

working  
for energy  
**consumers**



Annual **Report 2007**



Northern Ireland  
**Energy**  
HOLDINGS



07

**Annual Report**  
and Accounts



*Moyle Interconnector site, Islandmagee, Co. Antrim*

# Annual Report and Accounts 2007

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“ A mutual energy  
company working  
for consumers ”

## Chairman's Statement



**Alasdair Locke**  
Chairman

“  
*We continue to measure our success by the returns we make for the energy consumers of Northern Ireland. The Group's operating companies were again able to make further contributions to lower energy prices in Northern Ireland in addition to the long-term cost reductions which they deliver year-on-year.*

During the year we have built on our acquisition of the Premier Transmission Limited (“PTL”) group and merger with the Moyle Holdings Limited (“Moyle”) group to consolidate the position of Northern Ireland Energy Holdings as a major element of the energy infrastructure of Northern Ireland. In presenting the second set of accounts for the NIEH Group of companies, I am very pleased to report on a further successful year and on the ongoing contribution of our mutual business to the energy consumers of Northern Ireland.

We continue to measure our success by the returns we make for the energy consumers of Northern Ireland. The Group's operating companies were again able to make further contributions to lower energy prices in Northern Ireland in addition to the long-term cost reductions which they deliver year-on-year. Despite experiencing difficult trading conditions for most of the year, Moyle set aside £9.4m from its accumulated surpluses at the end of the year to make a further significant contribution to lower electricity prices in Northern Ireland in 2007-08 by avoiding any cash call on consumers. PTL's cost savings against forecast enabled the company to return £1.5m to shippers, thus contributing to lower gas prices to end consumers.

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The Group continues to deliver on the primary objective for which it was set up - achieving lower energy costs to consumers. Our strong cash flow together with the reduced financing costs and operating cost savings we have delivered to date provide the basis for our confidence in the sustainability of our businesses in the long-term. Profitability in every year is not essential to attaining our corporate goals into the future. In this year, despite the difficult trading conditions experienced by Moyle, we report a lower than expected after tax loss of £7.8m for the Group.



working  
for energy  
**consumers**

*PTL's above ground  
installation (AGI) at Island Magee*

# Chairman's Statement

The operating performance of the Group has again been excellent. Our operating companies have delivered highly reliable energy transmission services without lost time accidents or public safety incidents. All of the gas used in Northern Ireland was supplied through PTL's SNIP Pipeline which was fully available all year. For extended periods during the year, security of electricity supply throughout Ireland depended on the availability of the Moyle Interconnector.

We have chosen our Key Performance Indicators ("KPIs") to focus on the financial and operational targets important to our key stakeholders. Performance against these targets demonstrates our success in meeting our stakeholders' needs. The strong cash flows and debt service cover ratios essential to the long term viability and stability of the Group have continued to be maintained at levels comfortably above those required by our financing arrangements.

Ongoing asset maintenance programmes are essential to our businesses, to ensure our continuing ability to meet our long term obligations. Particular features of the year were the renewal of Moyle's long-term maintenance agreement for its converter stations with Siemens plc; and the joint seabed survey of both our undersea assets, which showed our gas pipeline and submarine cables to be in good condition and well-protected.

The management team increased to six during the year to match the needs of the expanded Group. Following the successful succession consequent on the retirement of the Moyle Group Managing Director, the board is confident as to the continuing effectiveness of the management team in running the businesses of the Group.

The Group's preliminary work on the setting up of its new venture, the Renewable and Sustainable Energy Fund, has progressed during the year. The directors consider that this venture will further strengthen the Group and will be in the interests of Northern Ireland's energy consumers.

The major changes in the energy markets of Northern Ireland and the Republic of Ireland have continued. During the year, the regulatory authorities deferred the implementation of the new electricity market for the island of Ireland (the Single Electricity Market or SEM) to November 2007. We have continued to work closely with the regulatory authorities and the other parties in the industry to achieve the optimum market arrangements.

“ *The operating performance of the Group has again been excellent. Our operating companies have delivered highly reliable energy transmission services without lost time accidents or public safety incidents.* ”

While we consider the majority of the market arrangements to be satisfactory and expect that the overall impact of the SEM should be beneficial to energy consumers and to our businesses in the coming years, we have been disappointed by the way the generation capacity contribution of the Moyle Interconnector has been recognised in the market rules. We will continue to work on this issue in the interest of the electricity consumers of Northern Ireland.

Changes in the regulation of the gas market in Northern Ireland during the year appeared to create an opportunity for consumers' interests to be further advanced through the mutualisation of the Belfast Transmission Pipeline of Phoenix Energy Holdings Limited. Following regulatory consultation, the Group indicated its willingness in principle to acquire the pipeline if that would be in consumers' interests. To this end, the Group has entered discussions with Phoenix.

As a Group dedicated to the long term interests of the energy consumers of Northern Ireland, we remain committed to the highest standards of corporate governance. We believe that the arrangements for the

## Chairman's Statement

supervision of the conduct of the Group's business have been successful in providing good corporate governance. We are grateful to our members for their support and for their challenge to the board and the executive. 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.

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

On behalf of all my colleagues on the board, I would like to pay particular tribute to Alan Rainey who has recently retired from the board. Alan was the first executive director of the Moyle group and subsequently NIEH, and he has provided an invaluable leadership role for the group. Much of our achievement to date belongs to him, and we wish him every success in the future

“ While we consider the majority of the market arrangements to be satisfactory... we have been disappointed by the way the generation capacity contribution of the Moyle Interconnector has been recognised in the market rules

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Northern Ireland Energy Holdings Chairman Alasdair Locke, with Senior Executives, Bill Cargo and Paddy Larkin

# Operating and Financial Review

*As a mutual company working for the energy consumers of Northern Ireland, the directors believe it is appropriate for the NIEH Group to adopt best practice in company reporting, as far as applicable to the particular circumstances of the Group. Accordingly, this Operating and Financial Review has been prepared taking account of the guidance in the Reporting Statement: Operating and Financial Review issued by the Accounting Standards Board in January 2006.*

## The Business of the Group

The year to 31 March 2007 has been one of consolidation for the Northern Ireland Energy Holdings (NIEH) Group as the benefits of the merger of Northern Ireland's gas and electricity interconnector businesses have been realised.

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 Group's principal subsidiaries are the Premier Transmission and Moyle groups of companies. The Premier Transmission group was acquired in March 2005 on the re-financing and mutualisation of Premier Transmission Limited (PTL). NIEH took control of the Moyle group through the merger of October 2005. Moyle Interconnector Limited (Moyle) had previously been re-financed and mutualised in April 2003. The principal activities of the Group, from the merger to 31 March 2007, have been 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 which currently transports all natural gas used in Northern Ireland. It is owned by PTL and debt-financed through a 25 year bond.

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 postalsised



Northern Ireland Energy Holdings  
Executive Director, Alan Rainey

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 its efficiency gains and financial surpluses being returned ultimately to consumers. Mutualisation provided an immediate gain to consumers when the assets were refinanced at a lower cost of capital, resulting in lower annual charges. The mutualisation of Moyle in 2003 and PTL in 2005 yielded substantial financial savings, which will continue to benefit consumers for many years to come. 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. 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.

# Operating and Financial Review

## Consumers' Returns and Receipts

As a mutual energy company working for consumers, the directors continue to consider it appropriate to report here any returns made to or receipts from the energy consumers of Northern Ireland.

Continuing the trend of the previous year, Moyle set aside £9.4m (2006 - £12.4m) at year end as a further contribution from its accumulated operating surplus towards lower electricity prices in Northern Ireland in the coming year. In consequence, in 2007-08 there will again be no cash call on electricity consumers under Moyle's collection agency agreement with Northern Ireland Electricity plc (NIE). When the 2003 re-financing arrangements were put in place, it was anticipated that such cash calls would be required but in practice the company's performance has been such that this has not happened to date.

From its operating surplus at the 2007 year end, £8.9m (2006 - £15.8m) has been transferred to the cash reserve held in Moyle's Distributions Account, where it will be available for future consumer returns. During the year, the £10.3m previously approved for investment in the

Renewable and Sustainable Energy Fund was transferred from the Distributions Account to NIEH under a loan agreement.

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 Utility Regulation (the Utility Regulator), 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 2006, PTL's actual required revenue from the POT was £12.53m, against a forecast of £14.39m. This saving was offset against reduced volumes transported, (due to high gas prices) and allowed us to return some £1.48m to shippers in December 2006.



# Operating and Financial Review

## Key Performance Indicators

At the formation of the NIEH Group, the directors set the Key Performance Indicators (KPIs) for the Group, taking account of the nature of the Group and its businesses. Having further reviewed the businesses of the Group, which have not changed significantly in the interim, the directors have concluded that the performance of the Group in maximising value to our stakeholders can most appropriately be measured by reference to the same set of KPIs chosen to reflect what is important to those stakeholders.

The Group's main businesses continue to be 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 consumers 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 consumers of Northern Ireland provide PTL's required revenue through the POT. Last year the relevant KPI measured PTL's forecast required revenue for the gas year (the year ending 30 September 2006), which was to be collected from customers through the POT. The saving to consumers from mutualisation was 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.

For this financial year we consider the relevant KPI to be a comparison of the Forecast Required Revenue - FRR (agreed with the OfReg in June 2005) with the Actual Required Revenue - ARR achieved for gas year 2006.

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.

