131,081)
InterCompany loan	3,404	3,463	3,522	3,666	3,893	94,610	112,558

Floating rate

Floating rate financial assets earn interest at a range of Bank of England base rate to Bank of England base rate plus 2%. The interest on the fixed rate financial assets is 3.75% to 4.88% (2005: 3.93% to 4.98%) which mature in less than one month. Financial assets on which no interest is earned are due to mature in one month.

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

27. Financial Instruments (continued)

Fair values of financial assets and liabilities

The directors estimate the fair value of all financial assets and liabilities to be equal to book values with the exception of the 2.9376% index linked bond which has a fair value of £79,717,000 (2005 : £77,758,000). This fair value has been calculated by discounting the expected future cash flows at prevailing interest rates. The book value of the bond is £131,030,000 (2005: £131,081,000).

28. Cash and cash equivalents

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Cash at bank and in hand	31	4	-	-
Short term deposits	39,142	19,371	-	-
	39,173	19,375	-	-

Premier Transmission Financing plc

Report and Financial Statements

31 March 2006

premier
TRANSMISSION

Directors

Alasdair Locke	Chairman
Alan McClure	Senior Independent Director
David Montgomery	
Felicity Huston	
Damian McAteer	
Nuala Sheeran	
Alan Rainey	
William Cargo	Managing Director

Secretary

Arthur Cox Northern Ireland

Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Banker

Barclays
Imperial House
Donegal Square East
Belfast
BT1 5HD

Solicitors

Arthur Cox Northern Ireland
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Registered Office

Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Registered No: NI 053751

Directors Report

The directors are pleased to present their report and financial statements for the period from incorporation on 28 January 2005 to 31 March 2006.

Results and dividends

The loss for the period after taxation was £3,067,000. The directors do not recommend the payment of a dividend.

Principal activity and review of the business

The Group's principal activity during the period was the financing and operation through its subsidiary of the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipe line. The business of the Group and future developments in relation to it are reviewed in the Chairman's Statement and the Operating and Financial Review contained within the financial statements of Northern Ireland Energy Holdings Limited.

Directors and their interests

The present directors of the Company are listed on page 96.

The directors have no beneficial interests in the share capital of the Company or any other Group company.

In accordance with Article 22 of the company's Articles of Association the directors are not require to retire by rotation.

Director's appointments and resignations from the date of incorporation to present are summarised below:

On incorporation of the company, MD Directors Limited and MD Secretaries Limited were appointed as directors of the company, and MD Secretaries Limited was appointed as the Company secretary.

On 2 February 2005 MD Directors Limited and MD Secretaries Limited resigned as directors of the company, and MD Secretaries Limited resigned as the Company secretary. At the same date, David Montgomery and Alasdair Locke were appointed as directors to the company, and Arthur Cox Northern Ireland was appointed as Company Secretary.

On 21 March 2005, Alan Rainey was appointed as a director to the company. On 27 April 2005, William Cargo was appointed as director to the company.

On 12 October 2005, Alan McClure, Felicity Huston, Damian McAteer and Nuala Sheeran were appointed as directors.

Financial Instruments

The Group's financial risk management objectives and policies are discussed in the Treasury Policies section of the Group Operating and Financial Review of Northern Ireland Energy Holdings Limited.

Political and charitable donations

No charitable or political donations have been made during the period.

Auditors

Ernst & Young LLP were appointed as auditors on 17 March 2005 and have expressed their willingness to continue in office. A resolution proposing their re-appointment will be submitted at the annual general meeting.

Payment of suppliers

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The Group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The Group had trade payable days of 29 days at 31 March 2006.

Directors' statement as to disclosure of information to auditors.

The directors who were members of the board at the time of approving the directors' report are listed on page 96. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

To the best of each directors' knowledge and belief there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board
Arthur Cox Northern Ireland, Secretary, 27 June 2006

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the shareholders of Premier Transmission Financing plc

We have audited the Group and Company financial statements (the "financial statements") of Premier Transmission Financing plc for the period ended 31 March 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets and the Group and Company Cash Flow Statements and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation and that the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

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 information specified by law regarding directors' remuneration and other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Audit Committee Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Independent Auditors' Report

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its loss for the period then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the parent company's affairs as at 31 March 2006; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation.
- The information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
Belfast
27 June 2006

Group Income Statement

for the 14 months ended 31 March 2006

	Notes	2006 £000
Revenue – continuing operations	3	14,761
Operating costs	4	(13,616)
Earnings before depreciation and amortisation of intangible assets		4,626
Amortisation of intangible assets		(1,402)
Depreciation net of amortisation of government grants		(2,079)
Profit on ordinary activities before finance costs and taxation		1,145
Finance revenue	7	909
Finance costs	8	(5,512)
Loss before taxation		(3,458)
Taxation	9	391
Loss for the period all attributable to the parent company		(3,067)

Group and Company Statement of Recognised Income and Expense

for the 14 months ended 31 March 2006

	Group 2006 £000	Company 2006 £000
Income and expense recognised directly in equity:		
Losses on cash flow hedges taken to equity	(7,301)	(7,301)
Taxation on items taken directly to equity	2,190	2,190
Net income recognised directly in equity	(5,111)	(5,111)
Loss for the period	(3,067)	(2,868)
Total recognised income and expense for the period all attributable to the parent company	(8,178)	(7,979)

Group and Company Balance Sheet

at 31 March 2006

	Notes	Group 2006 £000	Company 2006 £000
Assets			
Non current assets			
Property, plant and equipment	11	105,013	-
Intangible assets	12	41,678	-
Investment in subsidiaries	15	-	51,307
Financial assets	14	-	52,101
Deferred taxation asset	9	2,190	2,190
		148,881	105,598
Current assets			
Trade and other receivables	16	3,602	-
Income tax receivable		20	-
Cash and cash equivalents	26	17,554	86
		21,176	86
Total assets		170,057	105,684
Equity and liabilities			
Equity			
Equity share capital	20	13	13
Retained earnings	21	(877)	(678)
Cash flow hedge reserve	21	(7,301)	(7,301)
Total equity		(8,165)	(7,966)
Non current liabilities			
Interest bearing loans and borrowings	18	101,016	101,016
Deferred tax liabilities	9	29,037	-
Government grants	19	35,584	-
Cash flow hedge		7,301	7,301
		172,938	108,317
Current liabilities			
Trade and other payables	17	2,092	3,237
Interest bearing loans and borrowings	18	2,096	2,096
Government grants	19	1,096	-
		5,284	5,333
Total liabilities		178,222	113,650
Total equity and liabilities		170,057	105,684

Directors: Alasdair Locke Felicity Huston (27 June 2006)

Group and Company Cash Flow

for the 14 months ended 31 March 2006

	Notes	Group 2006 £000	Company 2006 £000
Operating activities			
Profit on ordinary activities before finance costs and taxation		1,145	-
Adjustments to reconcile profit on ordinary activities before finance costs and taxation to cash generated from operations:			
Depreciation of property, plant and equipment		3,175	-
Amortisation of government grant		(1,096)	-
Amortisation of intangible assets		1,402	-
Decrease in trade and other receivables		1,811	-
(Decrease)/increase in trade and other payables		(4)	3,237
Cash generated from operations		6,433	3,237
Income tax paid		(456)	-
Net cash flow from operating activities		5,977	3,237
Investing activities			
Interest received		921	3,149
Purchase of property, plant and equipment		(145)	-
Acquisition of subsidiaries, net of cash acquired		(47,334)	(51,307)
Receipt for tax losses from previous owners		2,933	-
Net cash flow from investing activities		(43,625)	(48,158)
Financing activities			
Borrowing costs		(4,983)	(4,983)
Interest paid		(2,915)	(2,915)
Repayment of borrowings		(43,900)	(1,994)
Proceeds from borrowings		107,000	107,000
InterCompany loan		-	(52,101)
Net cash flow from financing activities		55,202	45,007
Increase in cash and cash equivalents		17,554	86
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the period end	26	17,554	86