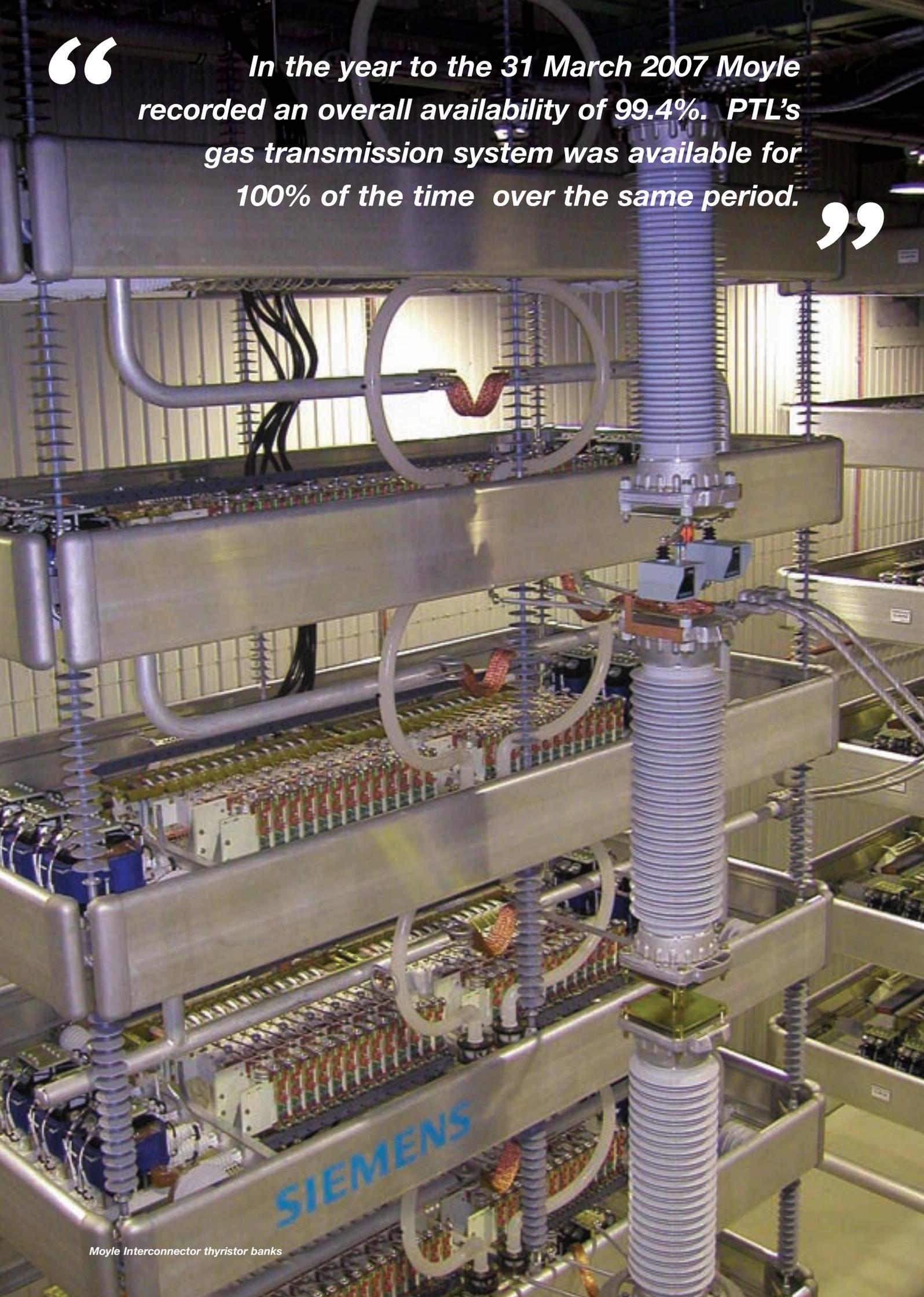
The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. As availability should be at or close to 100%, the KPI is expressed as its inverse, unavailability. Moyle measures its unavailability in accordance with the international standard reporting protocol for the performance of High Voltage Direct Current (HVDC) links published by CIGRÉ (the international conference 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	2007	2006
Cash called under Moyle Collection Agency	Nil	Nil
Cash transferred to Moyle Distributions Account	£8.9m	£15.6m
Moyle Distributions Account disbursements	£10.3m	£4.8m
PTL - FRR vs ARR	£12.5m	£14.4m
ADSCR - Moyle	2.08	1.85
ADSCR - PTL	2.24	2.3
Unavailability - Moyle	0.6%	1.1%
Unavailability - PTL	0%	0%
Group loss after tax excluding movements in index-linked swaps	£3.7m	£4.6m

“

*In the year to the 31 March 2007 Moyle recorded an overall availability of 99.4%. PTL's gas transmission system was available for 100% of the time over the same period.*

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# Operating and Financial Review

## Operating Company Performance

### *Revenue and Profitability - Moyle Group*

Moyle capacity was sold to electricity traders throughout 2006-07 in annual and monthly auctions. The flexible capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 94.8% (east-west) (2006 - 85.2%) and 84.4% (west-east) (2006 - nil) of available transmission capacity. However, for most of the year, prices were very low due to lack of competition for Moyle capacity as a consequence of the illiquid electricity markets in Ireland. This changed in the last quarter due to generation outages which led to a very tight generation capacity balance in both parts of Ireland, resulting in Moyle transmission capacity achieving prices which reflected its real economic value. Additional revenue was earned from capacity sales to the two system operators in Ireland, both for system reserve and for inter-system trading between Northern Ireland and Great Britain. The overall effect was that annual revenue, at £13.1m, showed a small increase on 2006 (£12.2m) in place of the forecast significant reduction.

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £7.3m (2006 - £7.2m). The group made an operating profit of £3.7m (2006 - £3.7m).

### *Revenue and Profitability - Premier Transmission Group*

PTL'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 Utility Regulator. At the November 2006 reconciliation, the achievement by PTL of reduced operating costs together with reduced gas volumes resulted in the company being able to return £1.48m 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 £5.1m (2006 - £4.7m). The group made an operating profit of £1.6m. (2006 - £1.2m).

### *Merger Benefits*

Bringing the Moyle and Premier Transmission groups together under the common ownership and management of the NIEH Group had been expected to bring cost savings to both our operating companies. Those savings, in some of the major costs of each group, were realised during the year. The Group's service company, Interconnector Services (NI) Limited, achieved significant savings in the costs of the necessary seabed surveys of both operating companies' assets by contracting for a joint survey and providing this service to Moyle and PTL. Further significant savings were achieved in the cost of asset insurances, which are a major cost to both operating groups, by joint marketing of the two insurance programmes.

# Operating and Financial Review

## Operating Company Performance (continued)

### *Operational Performance - Moyle Group*

In the year to 31 March 2007 Moyle's operational performance, with an overall availability of 99.4%, returned to the levels of earlier years. The lower level of 98.9% recorded in 2006 had been due to advantage being taken of low customer demand to carry out additional condition monitoring diagnostic work expected to enhance reliability in future years. The technical adviser's availability prediction was 97.9%.

The submarine and underground cable system again performed without incident. The seabed survey carried out in the summer of 2006 has confirmed that the submarine cable remains in good condition and is well protected against damage. The necessary converter station maintenance was carried out when customer demand for interconnector capacity was at its lowest. Further remedial work programmes on the converter station equipment have been carried out during the year or are planned. These are aimed at eliminating the small number of defects which became evident during the early years of operation, so that the current excellent availability is expected to continue into the future.

The high availability of the Moyle assets in the year to 31 March 2007 was once again essential to the security of electricity supply in Ireland. For extended periods, the adequacy of the electricity systems throughout Ireland depended on the generation capacity delivered to them by the Moyle Interconnector from the electricity system of Great Britain.

### *Operational Performance - Premier Transmission Group*

In the year to 31 March 2007 PTL's gas transmission system was available for 100% of the time.

A programme of works was completed to, improve the reliability of site communications, bring customer metering to current industry best practice and upgrade our Gas Transport Management Billing system (GTMBMS).

The seabed survey carried out in the summer of 2006 in conjunction with Moyle has confirmed that the submarine pipeline remains in good condition and is well protected against damage.

Operational arrangements were put in place to allow the connection of the south north pipeline, from Dublin to Belfast.

# Operating and Financial Review

## Group Financial Review

### *Revenue, Profitability and Reserves*

Group revenue in the period to 31 March 2007 was £27.4m (2006 - £26.9m). Group operating profit before interest and tax was £5.3m (2006 - £4.9m). After accounting for debt service, the Group made an after-tax loss of £7.8m (2006 - £9.6m).

At the inception of the financing arrangements for the acquisition of Premier Transmission Ltd by Premier Transmission Financing plc, Premier Transmission Financing plc entered into two index-linked swaps in order to hedge against index-linked revenues receivable under the licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to International Accounting Standard 39, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the standard. Accordingly the movement of the fair value of these index-linked swaps must be reported in the income statement under finance costs.

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £13.2m as at 31 March 2007. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £13.2m in respect of future revenues, however, this financial asset can not be recognised under International Accounting Standard 39 and therefore there is a significant mismatch of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported loss for the year would have been £3.7m (2006: £4.5m) and the directors believe that this is a fairer representation of the results for the year.

Despite the difficult trading conditions for Moyle, both the Moyle group and the Premier Transmission group were cash generative during the year. Moyle has received the

final instalment of the refund of its connection charges previously paid in Scotland. Both groups are required to hold high levels of cash reserves as conditions of their financing arrangements. Cash reserves in PTL amounted to £19m at year end while Moyle held operating reserves £26.2m, which includes the £9.4m retained to cover expected operating deficits in the current year, so as to avoid making a cash call on electricity consumers. Following the further transfer out of the 2006-07 operating surplus, Moyle's Distributions Account held £14.7m at year end. These funds are available for use for the benefit of electricity consumers in Northern Ireland in consultation with the Utility Regulator. £10.3m is held by the Group's investment company, Moyle Energy Investments Limited, pending its investment in the Renewable and Sustainable Energy Fund as already approved by the Utility Regulator. Total cash holdings by the Group at year end amounted to £70.3m.

### *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 2.08 against a required figure of 1.15 for Moyle and 2.24 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

# Operating and Financial Review

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 (2006 £3.4m).

## Business Trends

### *Investments*

In line with its policy of maximising long term value to the energy consumers of Northern Ireland through the most appropriate balance of short, medium and long-term uses of its available funds, the Group continues to explore the investment opportunities open to it. During the year, plans for the first investment by the Group outside its present Moyle and PTL businesses progressed as the structure of the Renewable and Sustainable Energy Fund, in which the NIEH Group is to be the founding investor, was developed and suitable projects for investment by the Fund were evaluated. It is expected that further funds of up to £150m will be attracted, for investment in renewable energy projects.

Phoenix Natural Gas Limited are expected to sell their gas transmission assets in the coming year. These pipelines are a good operational fit with our existing pipelines. The Group will investigate whether the purchase would be in the long term interests of energy consumers in Northern Ireland.

### *Electricity Markets*

The market trends which caused low demand for Moyle capacity in 2005-06 and much of 2006-07 reversed to some extent in the last quarter with the result that revenue was significantly above the forecast. Although some of this was due to factors specific to the last quarter, there was also a general improvement in demand which has continued into 2007-08.

In January 2007, Moyle capacity for the first seven months of 2007-08, i.e. the period prior to the start of the new Single Electricity Market (SEM) for Ireland, was auctioned. Unlike the last two years, there was considerable market interest in capacity in both directions with consequently improved prices. Monthly sales have continued to be healthy in the current year. However, market conditions will change again in November 2007 with the start of the SEM and a further capacity auction for that period will take place in June when bidders are expected to have developed a better understanding of the new market conditions. Although trading conditions between the electricity markets of Ireland and Great

Britain are expected to improve, with consequently increased capacity sales and prices for Moyle transmission capacity, some uncertainty will remain until stable trading patterns have been established under the new market rules.

Work continues on the preparations for interconnector trading in the new market and the development of additional revenue streams which will become available as trading develops. The ongoing work on the proper recognition of the value of the capacity contribution of the Moyle Interconnector will also continue.

### *Gas Markets*

Wholesale gas prices were comparatively low during the period. This increased PTL's gas volumes transported in winter 2006-07, however the unavailability of Coolkeeragh power station for much of the winter limited volume increases.

An 18 inch pipeline from Dublin to Belfast ("the South/North Pipeline") was commissioned at the end of 2006. This provides supplies to customers south of Belfast and an alternative route for gas transportation into Northern Ireland. It also provides 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 2010-11.