1. Authorisation of financial statements and statement of compliance with IFRSs

The Group's and Company's financial statements of Premier Transmission Financing plc for the period ended 31 March 2006 were authorised for issue by the board of the directors on 27 June 2006 and the balance sheets were signed on the board's behalf by Alasdair Locke and Felicity Huston. Premier Transmission Financing plc is a public limited Company incorporated and domiciled in Northern Ireland. The company's debt is listed on the London Stock Exchange.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as they apply to the financial statements of the Group and Company for the year ended 31 March 2006 applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The Group and Company financial statements are also consistent with International Financial Reporting Standards as issued by the IASB.

The principal accounting policies adopted by the Group and the Company are set out in note 2.

The Company has taken advantage of the exemption provided under Article 236 of the Companies (Northern Ireland) Order 1986 not to publish its individual income statement and related notes.

2. Accounting policies

Fundamental Accounting Basis

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the Groups initial set up including the acquisition of Premier Transmission Limited and issuing a bond in Premier Transmission Financing plc this is a situation which will prevail for potentially 20 years. However the group is cash generative and is forecast to remain cash positive over that 20 year horizon. The forecast cash generated is adequate to meet Premier Transmission Financing plc liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Office Of Northern Ireland Authority for Energy Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period from incorporation on 28 January 2005 to 31 March 2006. The period of account is longer than 12 months to ensure alignment of year-end for all Group companies.

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of consolidation

The Group financial statements consolidate the financial statements of Premier Transmission Financing plc and its subsidiary undertaking drawn up to the year end. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-Company balances and transactions, including unrealised profits arising from them, are eliminated.

Goodwill

Business combinations are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement.
After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory Company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, is taken to the income statement in the year in which it is incurred.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

Licence – over the duration of the legal agreement;

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

The Company's investment in subsidiaries

In its financial statements, the Company recognises its investment in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post acquisitions profits. Distribution received in excess of post acquisition profits are deducted from the cost of investment.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation. The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline	40 years
Computer equipment	3 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value though profit or loss recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or Group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charge to equity. Otherwise income tax is recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Derivative financial instruments and hedging activities

The Group uses a derivative financial instrument to hedge its risks associated with indexation fluctuations. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

The fair value of derivative contracts is determined by reference to market values for similar instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective proportion is recognised in profit of loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the profit or loss, such as when the forecast sale occurs.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement. If the related transaction is not expected to occur, the amount is taken to the income statement.

Government grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by instalments over the expected useful lives of the related assets, in line with the depreciation policy. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Pensions and other post-retirement benefits

The Group operates a defined contribution pension plan. Contributions are recognised in the income statement in the period in which they become payable.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in income statement when the liabilities are derecognised or impaired.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.
Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the pipeline for the transmission of gas between Scotland and Northern Ireland and recognised on a unit of capacity sold and provided basis.
Interest income is recognised as revenue as interest accrues using the effective interest method.

Borrowing costs

Interest on funding directly attributable to the construction of property, plant and equipment is capitalised during the period of construction and written off as part of the total cost over the operational life of the asset. All other finance income and costs are reflected in the income statement as they arise.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements (ie applicable to accounting periods beginning on or after the effective date).

International Accounting Standards (IAS / IFRSs)		*Effective date*
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	The Fair Value Option	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Net investment in a foreign operation	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Financial instruments, disclosures IAS 1 amendments	1 March 2006
IFRIC 8*	Scope of IFRS 2	1 May 2006
IFRIC 9*	Reassessment of embedded derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

* These standards have not yet been adopted by the European Union.

3. Revenue

Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the Scotland Northern Ireland pipeline for the transmission of gas between Scotland and Northern Ireland. All revenue is generated within the United Kingdom.

The Group operates in one principal area of activity as above, hence all profits and net assets are attributable to this activity.

The Group has therefore no segmental information to disclose.