### *Regulatory Developments*

The work of the energy regulatory authorities in Ireland (the Utility Regulator in Northern Ireland and the Commission for Energy Regulation (CER) in the Republic of Ireland) on the creation of the SEM continued at a high level throughout the year. The effect of the SEM, now scheduled to come into operation in November 2007, on Moyle's business is expected to be positive. Moyle has continued to work closely with the regulatory authorities on its development, including the necessary changes to Moyle's licence and the agreements essential to its business. At year end, this work was nearing completion and the arrangements were expected to be generally satisfactory. However, the market rules still had not properly recognised and valued the capacity contribution made by the Moyle Interconnector.

In relation to gas regulation, activity has been completed to accommodate the South/North Pipeline and to simplify the rules for gas transportation to Northern Ireland.

# Operating and Financial Review

## Resources and Relationships

The business of the Group has been stable throughout the year and the directors continue to believe that the debt-financed and outsourced model is appropriate to that business. The consolidation of the PTL and Moyle businesses within the Group has led to expansion of the management team to six, including the Managing Directors of Moyle and PTL and the Group Finance Manager. The directors consider that these management arrangements, together with the Group's relationships with its professional advisers and appropriate insurance arrangements, continue to be robust against management contingencies and effective in succession terms. For part of the year, the management team was temporarily augmented to provide an appropriate overlap in the period prior to the retirement of the Moyle Managing Director and the directors are confident that the management succession which has since taken place will ensure the continuing effective management of the Group.

The Group holds significant cash resources on its balance sheet. The directors continue to seek investment opportunities which will ensure that these resources will be used in ways which are in the long-term interests of the energy consumers of Northern Ireland, with a risk profile which is appropriate to the nature of the Group.

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. The long term maintenance agreement for Moyle's converter stations was renewed with Siemens plc towards the end of 2006. The agreement has a five year duration. ESBI continue to maintain the Moyle cables and act as Moyle's maintenance manager.

During the year, the Group ensured compliance with the terms of the financing of Moyle and PTL and continued to maintain 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 under the terms of their electricity transmission and gas conveyance licences respectively and the directions issued by the Utility Regulator under those licences. The Group aims to work closely with the Utility Regulator to build a long-term co-operative relationship in the interest of consumers and to this end, meets regularly with the Utility Regulator at various levels.

## Environment and Safety

The Group continues to put a high value on the safety of its operations and to recognise 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 have continued to maintain regular contact with 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 has set targets to reduce these. All gas vented during operations is also calculated.

Moyle has taken the necessary measures to minimise any possible telephone interference effects due to harmonic emissions from its converter stations and believes these have been effective. Claims in relation to such interference in the early operational life of the stations nevertheless remain outstanding.

## Board of Directors

### The Northern Ireland Energy Holdings Board



**Alasdair J.D. Locke** (53) 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** (58) 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** (59)

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, including with Local Press in Northern Ireland and remains actively involved in the media industry.



**Felicity Huston** (44)

Felicity Huston is a Partner in Huston and Co Tax Consultants, having been a partner for twelve 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 Appointments for Northern Ireland in August 2005. She is a Trustee of Assisi Animal Sanctuary in Newtownards.



**Damian McAteer** (51)

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.



**Nuala Sheeran** (34)

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** (60) Executive Director

Alan Rainey was Executive Director of NIEH from its merger with the Moyle Group until his retirement in June 2007. He was Managing Director of the Moyle companies from their inception until March 2007, having previously directed the Moyle Interconnector project since the initial feasibility studies. An electrical engineer by profession, he worked on and directed the development and maintenance of generation, transmission and distribution systems throughout Ireland and overseas, working initially for the Electricity Supply Board in the Republic and latterly for the Viridian Group PLC in Northern Ireland.

# Corporate Governance Statement

## Corporate Governance Statement

The Group is committed to high standards of corporate governance. This statement describes how, during the year ended 31 March 2007, the Group has applied the main and supporting principles of corporate governance.

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 provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council in July 2003. Instead the Group uses its provisions as a guide to the extent considered appropriate to the circumstances of the Group.

### Statement of Compliance

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

For the year ended 31 March 2007 the composition of the remuneration Committee was not in accordance with provision B.2.1 of the Code in that the Chairman Alasdair Locke was also Chairman of the Remuneration Committee. The board considers that the size and the composition of the Remuneration Committee were such that the effectiveness of the Committee was not compromised by the Chairman's presence and position on the Committee. As of 22 June 2007, Alan McClure, has been appointed as the new Chairman of the Remuneration Committee.

### The Board

An effective board of directors leads and controls the Group. The board, which met 10 times during the year, has adopted a schedule of matters reserved for its approval.

The board is responsible for:

- long term objectives, strategy and major policies;
- business plans and budgets;
- the review of management performance;
- the approval of the annual operating plan and the financial statements;
- major capital expenditure;
- 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 board also receives presentations and oral updates at the meetings which are minuted, as well as regular updates on changes and developments to the business, legislative and regulatory environments. This ensures that all directors are aware of, and are in a position to monitor, major issues and developments within the Group.

In the event that specific business arises requiring board discussion or action between scheduled meetings, special board meetings are held, often by way of telephone conference.

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	8	1	2	
Alan McClure	6	1	1	3
David Montgomery	8	1	2	3
Felicity Huston	8	1	2	4
Damian McAteer	7	1	1	4
Nuala Sheeran	9	1		4
Alan Rainey	10			

Throughout the year 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.

# Corporate Governance Statement

Paddy Larkin was appointed as a director of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc on 22 January, 2007. He is not a member of the Group board.

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 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 2006/07, the Chairman's performance was appraised as part of the board evaluation process (see below).

## 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 the board conducted an evaluation of its own performance and that of its committees and individual directors. Board members completed a questionnaire on the effectiveness of the board, and Alan McClure as Senior Independent Director led a meeting of the non-executive directors to appraise the performance of the Chairman. The board then discussed the findings of these exercises at a full meeting of the board. The evaluation covered 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.

## Board committees

There are a number of standing Committees of the board to which various matters are delegated. The Committees all have formal Terms of Reference that have been approved by the Board. Details are set out below:

### *Audit Committee*

The Audit Committee comprises 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 as required by the code. 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 meet as necessary and is responsible for considering and recommending to the board persons who are appropriate for appointment as executive and non executive directors. The Nominations Committee is also responsible for succession planning and board evaluation.

There is a rigorous and transparent procedure for the appointment of new directors to the board. This process will involve the Nominations Committee interviewing suitable candidates who are proposed by either existing board members or by an external search company. Careful consideration will be given to ensure appointees have enough time available to devote to the role so that the balance of skills, knowledge and experience on the board will be maintained.

# Corporate Governance Statement



Northern Ireland Energy Holdings Directors and Executives Autumn 2006

## Membership Selections Committee

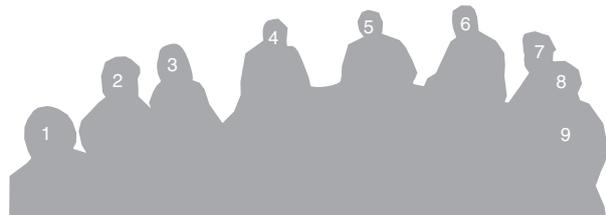
The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the Company and two independent representatives of NIAER. During the year, Alan McClure (Chairman) and Felicity Huston were the non-executive director members of the Committee.

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 is tasked to ensure that the membership is large enough and sufficiently diverse as to:

- adequately represent all stakeholders and in particular adequately represent energy consumers in Northern Ireland; and
- have the necessary skills, expertise, industry experience and/or capacity to contribute to the membership's key governance roles.

The Membership Selections Committee procures candidates through two routes:-

- requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and
- an open and transparent recruitment process similar to that used for public appointments.



1. Felicity Huston, 2. Bill Cargo, 3. Nuala Sheeran, 4. Alan McClure, 5. Alasdair J.D. Locke, 6. Alan Rainey, 7. David Flynn, 8. Damian McAteer, 9. David Montgomery

## 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 above, the board issued invitations to the recommended candidates and appointed the current members, who are:

Clarke Black  
Ashley Boreland  
Noel Brady  
David Brown  
Jim Burgess  
John Campbell  
Boyd Carson  
Alan Clarke  
Michael Doran  
Seamus Downey  
Malcolm Emery  
David Gavaghan  
Felicity Huston  
Dave Kirwan  
(resigned 12 March 2007)  
Janice Tracey

Eddie Magowan  
Damian McAteer  
Alan McClure  
Jim McCusker  
Colm McGarry  
John McLean  
Gordon Millington  
David Montgomery  
Allister Murphy  
Neville Orr  
Niall Rafferty  
Georges Senniger  
Nuala Sheeran  
Karen Shearer  
Alasdair Locke

# Corporate Governance Statement

New members are expected to be appointed in the next financial year following the procurement of candidates by the Membership Selection Committee.

As well as attending the AGM, Members are given the opportunity to attend members days at which members of the Board are present to answer questions and provide updates on the ongoing business of the Group.

### ***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 and Risk Management**

The board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the board confirms that it has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority.

The board and its Committees maintain an ongoing process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the Group's business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks which has been in place for the full year ended 31 March 2007 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the board and the Audit Committee.



Northern Ireland Energy Holdings Directors and Executives, from back row (left to right) Damien McAteer, Nuala Sheeran, Felicity Huston and Alan Rainey. Seated (left to right) Bill Cargo, Alasdair Locke, Alan McClure and Paddy Larkin

# Corporate Governance Statement

Control is maintained through a management structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; a comprehensive financial planning and accounting framework and a formal reporting structure. These methods of control are subject to periodic review as to their continued suitability.

The board during its annual review of the effectiveness of the Groups internal control and risk management systems of internal control and risk management did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

The Group is committed to ensuring a safe working environment. The risks arising from inadequate management of health and safety matters are the exposure of third parties and employees to risk of injury. These risks are closely managed by the Group through: the strong promotion of a Health and Safety Culture; well defined Health and Safety policies and regular formal interaction with key sub contractors.

The main compliance risk which the Group faces is in respect of its adherence to the terms of its structured finance. The board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.

As an owner of large infrastructure assets there is also a risk of mechanical or process failure in the Group's operations. This operating risk is addressed through the use and close supervision of experienced qualified maintenance subcontractors and the adherence to a structured maintenance plan.

As the holder of licences for the conveyance and transportation of gas and electricity the Group is exposed to economic regulation and Government policy. The Group's relationship with the Utility Regulator for Northern Ireland is managed by senior management through frequent meetings and formal correspondence. A pro-active approach is taken to consultations on any issue which could effect the Group's business interests.

The Group's system of internal control 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.

## **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.

# Remuneration Committee Report

## 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 Group.

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 Groups objective for executive directors' remuneration for the year ended 31 March 2007 was that the levels of remuneration should be sufficient to attract, retain and motivate directors to deliver value for stakeholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration policy is based upon the following principles:

- a significant proportion of the executive directors' total reward should be performance based;
- incentive plans, performance measures and targets should be aligned as closely as possible with stakeholders interests; and



Alan McClure  
(incoming) Chairman, Remuneration Committee

- fees and base salaries should be set at market level for companies of a similar size, market and profile.

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.