4. Operating costs

Operating costs were as follows:

	2006 *£000*
Cost of sales	10,490
Administrative expenses	3,126
	13,616

5. Profit on ordinary activities before finance costs and taxation

Profit on ordinary activities before finance costs and taxation is stated after charging:

	2006 *£000*
Depreciation charge on property, plant and equipment	3,175
Amortisation of deferred government grants	(1,096)
Auditors' remuneration in respect of services to the Group:	
- Audit services	26
- Non-audit services	2
Operating lease costs	57
Amortisation of intangible asset	1,402

6. Staff costs and directors' emoluments

(a) Staff costs

	2006 £000
Wages and salaries	317
Pension costs – defined contribution plan	27
	344

The average monthly number of employees during the period (including directors holding contracts of service with the Group) was 3.

(b) Directors' emoluments

	2006 £000
Emoluments	142
Contributions paid to defined contributions pension scheme	27
	No.
Members of defined contributions pension scheme	1

The directors' emoluments figures reflect the remuneration of the Company's executive director, William Cargo. The remaining directors of the Company, who are also directors of Northern Ireland Energy Holdings Limited received total remuneration for the period of £209,000, all of which was paid by Northern Ireland Energy Holdings Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Northern Ireland Energy Holdings Limited, Premier Transmission Holdings Limited and Premier Transmission Limited.

7. Finance Revenue

	2006 £000
Bank interest receivable	909

8. Finance costs

	2006 £000
Bond interest	5,512

9. Taxation

(a) Tax on profit on ordinary activities

Tax credited in the income statement

	2006 £000
Current income tax:	
UK corporation tax	-
	-
Current income tax charge	-
Amounts overprovided in previous years	-
Total current income tax	-
Deferred tax	
Origination and reversal of timing differences	(391)
Total deferred tax	(391)
Tax credit in the income statement	(391)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the period varies from the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2006 £000
Loss before taxation	(3,458)
Accounting profit multiplied by the UK standard rate of corporation tax of 30%	(1,038)
Deferred tax assets not recognised	228
Surrender of tax losses for nil consideration	419
Total tax expense reported in the income statement	(391)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2006 £000
Deferred tax liability	
Accelerated capital allowances	17,264
Valuation of intangible asset on acquisition	11,773
Deferred tax liability	29,037

9. Taxation (continued)

(c) Deferred tax (continued)

	2006 £000
Deferred tax asset	
Deferred tax on cash flow hedge	2,190

The deferred tax included in the Group income statement is as follows:

	2006 £000
Deferred tax in the income statement	
Valuation of intangible assets	(421)
Accelerated capital allowances	30
Deferred income tax credit	(391)

Deferred tax relating to items charged to equity

	2006 £000
Cash flow hedge – tax impact	2,190
Tax credit in statement of recognised income and expenses	2,190

(d) An unrecognised tax asset of £228,000 exists at the year end within the company. There is no expiry date for the use of these losses.

10. Loss attributable to members of the parent Company

The loss dealt with in the financial statements of the parent Company is £2,868,000.

11. Property, Plant and Equipment

Group

	Pipeline £000	*Computer equipment £000*	*Total £000*
Cost			
At 28 January 2005	-	-	-
Acquired as part of acquisition	108,043	-	108,043
Additions	-	145	145
At 31 March 2006	108,043	145	108,188
Depreciation			
At 28 January 2005	-	-	-
Provided during the period	3,127	48	3,175
At 31 March 2006	3,127	48	3,175
Net book value			
At 31 March 2006	104,916	97	105,013

All labour and overheads attributable to the construction of the Scotland and Northern Ireland pipeline were capitalised during the period of construction and are written off as part of the total cost over the operational life of the asset.

Company

The Company has no property, plant and equipment.

12. Intangible assets

Group

	Goodwill £000	*Licence £000*	*Total £000*
Cost			
At 28 January 2005	-	-	-
Acquired as part of acquisition	2,435	40,645	43,080
At 31 March 2006	2,435	40,645	43,080
Amortisation and impairment			
At 28 January 2005	-	-	-
Provided during the period	-	1,402	1,402
At 31 March 2006	-	1,402	1,402
Net book value			
At 31 March 2006	2,435	39,243	41,678

12. Intangible assets (continued)

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years. The Group has concluded that these assets have a useful life of 29 years.