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 Group is pleased to recognise the commitment of the non-executive directors to the development of the Group and their involvement as non executives in the boards of its subsidiaries together with the Audit, Remuneration, Nominations and Membership Selections Committees.

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 2006/07 NIEH - 12 months £000	Fees for 2005/06 NIEH - 15 months £000
Alasdair Locke	46	53
Alan McClure	34	39
David Montgomery	28	31
Felicity Huston	34	39
Damian McAteer	28	31
Nuala Sheeran	28	16
<b>Totals</b>	<b>198</b>	<b>209</b>

# Remuneration Committee Report

The remuneration set out in the table above for the 2006/07 year is the remuneration paid by NIEH for acting as non executives on the main board and any of the boards of the subsidiary companies. No separate remuneration is paid to any of the directors who act as non executives of the subsidiary companies.

With the exception of Nuala Sheeran the remuneration for 2005/06 is the aggregate of remuneration as non-executive directors of NIEH for the period from incorporation in January 2005 to 31 March 2006 and as non-executive directors of Moyle Holdings Limited for the period from 1 April 2005 to the merger in October 2005. For Nuala Sheeran, the table includes remuneration as non-executive director of NIEH for the period from August 2005 to 31 March 2006.

## Executive Remuneration

The following table sets out an analysis of the remuneration, including bonuses but excluding pensions, for individual executive directors of the Group:

Executive Directors	Basic salary for 2006/7 £000	Basic salary for 2005/6 £000	Benefits in kind for 2006/7 £000	Benefits in kind for 2005/6 £000	Performance Bonus for 2006/7 £000	Performance Bonus for 2005/6 £000	Total 2006/7 £000	Total 2005/6 £000
Alan Rainey	114	111	1	1	57	58	172	170
William Cargo	98	99	2	2	47	41	147	142
Paddy Larkin*	24	-	1	-	9	-	34	-

\*Appointed January 07

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

Paddy Larkin was appointed as a director of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc on 22 January, 2007. He is not a director of NIEH.

## Performance Related Bonus

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

Paddy Larkin may earn an annual bonus of up to 40% of basic salary; the other executive directors may earn an annual bonus of up to 50% of basic salary. Up to 75% of the annual bonus is assessed against achievement of essential performance targets (asset performance, cost management and compliance) 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 provide for three months notice to give the Group reasonable security with regard to their service. The service contracts do not provide for compensation to be payable in the event of early termination by the Group 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 directors of the subsidiary companies, the Group makes defined contributions to the employee's personal pension plan.

# Audit Committee Report

## Audit Committee Report

The principal responsibilities of the Audit Committee are to:

- Ensure that the financial statements represent an accurate, clear and balanced assessment of the groups position;
- review significant financial reporting issues and judgements;
- review the Group's internal controls and risk management systems;
- 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;
- review the contractual relationships with other key consultancy subcontractors; and
- monitor the engagement of the external auditors to supply non-audit services.

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 Committee 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.



Felicity Huston  
Chairman, Audit Committee

During the year the Committee oversaw the tendering of the position of external auditor for the group. At the conclusion of the process Ernst and Young resigned as auditors on 5 January 2007 and PricewaterhouseCoopers were appointed as auditors.

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.



Northern Ireland Energy Holdings Board at the Annual General Meeting September 07

## 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 19) 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-nine years, nineteen of which have been with Ards Borough Council where he has held the post of Chief Executive since 2004. He is a Professional Advisor to NILGA and serves on the Executives of SOLACE (the Society of Local Government Chief Executives) and ALACE (the Association of Local Government Chief Executives). He has an LLB from the University of London, is a Fellow of the Institute of Chartered Secretaries and Administrators and is a JP.

**Noel Brady** has a BA in Business Studies and has his own management consultancy company. He is Chair and Honorary 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 Vehicles Agency (DVA) 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** was a Director of Consumer Power Corporation Ltd. and has been a member of Moyle Holdings Ltd. since 2003. He is a Director of Odyssey Trust and a number of private and public property companies. He acts as Property Consultant to private clients including Belfast Harbour Commissioners.

**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 in Translink, Business Development and Improvement at Lamont Holdings PLC, and a variety of positions in British Telecom.

**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 a Director of several internet related companies.

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

## Members

**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 of Invista Textiles. 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 past Chairman of the Northern Ireland Food and Drinks Association. Malcom is also CEO of Northern Ireland Seafood Ltd.

**David Gavaghan** has been Chief Executive of Strategic Investment Board Limited (SIB) since July 2004. He has played a pivotal role in helping government departments and agencies achieve faster and better delivery of major public infrastructure projects in Northern Ireland. SIB is now engaged in more than 50 projects with a capital value of more than £4bn. David has extensive experience in project finance having spent 5 years at David Wylde Project Finance (DWPF) and in May 2004, before moving to NI, he was part of the team that won Best Financial Adviser at the 2004 Public Private Finance Awards. Prior to DWPF, he was a Director of Hambros Bank Limited.

**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 (Resigned 12 March 2007).

**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).

**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.

**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.

**John McLean** is a chartered engineer and a member of the Institute of Engineers of Ireland. He holds an MBA and a Diploma in Marketing. He is Chief Executive of the Fold Group in Northern Ireland and Fold Ireland in the Republic of Ireland. He has previously held the position of Commercial Director with NIE Powerteam, Tyco Inc and the Rotary Group.

**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. Neville is also a non-executive director of Altnagelvin Hospitals HSS Trust and a Non-Executive Director of O'Kane Poultry Ltd.

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

**Georges Senniger** has a Master of Science 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. 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.

# Report and Financial Statements

## Northern Ireland Energy Holdings Limited

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

### Annual Report

for the year ended 31 March 2007

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## Directors and Advisers

### Directors

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

### Secretary

Arthur Cox Northern Ireland

### Registered office

Capital House  
3 Upper Queen Street  
Belfast  
BT1 6PU

### Solicitors

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

### Bankers

Royal Bank of Scotland  
London Corporate Service Centre  
PO Box 39952  
2 1/2 Devonshire Square  
London  
EC2M 4XJ

Barclays Bank plc  
Imperial House  
Donegall Square East  
Belfast  
BT1 5HD

### Registered Auditors

PricewaterhouseCoopers LLP  
Waterfront Plaza  
8 Laganbank Road  
Belfast  
BT1 3LR

Registered Number: NI053759

# Directors' Report

## Directors' report

(for the year ended 31 March 2007)

The directors present their report and the audited financial statements for the year ended 31 March 2007.

### Principal activities and business review

The group's principal activities during the year 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.

### Results

The group's loss for the year is £7,798,000 (2006: £9,635,000 as restated).

### Directors

The directors who served the group during the year were:

Alasdair Locke, Alan McClure  
David Montgomery, Felicity Huston  
Damian McAteer, Nuala Sheeran  
Alan Rainey

### 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 political or charitable donations have been made during the year (2006: £Nil).

### 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 25 days at 31 March 2007 (2006: 18 days).

### Events after the balance sheet date

For a description of events after the balance sheet date refer to note 24 to the financial statements.

### Prior period adjustment

The directors wish to draw the attention of readers to note 15 of these financial statements which explains the nature and effect of a prior period adjustment. During the period ended 31 March 2006 one of the group's subsidiary undertakings entered into two index-linked swaps in order to hedge against index-linked revenues receivable under its licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to International Accounting Standard 39, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the standard. Accordingly the movement of the fair value of these index-linked swaps must be reported in the income statement under finance costs.

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £13,150,000 as at 31 March 2007. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £13,150,000 in respect of future revenues, however, this financial asset can not be recognised under International Accounting Standard 39 and therefore there is a significant mismatch of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported loss for the year would have been £3,704,000 (2006: £4,524,000) and the directors believe that this is a fairer representation of the results for the year.

## Directors' Report

### Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements ("financial statements") for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

### Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

### Auditors

PricewaterhouseCoopers LLP were appointed as auditors during the year and have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board  
Arthur Cox Northern Ireland  
**Secretary**  
20 June 2007

# Independent Auditors' Report

## Independent auditors' report to the members of Northern Ireland Energy Holdings Limited

We have audited the group and parent company financial statements ("financial statements") of Northern Ireland Energy Holdings Limited for the year ended 31 March 2007, which comprise the group income statement, the group and parent company statements of recognised income and expense, the group and parent company balance sheets and the group and parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implication for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

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

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

### Opinion

#### In our opinion:

- the 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 and parent company's affairs as at 31 March 2007 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

As explained in note 1, the company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 March 2007 and of its loss and cash flows for the year then ended.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Belfast  
29 August 2007

# Group Income Statement

## Group income statement

for the year ended 31 March 2007

	Notes	2007 £'000	2006 As restated £'000
Revenue - continuing operations	2	27,421	26,920
Operating costs	3	(22,127)	(21,992)
<b>Earnings before depreciation and amortisation of intangible assets</b>		<b>12,305</b>	<b>11,852</b>
Amortisation of intangible assets		(3,063)	(3,063)
Depreciation net of amortisation of government grants		(3,948)	(3,861)
<b>Operating profit</b>		<b>5,294</b>	<b>4,928</b>
Finance income	5	4,085	3,394
Finance costs	5	(15,416)	(13,895)
Net loss on derivative financial instruments	5	(5,849)	(7,301)
Finance costs - net		(17,180)	(17,802)
<b>Loss before income tax</b>		<b>(11,886)</b>	<b>(12,874)</b>
Income tax credit	6	4,088	3,239
<b>Loss for the year</b>	15	<b>(7,798)</b>	<b>(9,635)</b>

## Group and parent company statements of recognised income and expense

for the year ended 31 March 2007

	Group		Company	
	2007 £'000	2006 As restated £'000	2007 £'000	2006 As restated £'000
(Loss)/profit for the year	(7,798)	(9,635)	16	1
<b>Total recognised income and expense for the year</b>	<b>(7,798)</b>	<b>(9,635)</b>	<b>16</b>	<b>1</b>

# Group and Parent Company Balance Sheets

## Group and parent company balance sheets

at 31 March 2007

		Group		Company	
		2007	2006	2007	2006
	Notes	£'000	As restated £'000	£'000	£'000
<b>Assets</b>					
<b>Non current assets</b>					
Property, plant and equipment	8	216,090	222,514	33	-
Intangible assets	9	90,109	93,172	-	-
Investment in subsidiary undertakings	10	-	-	-	-
Deferred income tax asset	18	6,125	2,993	-	-
		<u>312,324</u>	<u>318,679</u>	<u>33</u>	<u>-</u>
<b>Current assets</b>					
Trade and other receivables	11	7,090	6,398	424	69
Financial assets	12	-	12,036	-	-
Cash and cash equivalents	13	70,326	56,726	10,237	-
		<u>77,416</u>	<u>75,160</u>	<u>10,661</u>	<u>69</u>
<b>Total assets</b>		<u><u>389,740</u></u>	<u><u>393,839</u></u>	<u><u>10,694</u></u>	<u><u>69</u></u>
<b>Equity</b>					
Ordinary shares	14	-	-	-	-
Retained earnings	15	2,897	10,695	17	1
<b>Total equity</b>		<u><u>2,897</u></u>	<u><u>10,695</u></u>	<u><u>17</u></u>	<u><u>1</u></u>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Borrowings	16	229,000	227,889	10,563	-
Provisions	17	3,000	3,694	-	-
Deferred income tax liabilities	18	49,016	49,954	-	-
Government grants	19	78,012	80,522	-	-
Derivative financial instruments	15	13,150	7,301	-	-
		<u>372,178</u>	<u>369,360</u>	<u>10,563</u>	<u>-</u>
<b>Current liabilities</b>					
Trade and other payables	20	5,158	4,843	114	68
Borrowings	16	6,908	6,253	-	-
Government grants	19	2,599	2,688	-	-
		<u>14,665</u>	<u>13,784</u>	<u>114</u>	<u>68</u>
<b>Total liabilities</b>		<u><u>386,843</u></u>	<u><u>383,144</u></u>	<u><u>10,677</u></u>	<u><u>68</u></u>
<b>Total equity and liabilities</b>		<u><u>389,740</u></u>	<u><u>393,839</u></u>	<u><u>10,694</u></u>	<u><u>69</u></u>

# Group and Parent Company Cash Flow Statements

## Group and parent company cash flow statements

for the year ended 31 March 2007

	Notes	Group		Company	
		2007 £'000	2006 As restated £'000	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>					
Profit before income tax and finance costs		5,294	4,928	32	1
Adjustments for:					
Depreciation of property, plant and equipment		6,550	6,549	4	-
Amortisation of government grant		(2,599)	(2,688)	-	-
Amortisation on intangible assets		3,063	3,063	-	-
(Increase)/decrease in trade and other receivables		(286)	3,149	(42)	(69)
Increase in trade and other payables		304	295	39	68
Income tax paid		(51)	(456)	-	-
Net cash generated from operating activities		12,275	14,840	33	-
<b>Investing activities</b>					
Interest received		3,686	2,651	304	-
Receipt of capital rebate		12,036	18,053	-	-
Purchase of property, plant and equipment		(126)	(493)	(37)	-
Net cash generated from investing activities		15,596	20,211	267	-
<b>Financing activities</b>					
Interest paid		(7,347)	(6,923)	(313)	-
Borrowing fees		(335)	(336)	-	-
Repayment of borrowings		(6,589)	(6,177)	-	-
Proceeds from borrowings		-	-	10,250	-
Net cash (used in)/generated from financing activities		(14,271)	(13,436)	9,937	-
Increase in cash and cash equivalents		13,600	21,615	10,237	-
Cash and cash equivalents at the beginning of the year	13	56,726	35,111	-	-
Cash and cash equivalents at the end of the year	13	70,326	56,726	10,237	-

# Notes to Financial Statements for year ended 31 March 2007

## 1 Accounting policies

### General information

The group's principal activities during the year 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. The company is incorporated in Northern Ireland.

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

These financial statements were authorised for issue by the board of directors on 20 June 2007 and were signed on their behalf by Alasdair Locke and Felicity Huston.

### Statement of compliance with IFRSs

The financial statements of Northern Ireland Energy Holdings Limited have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies (Northern Ireland) Order 1986 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB).

### New standards and interpretations not applied

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

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 7	Financial instruments: disclosures	1 January 2007
IAS 1	Amendment relating to the presentation of financial statements	1 January 2007
IFRS 8 *	Operating segments	1 January 2009
IAS 23 *	Borrowing costs (revised)	1 January 2009
<b>International Financial Reporting Interpretation Committee (IFRIC)</b>		
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of embedded derivatives	1 June 2006
IFRIC 10 *	Interim financial reporting and impairment	1 November 2006
IFRIC 11 *	Group and treasury share transactions	1 March 2007
IFRIC 12 *	Service concession arrangements	1 January 2008

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.

Under the 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 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.

# Notes to Financial Statements for year ended 31 March 2007

## Basis of consolidation

The group financial statements consolidate the financial statements of Northern Ireland Energy Holdings Limited and its subsidiary undertakings drawn up to 31 March. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

## Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland and from the sale of capacity and ancillary services on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

## Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less

accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

## 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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline	43 years
Interconnector assets	40 years
Control and protection equipment	20 years
Office and computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

## Impairment of non-financial 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

# Notes to Financial Statements for year ended 31 March 2007

statement in those expense categories consistent with the function of the impaired asset.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Current loans and receivables are classified as 'trade and other receivables' in the balance sheet and non-current loans and receivables are classified as 'financial assets' in the balance sheet.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired

## Derivative financial instruments

The group enters into derivatives financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the income statement.

## Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

## Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid

investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 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.

## Income tax and deferred income tax

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

# Notes to Financial Statements for year ended 31 March 2007

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged 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 income statement 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 the income statement so as to match them with the expenditure to which they relate.

### Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### Pensions and other post-retirement benefits

The group operates a defined contribution pension plan for the managing director of one of the group's subsidiary undertakings. Contributions are recognised in the income statement in the period in which they become payable.

The group also contributes to individual's personal pension schemes. Contributions are recognised in the income statement in the period in which they become payable.

### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by

definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

#### (a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis.

The remaining useful economic life of the pipeline was determined as approximately 33.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 34.5 years depreciation would have decreased by £86,000 and if the remaining useful economic life had been assessed at 32.5 years depreciation would have increased by £101,000.

The remaining useful economic life of the interconnector was determined as approximately 36 years at the beginning of the year. If the remaining useful economic life had been assessed at 37 years depreciation would have decreased by £87,000 and if the remaining useful economic life had been assessed at 35 years depreciation would have increased by £90,000.

#### (b) Estimate of assumptions used in the calculation of the decommissioning provision

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.25%. The decommissioning provision has been discounted using a rate of 4.3%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(Decrease) in provision £'000
Increase in inflation factor by 1%	1,365
Decrease in inflation factor by 1%	(945)
Increase in discount rate by 1%	(849)
Decrease in discount rate by 1%	1,200

### Comparatives

Certain comparatives have been restated to present a fairer comparison with the current year. These restatements principally relate to the disclosure of social security costs in employee benefit expense and the transfer of borrowing fees of £637,000 from operating costs to finance costs. These restatements had no effect on the group's loss for the year ended 31 March 2006.

# Notes to Financial Statements for year ended 31 March 2007

## 2 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. Moyle Interconnector Limited sells capacity on an Interconnector for the transmission of electricity between Scotland and Northern Ireland and Premier Transmission Limited 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 2007

	Moyle Interconnector £'000	Premier Transmission £'000	Other £'000	Total £'000
Segment revenue	13,068	14,353	-	27,421
Segment expenses	(9,342)	(12,748)	(37)	(22,127)
<b>Segment results and profit before finance costs and income tax</b>	<b>3,726</b>	<b>1,605</b>	<b>(37)</b>	<b>5,294</b>
Finance income				4,085
Finance costs				(15,416)
Net loss on derivative financial instruments				(5,849)
<b>Loss before income tax</b>				<b>(11,886)</b>
Income tax credit				4,088
<b>Loss for the year</b>				<b>(7,798)</b>
<b>Assets and liabilities</b>				
Segment assets	167,338	146,370	10,351	324,059
Inter-group eliminations				(10,770)
Unallocated assets				76,451
<b>Total assets</b>				<b>389,740</b>
Segment liabilities	(47,324)	(38,726)	(111)	(86,161)
Inter-group eliminations				392
Unallocated liabilities				(301,074)
<b>Total liabilities</b>				<b>(386,843)</b>
<b>Other segment information:</b>				
Capital expenditure:				
Property, plant and equipment	-	89	37	126
Amortisation of intangible assets	1,661	1,402	-	3,063
Depreciation	3,370	3,176	4	6,550

# Notes to Financial Statements for year ended 31 March 2007

## 2 Segment information (continued)

Year ended 31 March 2006

	Moyle Interconnector	Premier Transmission	Other	Total As restated
	£'000	£'000	£'000	£'000
Segment revenue	12,159	14,761	-	26,920
Segment expenses	(8,431)	(13,562)	1	(21,992)
<b>Segment results and profit before finance costs and income tax</b>	<b>3,728</b>	<b>1,199</b>	<b>1</b>	<b>4,928</b>
Finance income				3,394
Finance costs				(13,895)
Net loss on derivative financial instruments				(7,301)
<b>Loss before income tax</b>				<b>(12,874)</b>
<b>Income tax credit</b>				<b>3,239</b>
<b>Loss for the year</b>				<b>(9,635)</b>
<b>Assets and liabilities</b>				
Segment assets	171,814	147,858	92	319,764
Inter-group eliminations				(135)
Unallocated assets				74,210
<b>Total assets</b>				<b>393,839</b>
Segment liabilities	(53,005)	(38,772)	(90)	(91,867)
Inter-group eliminations				120
Unallocated liabilities				(291,397)
<b>Total liabilities</b>				<b>(383,144)</b>
<b>Other segment information:</b>				
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

## 3 Expenses by nature

	2007	2006
	£'000	As restated £'000
Employee benefit expense (Note 4)	830	609
Depreciation and amortisation (net of amortisation of deferred government grants)	7,014	6,924
Operating lease payments	170	139
Fees payable to the company's auditor in respect of the audit of the company's financial statements	39	48
Fees payable to the company's auditor in respect of taxation services	7	22
Other expenses	14,067	14,250
<b>Total operating costs</b>	<b>22,127</b>	<b>21,992</b>

## Notes to Financial Statements at 31 March 2007

**4 Employee benefit expense**

	2007	2006
	£'000	As restated £'000
Wages and salaries	729	500
Social security costs	69	58
Pension costs	32	51
	<u>830</u>	<u>609</u>

The average monthly number of employees during the period (including directors holding contracts of service with the group) was 5 (2006: 4).

	2007	2006
	£'000	£'000
<b>Directors' emoluments</b>		
Aggregate emoluments	172	170
Contributions paid to defined contribution pension scheme	24	24
	<u>196</u>	<u>194</u>
	<b>Number</b>	<b>Number</b>
Members of defined contribution pension scheme	<u>1</u>	<u>1</u>

Directors' emoluments represent the remuneration of the group's executive director, Alan Rainey. The remaining directors of the group received £198,000 (2006: £209,000) for their services to group companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies.