Goodwill recognised during the period includes certain intangible assets within acquisitions that cannot be individually separated and reliably measured due to their nature. These items include customer loyalty and an assembled workforce.

Company
The Company has no intangible assets.

Impairment testing
Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the gas pipeline.

The recoverable amount of the goodwill is based on value-in-use which has been determined using discounted future cashflows. The cashflow projections cover a 29 year period which matches the licence duration and the useful life of the related assets. The key assumptions, which have been determined on the basis of managements experience, relate to all costs being pass through costs and that under the terms of the licence the Company can collect sufficient cash to service interest and loan repayment.

The projections are based on a financial model for a period of 29 years which has been approved by the board.

Discount rates reflect management's estimate of the weighted average cost of capital of the company being 5.3226%.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

13. Business combinations

On 18 March 2005 the Group acquired 100% of the ordinary share capital of Premier Transmission Limited for a consideration of £51,307,000 in cash (including costs).

Analysis of the acquisition of Premier Transmission Limited

	Book Values £000	*Fair value to group £000*
Property, plant and equipment	108,043	108,043
Intangible assets	-	40,645
Other current assets	8,060	8,060
Bank	3,973	3,973
Other current liabilities	(2,764)	(2,764)
Deferred tax liability	(17,235)	(29,429)
Deferred income	(37,776)	(37,776)
Debt	(41,880)	(41,880)
Net assets	20,421	48,872
Goodwill arising on acquisition		2,435
		51,307
Discharged by:		
Cash		51,307

The business combination has contributed £1,145,000 to the net profit of the group, and £14,761,000 of revenue in 2006.

Included in the £2,435,000 of goodwill recognised are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include customer loyalty and an assembled workforce.

14. Financial assets

Company

	2006 £000
Financial assets – non current:	
Loan to subsidiary undertaking	52,101

The loan to subsidiary undertaking has been measured using an effective interest rate of 5.2022%.

15. Investments

Company – Investment in subsidiaries

	Subsidiary undertaking £000
Cost and net book value	
At 28 January 2005	-
Additions	51,307
At 31 March 2006	51,307

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of company	*Country of incorporation or registration*	*Holding*	*Proportion held*	*Nature of business*
Premier Transmission Limited	Northern Ireland	Ordinary Shares	100%	Operation of Scotland Northern Ireland pipeline

The Company accounts for its investments in its subsidiaries at cost.

16. Trade and other receivables

	Group 2006 £000	*Company 2006 £000*
Amounts falling due within one year:		
Trade receivables	1,372	-
Prepayments	182	-
Other debtors	2,025	-
Amounts owed by parent	23	-
	3,602	-

17. Trade and other payables

	Group 2006 £000	*Company 2006 £000*
Trade payables	566	-
Accruals and deferred income	1,183	11
Amounts owed to parent undertaking	14	-
Other tax and social security	312	-
Amounts owed to subsidiary undertakings	-	3,226
Other creditors	17	-
	2,092	3,237

18. Financial liabilities

Group and Company

5.2022% Guaranteed Secured Bonds due 2030

	2006 £000
Amounts falling due:	
In one year or less or on demand	2,096
In more than one year but not more than two years	2,242
In more than two years but not more than five years	7,643
In more than five years	91,131
	103,112
Less current financial liability	(2,096)
Non current financial liability	101,016

The 5.2022% Guaranteed Secured Bonds 2030 were issued during the period to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, excluding default interest.

19. Government grants

Group

	Deferred grants £000
Grants	
At 28 January 2005	-
Acquisitions	37,776
	37,776
Amortised during the period	(1,096)
At 31 March 2006	36,680

The current portion of deferred income is £1,096,000. The non-current portion is £35,584,000.