**5 Finance income and costs**

	2007	2006
	£'000	As restated £'000
Interest expense:		
Borrowings	14,587	13,107
Borrowing fees	829	637
Net loss on derivative financial instruments (note 15)	5,849	7,301
Movement of discount on provisions	-	151
Finance costs	<u>21,265</u>	<u>21,196</u>
Interest income:		
Short term bank deposits	(3,028)	(2,694)
Movement of discount on provisions	(694)	-
Income tax receivables	(5)	-
Financial assets	(358)	(700)
Finance income	<u>(4,085)</u>	<u>(3,394)</u>
Finance costs - net	<u>17,180</u>	<u>17,802</u>

## Notes to Financial Statements for the year ended 31 March 2007

### 6 Income tax credit

	2007	2006
	£'000	As restated £'000
<b>Current income tax:</b>		
Adjustments in respect of previous periods	(18)	-
<b>Total current income tax</b>	<u>(18)</u>	<u>-</u>
<b>Deferred income tax:</b>		
Adjustments in respect of previous periods	(291)	(13)
Arising on derivative financial instruments (note 15)	(1,755)	(2,190)
Origination and reversal of temporary differences	(2,024)	(1,036)
<b>Total deferred income tax</b>	<u>(4,070)</u>	<u>(3,239)</u>
<b>Total income tax credit</b>	<u><u>(4,088)</u></u>	<u><u>(3,239)</u></u>

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	2007	2006
	£'000	As restated £'000
Loss before income tax	(11,886)	(12,874)
Tax calculated at the UK standard rate of corporation tax of 30% (2006: 30%)	(3,566)	(3,862)
Income not subject to tax	(213)	-
Deferred income tax assets not recognised	-	217
Surrender of tax losses for nil consideration	-	419
Adjustments in respect of previous periods	(309)	(13)
<b>Total income tax credit</b>	<u><u>(4,088)</u></u>	<u><u>(3,239)</u></u>

### 7 Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £16,000 (2006: £1,225).

## Notes to Financial Statements for the year ended 31 March 2007

### 8 Property, plant and equipment

Group	Pipeline £'000	Interconnector £'000	Control equipment £'000	Office and Computer equipment £'000	Total £'000
<b>Cost</b>					
At 1 April 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
Additions	-	-	-	126	126
At 31 March 2007	108,043	128,748	3,785	284	240,860
<b>Depreciation</b>					
At 1 April 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
Provided during the year	3,127	3,181	189	53	6,550
At 31 March 2007	6,254	17,456	946	114	24,770
<b>Net book amount</b>					
At 31 March 2007	101,789	111,292	2,839	170	216,090
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

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 (2006: £8,137,000). All labour and overheads attributable to the construction of the Scotland to 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. Depreciation expense of £6,550,000 (2006: £6,549,000) has been fully charged in operating costs. Borrowings are secured on the group's property, plant and equipment.

Company	Office and Computer equipment £'000	Total £'000
<b>Cost</b>		
Additions	37	37
At 31 March 2007	37	37
<b>Depreciation</b>		
Provided during the year	4	4
At 31 March 2007	4	4
<b>Net book amount</b>		
At 31 March 2007	33	33
At 31 March 2006	-	-

# Notes to Financial Statements for the year ended 31 March 2007

## 9 Intangible assets

Group Cost	Goodwill £'000	Licences £'000	Total £'000
At 1 April 2005, 31 March 2006 and 31 March 2007	2,435	97,122	99,557
<b>Amortisation</b>			
At 1 April 2005	-	3,322	3,322
Provided during the year	-	3,063	3,063
At 31 March 2006	-	6,385	6,385
Provided during the year	-	3,063	3,063
<b>At 31 March 2007</b>	-	9,448	9,448
<b>Net book amount</b>			
<b>At 31 March 2007</b>	2,435	87,674	90,109
At 31 March 2006	2,435	90,737	93,172
At 31 March 2005	2,435	93,800	96,235

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

Goodwill recognised includes certain intangible assets within acquisitions that cannot be individually separated and reliably measured due to their nature.

### 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 cash flows. The cash flow projections are over a 28 year period which matches the remaining licence duration and the useful life of the related assets. The key assumptions, which have been determined on the basis of management 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 repayments.

The projections are based on a financial model for a period of 28 years which has been approved by the board.

Discount rates reflect management estimate of the weighted average cost of capital of the group being 5.28% (2006: 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.

# Notes to Financial Statements for the year ended 31 March 2007

## 10 Investments

Company

Investment in  
Subsidiary  
Undertakings  
£'000

Cost

At 1 April 2005, 31 March 2006 and 31 March 2007

-

The company's subsidiary undertakings are:

Name of Company	Country of incorporation or registration	Holding	Proportion held	Nature of business
Moyle Holdings Limited	Northern Ireland	Limited by guarantee		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	Ordinary shares	100%	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%	Provision of seabed survey
Northern Ireland Gas Transmission Holdings Limited	Northern Ireland	Ordinary shares	100%	Dormant

\*held by subsidiary undertaking

# Notes to Financial Statements for the year ended 31 March 2007

## 11 Trade and other receivables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	302	1,931	-	-
Income tax receivable	105	32	-	-
Prepayments and accrued income	3,576	1,503	50	-
Other receivables	3,107	2,932	18	-
Amounts owed by group undertakings	-	-	356	69
	<u>7,090</u>	<u>6,398</u>	<u>424</u>	<u>69</u>

## 12 Financial assets

Group	2007 £'000	2006 £'000
Capital rebate	-	12,036

## 13 Cash and cash equivalents

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash at bank and in hand	19,133	31	-	-
Short-term bank deposits	51,193	56,695	10,237	-
	<u>70,326</u>	<u>56,726</u>	<u>10,237</u>	<u>-</u>

## 14 Called up share capital

The company is limited by guarantee and does not have a share capital. In accordance with the company's articles of association the members have undertaken to contribute in the event of winding up, a sum not exceeding £1.

# Notes to Financial Statements for the year ended 31 March 2007

## 15 Reconciliation of movements in equity

Group	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
At 1 April 2005	20,330		20,330
Total recognised income and expense for the year	(9,635)		(9,635)
At 31 March 2006 as previously reported	17,996	(7,301)	10,695
Prior period adjustment	(7,301)	7,301	-
At 31 March 2006 as restated	10,695	-	10,695
Total recognised income and expense for the year	(7,798)	-	(7,798)
At 31 March 2007	<u>2,897</u>	<u>-</u>	<u>2,897</u>
Company	Retained earnings £'000		Total £'000
At 1 April 2005		-	-
Total recognised income and expense for the year		<u>1</u>	<u>1</u>
At 31 March 2006		1	1
Total recognised income and expense for the year		<u>16</u>	<u>16</u>
At 31 March 2007		<u>17</u>	<u>17</u>

During the year ended 31 March 2006 the group designated two index-linked based swaps as a cash flow hedge of index-linked revenues received. Only one element of the group's revenue under one of its agreement with the regulator is index-linked and therefore to comply with paragraph 82 of IAS39 the group would have to designate the index-linked swaps as a cash flow hedge against revenues in its entirety for all risks. As revenues are also based on operating costs, which can vary considerably, hedging against revenues in its entirety for all risks is ineffective. Accordingly the index-linked swaps do not qualify as a cash flow hedge and are therefore accounted for as non-hedged derivative financial instruments. The correct treatment for the index-linked swaps is to recognise the movement in the fair value of these derivatives through the income statement.

The effect of this restatement is to remove the cash flow hedge reserve of £7,301,000 and increase the loss for the year ended 31 March 2006 by £7,301,000. In addition the deferred tax adjustment arising on the fair value of the index-linked swaps was taken directly to equity. Under the correct accounting treatment for derivatives the deferred tax adjustments should be reported in the income statement. The effect of this restatement is to reduce the loss for the year ended 31 March 2006 by £2,190,000 and reduce retained earnings.

# Notes to Financial Statements for the year ended 31 March 2007

## 16 Borrowings

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Non-current</b>				
5.2022% Guaranteed Secured Bond	102,210	101,016	-	-
2.9376% Index Linked Guaranteed Secured Bond	126,790	126,873	-	-
Amounts owed by group undertakings	-	-	10,563	-
	<u>229,000</u>	<u>227,889</u>	<u>10,563</u>	<u>-</u>
<b>Current</b>				
5.2022% Guaranteed Secured Bond	2,426	2,096	-	-
2.9736% Index Linked Guaranteed Secured Bond	4,482	4,157	-	-
	<u>6,908</u>	<u>6,253</u>	<u>-</u>	<u>-</u>
<b>Total borrowings</b>	<u>235,908</u>	<u>234,142</u>	<u>10,563</u>	<u>-</u>

The 5.2022% guaranteed secured bond 2030 was issued 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, including default interest.

The 2.9376% index linked guaranteed secured bond 2033 was 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 the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the Moyle Interconnector 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 fair value of borrowings is disclosed in note 23 to these financial statements.

The maturity profile of borrowings is as follows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
In one year or less or on demand	6,908	6,253	-	-
In more than one year but less than two years	7,051	6,470	-	-
In more than two years but not more than five years	26,054	22,121	-	-
In more than five years	195,895	199,298	10,563	-
	<u>235,908</u>	<u>234,142</u>	<u>10,563</u>	<u>-</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 17 Provisions

Group	Decommissioning provision £'000
At 1 April 2005	3,543
Movement on discount	151
	<hr/>
At 31 March 2006	3,694
Movement on discount	(694)
	<hr/>
At 31 March 2007	<u>3,000</u>

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 35 years, at the end of its useful economic life. This provision is expected to be utilised within 35 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 4.3% (2006: 5.7%).

## 18 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Group	2007 £'000	2006 £'000
Deferred income tax assets	6,125	2,993
Deferred income tax liabilities	(49,016)	(49,954)
	<hr/>	<hr/>
Deferred income tax liabilities - net	<u>(42,891)</u>	<u>(46,961)</u>

The gross movement on the deferred income tax account is as follows:

Group	As restated £'000
As at 1 April 2005	(50,200)
Income statement credit for the year	3,239
	<hr/>
As at 31 March 2006	(46,961)
Income statement credit for the year	4,070
	<hr/>
As at 31 March 2007	<u>(42,891)</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 18 Deferred income tax (continued)

	Accelerated capital allowances	Tax losses	Valuation of intangible assets	Temporary difference on tax on income receipt	Derivative financial instruments As restated	Total
Group	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2005	(22,777)	-	(27,690)	267	-	(50,200)
Income statement charge	45	540	468	(4)	2,190	3,249
At 31 March 2006	(22,732)	540	(27,222)	263	2,190	(46,961)
Income statement charge	19	1,640	919	(263)	1,755	4,070
At 31 March 2007	(22,713)	2,180	(26,303)	-	3,945	(42,891)

## 19 Government grants

Group	£'000
At 1 April 2005	85,898
Amortised during the year	(2,688)
At 31 March 2006	83,210
Amortised during the year	(2,599)
At 31 March 2007	80,611

The current portion of the government grants is £2,599,000 (2006: £2,688,000), the non current portion is £78,012,000 (2006: £80,522,000)

## 20 Trade and other payables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade payables	894	674	48	5
Accruals and deferred income	3,214	3,611	50	30
Amounts owed to group undertakings	-	-	16	33
Other tax and social security	1,031	488	-	-
Other payables	19	70	-	-
	5,158	4,843	114	68

# Notes to Financial Statements for the year ended 31 March 2007

## 21 Commitments

### Operating lease commitments - group as lessee

The group has entered into commercial leases on land and these leases have terms of 29 and 100 years. There are no restrictions placed upon the lessee by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 £'000	2006 £'000
Not later than one year	153	139
After one year but not more than five years	612	556
After five years	9,685	9,158
	<u>10,450</u>	<u>9,853</u>

## 22 Related party transactions

The ultimate controlling parties of the group are the members.

During the year the company entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into, and trading balances outstanding at 31 March with related parties, are as follows:

Company	Nature of transaction	Amount of transaction		Amount owed (to) /from related party	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Subsidiary undertakings	Loan received from	-	-	(16)	(33)
Subsidiary undertakings	Loan provided to	-	-	356	69
Subsidiary undertakings	Loan provided to	10,250	-	(10,563)	-
Subsidiary undertakings	Interest payable	313	-	-	-
Subsidiary undertakings	Group relief claimed	7	-	-	-
Subsidiary undertakings	Charges receivable	612	344	-	-
		<u>10,882</u>	<u>344</u>	<u>(10,213)</u>	<u>(66)</u>

Compensation of key management (including directors):

	2007 £'000	2006 £'000
Group		
Short term employee benefits	370	379
Post-employment benefits	24	24
	<u>394</u>	<u>403</u>

During the period ended 31 March 2006, 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.

# Notes to Financial Statements for the year ended 31 March 2007

## 23 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:

As at 31 March 2007 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
2.9376% index linked bond	(4,482)	(4,664)	(4,953)	(5,728)	(6,578)	(104,867)	(131,272)
5.2022% bond	(2,426)	(2,587)	(2,755)	(2,930)	(3,110)	(90,828)	(104,636)
Cash	70,326	-	-	-	-	-	70,326
	<u>63,418</u>	<u>(7,251)</u>	<u>(7,708)</u>	<u>(8,658)</u>	<u>(9,688)</u>	<u>(195,695)</u>	<u>(165,582)</u>

As at 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
2.9376% index linked bond	(4,157)	(4,228)	(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)
Cash	56,726	-	-	-	-	-	56,726
Capital rebate	12,036	-	-	-	-	-	12,036
	<u>62,509</u>	<u>(6,470)</u>	<u>(6,791)</u>	<u>(7,219)</u>	<u>(8,111)</u>	<u>(199,298)</u>	<u>(165,380)</u>

Cash earns interest at a range of Bank of England base rate less 0.75% to Bank of England base rate plus 2%. The capital rebate attracts interest at a range of rates between 5.8% and 6.1%. Borrowings bear interest at a rate of 5.2022% per annum and a rate of 2.9376% per annum. The 2.9376% bond is index-linked to the Retail Price Index.

### Credit risk

There is no significant concentration 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 2.9376% index linked bond which has a fair value of £119,565,000 (2006: £119,460,000) and the 5.2022% bond which has a fair value of £119,622,000 (2006: £119,601,000). These fair values have been calculated by discounting the expected future cash flows at prevailing interest rates.

## Notes to Financial Statements at 31 March 2007

### 23 Financial instruments (continued)

#### Derivative financial instruments

During the year ended 31 March 2006 the group entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with paragraph 82 of IAS39 these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedged derivative financial instruments. The fair value of these index-linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the income statement under net finance costs.

### 24 Events after the balance sheet date

The UK government has announced that the main rate of Corporation Tax will be reduced from 30% to 28% with effect from 1 April 2008. In accordance with IFRSs, the existing rate of 30% is still used as a basis for the calculation of the deferred income taxes stated in these financial statements. If the new rate of Corporation Tax were applied to the current year financial statements, deferred income tax assets would decrease by £408,000 and deferred income tax liabilities would decrease by £3,268,000 at the balance sheet date. The impact of the change in rate for the year ended 31 March 2008 will depend on the taxable income for the year then ended.

The group is currently in negotiation to acquire the 20-mile Belfast transmission pipeline from Islandmagee to Belfast from Phoenix Energy Holdings. So far no value has been agreed for the asset, but previously it has been disclosed that it is worth around £105m.



# Moyle Interconnector (Financing) plc

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## Directors and Advisers

### Directors

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

### Secretary

Arthur Cox Northern Ireland

### Registered office

Capital House  
3 Upper Queen Street  
Belfast  
BT1 6PU

### Solicitors

Arthur Cox Northern Ireland  
Capital House  
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BT1 6PU

### Bankers

Royal Bank Of Scotland  
London Corporate Service Centre  
PO Box 39952  
2 1/2 Devonshire Square  
London  
EC2M 4XJ

### Registered auditors

PricewaterhouseCoopers LLP  
Waterfront Plaza  
8 Laganbank Road  
Belfast  
BT1 3LR

Registered Number: NI 45625

## Directors' report for the year ended 31 March 2007

The directors present their report and the audited financial statements for the year ended 31 March 2007.

### 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 the group's ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

### Results and dividends

The group's loss for the year is £1,219,000 (2006: £1,458,000). The directors do not recommend the payment of a dividend.

### Directors

The directors who served the group during the year were:

Alasdair Locke  
 Alan McClure  
 David Montgomery  
 Felicity Huston  
 Damian McAteer  
 Nuala Sheeran  
 Alan Rainey  
 William Cargo  
 Patrick Larkin (Appointed 22 January 2007)

### 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 the group's ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

### Political and charitable donations

No political or charitable donations have been made during the year (2006: £Nil).

### 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 25 days at 31 March 2007 (2006: 7 days).

### Events after the balance sheet date

For a description of events after the balance sheet date refer to note 24 to the financial statements.

## Directors' Report

### Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements ("financial statements") for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They are also responsible for safeguarding the assets of the group and parent

company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

### Auditors

PricewaterhouseCoopers LLP were appointed as auditors during the year and have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Arthur Cox Northern Ireland

**Secretary**

20 June 2007

# Independent Auditors' Report

## Independent auditors' report to the shareholders of Moyle Interconnector (Financing) plc

We have audited the group and parent company financial statements ("financial statements") of Moyle Interconnector (Financing) plc for the year ended 31 March 2007, which comprise the group income statement, the group and parent company statements of recognised income and expense, the group and parent company balance sheets, the group and parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards to the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and

consider the implication for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

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

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

### Opinion

#### In our opinion:

- the 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 and parent company's affairs as at 31 March 2007 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards to the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

As explained in note 1, the company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the groups affairs as at 31 March 2007 and of its loss and cash flows for the year then ended.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Belfast  
17 July 2007

## Group Income Statement

### Group income statement

for the year ended 31 March 2007

	Notes	2007 £'000	2006 As restated £'000
Revenue – continuing operations		13,068	12,159
Operating costs	2	(9,342)	(8,431)
<b>Earnings before depreciation and amortisation of intangible assets</b>		<b>7,254</b>	<b>7,171</b>
Amortisation of intangible assets		(1,661)	(1,661)
Depreciation (net of amortisation of government grants)		(1,867)	(1,782)
<b>Operating profit</b>		<b>3,726</b>	<b>3,728</b>
Finance income	4	3,077	2,486
Finance costs	4	(8,955)	(8,330)
Finance costs – net		(5,878)	(5,844)
<b>Loss before income tax</b>		<b>(2,152)</b>	<b>(2,116)</b>
Income tax credit	5	933	658
<b>Loss for the year</b>	14	<b>(1,219)</b>	<b>(1,458)</b>

### Group and parent company statements of recognised income and expense

for the year ended 31 March 2007

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
(Loss)/profit for the year	(1,219)	(1,458)	119	35
<b>Total recognised income and expense for the year</b>	<b>(1,219)</b>	<b>(1,458)</b>	<b>119</b>	<b>35</b>

# Group and Parent Company Balance Sheets

## Group and parent company balance sheets

at 31 March 2007

	Notes	Group		Company	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Assets</b>					
<b>Non current assets</b>					
Property, plant and equipment	7	114,131	117,501	-	-
Intangible assets	8	49,833	51,494	-	-
Investment in subsidiary undertakings	9	-	-	20,950	20,950
Financial assets	10	10,250	-	108,565	108,746
Deferred income tax asset	17	1,215	803	-	-
		<u>175,429</u>	<u>169,798</u>	<u>129,515</u>	<u>129,696</u>
<b>Current assets</b>					
Trade and other receivables	11	3,374	2,819	608	176
Financial assets	10	-	12,036	3,743	3,563
Cash and cash equivalents	12	40,963	39,173	-	-
		<u>44,337</u>	<u>54,028</u>	<u>4,351</u>	<u>3,739</u>
<b>Total assets</b>		<u><u>219,766</u></u>	<u><u>223,826</u></u>	<u><u>133,866</u></u>	<u><u>133,435</u></u>
<b>Equity</b>					
Ordinary shares	13 & 14	50	50	50	50
Retained earnings	14	17,605	18,824	(189)	(308)
<b>Total equity</b>		<u>17,655</u>	<u>18,874</u>	<u>(139)</u>	<u>(258)</u>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Borrowings	15	126,790	126,873	126,790	126,873
Provisions	16	3,000	3,694	-	-
Deferred income tax liabilities	17	20,515	20,917	-	-
Government grant	18	43,524	44,938	-	-
		<u>193,829</u>	<u>196,422</u>	<u>126,790</u>	<u>126,873</u>
<b>Current liabilities</b>					
Trade and other payables	19	2,297	2,781	2,733	2,663
Borrowings	15	4,482	4,157	4,482	4,157
Government grant	18	1,503	1,592	-	-
		<u>8,282</u>	<u>8,530</u>	<u>7,215</u>	<u>6,820</u>
<b>Total liabilities</b>		<u>202,111</u>	<u>204,952</u>	<u>134,005</u>	<u>133,693</u>
<b>Total equity and liabilities</b>		<u><u>219,766</u></u>	<u><u>223,826</u></u>	<u><u>133,866</u></u>	<u><u>133,435</u></u>

# Group and Parent Company Cash Flow Statements

## Group and parent company cash flow statements

for the year ended 31 March 2007

	Notes	Group		Company	
		2007 £'000	2006 As restated £'000	2007 £'000	2006 As restated £'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before income tax and finance costs		3,726	3,728	(17)	(35)
Adjustments for:					
Depreciation of property, plant and equipment		3,370	3,374	-	-
Amortisation of government grant		(1,503)	(1,592)	-	-
Amortisation on intangible assets		1,661	1,661	-	-
(Increase)/decrease in trade and other receivables		(417)	1,394	341	336
(Decrease)/increase in trade and other payables		(489)	298	(4)	-
Net cash generated from operating activities		6,348	8,863	320	301
<b>Investing activities</b>					
Interest received		2,370	1,730	4,726	4,985
Repayment of loans		-	-	3,633	3,214
Loan to group undertaking		(10,250)	-	-	-
Receipt from capital rebate		12,036	18,053	-	-
Purchase of property, plant and equipment		-	(348)	-	-
Net cash generated from investing activities		4,156	19,435	8,359	8,199
<b>Financing activities</b>					
Interest paid		(4,030)	(4,007)	(3,995)	(4,007)
Borrowing fees		(335)	(336)	(335)	(336)
Repayment of borrowings		(4,349)	(4,157)	(4,349)	(4,157)
Net cash used in financing activities		(8,714)	(8,500)	(8,679)	(8,500)
Increase in cash and cash equivalents		1,790	19,798	-	-
Cash and cash equivalents at the beginning of the year	12	39,173	19,375	-	-
Cash and cash equivalents at the year end	12	40,963	39,173	-	-

# Notes to Financial Statements for the year ended 31 March 2007

## 1 Accounting policies

### General information

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. The company is incorporated in Northern Ireland.