20. Authorised share capital

Group and Company

	Authorised Share Capital £000
At 31 March 2006	
Ordinary shares of £1 each	50

	Allotted, called up and fully paid	
	No.	*£000*
Ordinary shares of £1 each		
At 28 January 2005	-	-
Issued on incorporation	12,500	13
At 31 March 2006	12,500	13

21. Reconciliation of movements in equity

Group

	Equity Share capital £000	*Retained earnings £000*	*Cash flow hedge reserve £000*	*Total £000*
At 28 January 2005	-	-	-	-
Issued on incorporation	13	-	-	13
Total recognised income and expense for the period	-	(877)	(7,301)	(8,178)
Balance at 31 March 2006	13	(877)	(7,301)	(8,165)

Company

	Equity Share capital £000	*Retained earnings £000*	*Cash flow hedge reserve £000*	*Total £000*
At 28 January 2005	-	-	-	-
Issued on incorporation	13	-	-	13
Total recognised income and expense for the period	-	(678)	(7,301)	(7,979)
Balance at 31 March 2006	13	(678)	(7,301)	(7,966)

22. Obligations under leases

The Group has entered into a commercial lease on land and this lease has a duration of 29 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2006 £000
Not later than one year	57
After one year but not more than five years	228
After five years	1,368
	1,653

23. Related parties

During the period the Group and Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

Group

	Amounts owed by related party £000	*Amounts owed to related party £000*
Related party		
Entities with significant influence over the group		
2006	23	14

Company

	Amounts owed by related party £000	*Amounts owed to related party £000*
Subsidiaries		
2006	52,101	3,226

Compensation of key management personnel (including directors)

	Group 2006 £000	*Company 2006 £000*
Short term employees benefits	142	-
Post-employment benefits	27	-

During the year Mecom UK Management Company Limited of which David Montgomery is a Director and significant shareholder in its parent Mecom Group Plc received a consulting fee of £200,000 for the successful completion of the acquisition of Premier Transmission Limited.

24. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party of the Company is Northern Ireland Energy Holdings Limited, a Company incorporated in Northern Ireland. Copies of its consolidated financial statements, which include the Company, are available from Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.

25. Financial Instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies in the Operating and Financial Review of the Parent Company.

Interest rate risk profile of financial assets and liabilities
The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

Year ended 31 March 2006
Group

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Fixed Rate							
5.2022% bond	(2,096)	(2,242)	(2,390)	(2,546)	(2,707)	(91,131)	(103,112)
Floating Rate							
Short term deposits	17,468	-	-	-	-	-	17,468
Cash	86	-	-	-	-	-	86

Year ended 31 March 2006
Company

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
5.2022% bond	(2,096)	(2,242)	(2,390)	(2,546)	(2,707)	(91,131)	(103,112)
InterCompany loan	-	-	-	-	-	52,101	52,101
Floating rate							
Cash	86	-	-	-	-	-	86

Floating rate
Floating rate financial assets earn interest at a range of Bank of England base rate to Bank of England base rate plus 2%. The interest on the short term deposits is 4.5% which mature in less than one month. Financial assets on which no interest is earned are due to mature in one month.

25. Financial Instruments (continued)

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Fair values of financial assets and liabilities

The directors estimate the fair value of all financial assets and liabilities to be equal to book values with the exception of the 5.2022% bond which has a fair value of £119,601,000. This fair value has been calculated by discounting the expected future cash flows at prevailing interest rates.

Hedge Activity

Cash flow hedges

At 31 March 2006, the Group held two index ratio based swaps designated as a hedge of index-linked revenues received. The terms of these contracts are that the Company pays a fixed amount multiplied by an index ratio based on the United Kingdom Retail Prices Index and receives an amount equal to the amount of scheduled principal repayable and scheduled interest payable under the bonds on that scheduled payment date.

The terms and length of the swap have been negotiated to match the terms and length of the commitments of the bond.

An unrealised loss of £7,301,000 was charged directly to equity during the period.

26. Cash and cash equivalents

Cash and cash equivalents are further analysed as:

	Group 2006 £000	*Company 2006 £000*
Cash at bank and in hand	86	86
Short term deposits	17,468	-
	17,554	86

Notes

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“A mutual energy company working for **consumers**”

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