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

These financial statements were authorised for issue by the board of directors on 20 June 2007 and were signed on their behalf by Alastair Locke and Felicity Huston.

### Statement of compliance with IFRSs

The financial statements of Moyle Interconnector (Financing) plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRSs), IFRIC interpretations and the Companies (Northern Ireland) Order 1986 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB).

### New standards and interpretations not applied

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

		Effective date
<b>International Accounting Standards (IAS/IFRSs)</b>		
IFRS 7	Financial instruments: disclosures	1 January 2007
IAS 1	Amendment relating to the presentation of financial statements	1 January 2007
IFRS 8 *	Operating segments	1 January 2009
IAS 23 *	Borrowing costs (revised)	1 January 2009
<b>International Financial Reporting Interpretation Committee (IFRIC)</b>		
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of embedded derivatives	1 June 2006
IFRIC 10 *	Interim financial reporting and impairment	1 November 2006
IFRIC 11 *	Group and treasury share transactions	1 March 2007
IFRIC 12 *	Service concession arrangements	1 January 2008

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.

Under the 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 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.

# Notes to Financial Statements for the year ended 31 March 2007

## Basis of consolidation

The group financial statements consolidate the financial statements of Moyle Interconnector (Financing) plc and its subsidiary undertaking drawn up to 31 March. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

## Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity and ancillary services on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

## Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

## 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

## Impairment of non-financial 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

## Notes to Financial Statements for the year ended 31 March 2007

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.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Current loans and receivables are classified as 'trade and other receivables' in the balance sheet and non-current loans and receivables are classified as 'financial assets' in the balance sheet.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

### Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### Ordinary shares

Ordinary shares are classified as equity.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 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.

### Income tax and deferred income tax

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax

# Notes to Financial Statements for the year ended 31 March 2007

rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged 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 income statement 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 the income statement so as to match them with the expenditure to which they relate.

## Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## Pensions and other post-retirement benefits

The group operates a defined contribution pension plan for the managing director of the group. Contributions are recognised in the income statement in the period in which they become payable.

## Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

#### (a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the interconnector was determined as approximately 36 years at the beginning of the year. If the remaining useful economic life had been assessed at 37 years depreciation would have decreased by £87,000 and if the remaining useful economic life had been assessed at 35 years depreciation would have increased by £90,000.

#### (b) Estimate of assumptions used in the calculation of the decommissioning provision

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.25%. The decommissioning provision has been discounted using a rate of 4.3%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(Decrease) in provision £'000
Increase in inflation factor by 1%	1,365
Decrease in inflation factor by 1%	(945)
Increase in discount rate by 1%	(849)
Decrease in discount rate by 1%	1,200

## Comparatives

Certain comparatives have been restated to present a fairer comparison with the current year. These restatements principally relate to the transfer of borrowing fees of £583,000 from operating costs to finance costs and the disclosure of social security costs in employee benefit expense. These restatements had no effect on the group's loss for the year ended 31 March 2006.

# Notes to Financial Statements for the year ended 31 March 2007

## 2 Expenses by nature

	2007	2006
	£'000	As restated £'000
Employee benefit expense (Note 3)	253	207
Depreciation and amortisation (net of amortisation of deferred government grants)	3,528	3,443
Operating lease payments	88	82
Fees payable to the company's auditor in respect of the audit of the company's financial statements	17	16
Fees payable to the company's auditor in respect of taxation services	3	20
Other expenses	5,453	4,573
Total operating costs	<u>9,342</u>	<u>8,341</u>

## 3 Employee benefit expense

	2007	2006
	£'000	As restated £'00
Wages and salaries	204	162
Social security costs	25	21
Pension costs	24	24
	<u>253</u>	<u>207</u>

The average monthly number of employees during the period (comprising only directors holding contracts of service with the Group) was 1 (2006: 1).

	2007	2006
	£'000	As restated £'00
<b>Directors' emoluments</b>		
Aggregate emoluments	206	162
Contributions paid to defined contribution pension scheme	24	24
	<u>230</u>	<u>186</u>
	<b>Number</b>	<b>Number</b>
Members of defined contribution pension scheme	<u>2</u>	<u>1</u>

Directors' emoluments represent the remuneration of the group's executive directors, Alan Rainey and Paddy Larkin. The remaining directors of the group received £198,000 (2006: £209,000) for their services to group companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies.

## Notes to Financial Statements for the year ended 31 March 2007

**4 Finance income and costs**

	2007	2006
	£'000	As restated £'000
Interest expense:		
Borrowings	8,377	7,596
Borrowing fees	578	583
Movement of discount on provisions	-	151
	<u>8,955</u>	<u>8,330</u>
Finance costs		
Interest income:		
Short term bank deposits	(1,712)	(1,786)
Amounts owed by ultimate parent undertaking	(313)	-
Movement of discount on provisions	(694)	
Financial assets	(358)	(700)
	<u>(3,077)</u>	<u>(2,486)</u>
Finance income		
Finance costs – net	<u>5,878</u>	<u>5,844</u>

**5 Income tax credit**

	2007	2006
	£'000	£'000
Current income tax:		
Payments for group relief	5	
Adjustments in respect of previous periods – group relief	(124)	-
	<u>(119)</u>	<u>-</u>
Total current income tax		
Deferred income tax:		
Deferred tax over provided in prior years	50	(13)
Origination and reversal of temporary differences	(864)	(645)
	<u>(814)</u>	<u>(658)</u>
Total deferred income tax		
Total income tax credit	<u>(933)</u>	<u>(658)</u>

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	2007	2006
	£'000	£'000
Loss before income tax	(2,152)	(2,116)
Tax calculated at the UK standard rate of corporation tax of 30% (2006: 30%)	(646)	(634)
Income not subject to tax	(210)	-
Effect of differing tax rates on group relief	(3)	-
Utilisation of tax losses carried forward	-	(11)
Adjustments in respect of previous periods	(74)	(13)
	<u>(933)</u>	<u>(658)</u>
Total income tax credit		

## Notes to Financial Statements for the year ended 31 March 2007

### 6 Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £119,000 (2006: £35,000).

### 7 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 April 2005	128,400	3,785	13	132,198
Additions	348	-	-	348
<b>At 31 March 2006 and 31 March 2007</b>	<b>128,748</b>	<b>3,785</b>	<b>13</b>	<b>132,546</b>
<b>Depreciation</b>				
At 1 April 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
Provided during the year	3,181	189	-	3,370
<b>At 31 March 2007</b>	<b>17,456</b>	<b>946</b>	<b>13</b>	<b>18,415</b>
<b>Net book amount</b>				
At 31 March 2007	111,292	2,839	-	114,131
At 31 March 2006	114,473	3,028	-	117,501
At 1 April 2005	117,305	3,217	5	120,527

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 (2006: £8,137,000).

Depreciation expense of £3,370,000 (2006: £3,374,000) has been charged in operating costs.

Borrowings are secured on all of the property, plant and equipment of the company.

## Notes to Financial Statements for the year ended 31 March 2007

## 8 Intangible assets

	Licences £'000	Total £'000
<b>Group</b>		
<b>Cost</b>		
At 1 April 2005, 31 March 2006 and 31 March 2007	56,477	56,477
<b>Amortisation</b>		
At 1 April 2005	3,322	3,322
Provided during the year	1,661	1,661
At 31 March 2006	4,983	4,983
Provided during the year	1,661	1,661
<b>At 31 March 2007</b>	<b>6,644</b>	<b>6,644</b>
<b>Net book amount</b>		
At 31 March 2007	49,833	49,833
At 31 March 2006	51,494	51,494
At 31 March 2005	53,155	53,155

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.

## 9 Investments

Company	Investment in Subsidiary Undertaking
Cost	£'000
At 1 April 2005, 31 March 2006 and 31 March 2007	20,950

The company's subsidiary undertaking is:

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

## 10 Financial assets

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Financial assets – non current:</b>				
Amounts owed by group undertakings	-	-	108,565	108,746
Amounts owed by related undertakings	10,250	-	-	-
<b>Financial assets – current:</b>				
Capital rebate	-	12,036	-	-
Amounts owed by group undertakings	-	-	3,743	3,563
	<b>10,250</b>	<b>12,036</b>	<b>112,308</b>	<b>112,309</b>

The capital rebate attracts interest at a range of rates between 5.8% and 6.1%.

# Notes to Financial Statements for the year ended 31 March 2007

## 11 Trade and other receivables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	-	559	-	-
Prepayments and accrued income	2,445	1,321	170	176
Other receivables	407	910	-	-
Income tax recoverable	12	12	-	-
Amounts owed by group undertakings	-	-	438	-
Amounts owed by related undertakings	510	17	-	-
	<u>3,374</u>	<u>2,819</u>	<u>608</u>	<u>176</u>

## 12 Cash and cash equivalents

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash at bank and in hand	7	31	-	-
Short-term bank deposits	40,956	39,142	-	-
	<u>40,963</u>	<u>39,173</u>	<u>-</u>	<u>-</u>

## 13 Called up share capital

	2007 £'000	2006 £'000
Group and Company Authorised 1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted and fully paid 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

## 14 Reconciliation of movements in equity

Group	Ordinary shares £'000	Retained Earnings £'000	Total £'000
At 1 April 2005	50	20,282	20,332
Total recognised income and expense for the year	-	(1,458)	(1,458)
At 31 March 2006	<u>50</u>	<u>18,824</u>	<u>18,874</u>
Total recognised income and expense for the year	-	(1,219)	(1,219)
At 31 March 2007	<u>50</u>	<u>17,605</u>	<u>17,655</u>

## Notes to Financial Statements for the year ended 31 March 2007

## 14 Reconciliation of movements in equity (continued)

Company	Ordinary shares £'000	Retained earnings £'000	Total £'000
At 1 April 2005	50	(343)	(293)
Total recognised income and expense for the year	-	35	35
At 31 March 2006	50	(308)	(258)
Total recognised income and expense for the year	-	119	119
At 31 March 2007	50	(189)	(139)

## 15 Borrowings

	2007 £'000	2006 £'000
<b>Group and company</b>		
<b>Non-current</b>		
2.9376% index linked guaranteed secured bond	126,790	126,873
<b>Current</b>		
2.9376% index linked guaranteed secured bond	4,482	4,157
Total borrowings	131,272	131,030

The 2.9376% index linked guaranteed secured bond 2033 was 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 the Retail Price Index. 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.

The fair value of the bond is £119,565,000 (2006: £119,460,000).

The maturity profile of borrowings is as follows:

Group and company	2007 £'000	2006 £'000
In one year or less or on demand	4,482	4,157
In more than one year but not more than two years	4,464	4,229
In more than two years but not more than five years	17,259	14,477
In more than five years	105,067	108,167
	131,272	131,030

# Notes to Financial Statements for the year ended 31 March 2007

## 16 Provisions

Group	Decommissioning provision £'000
At 1 April 2005	3,543
Movement on discount for the year	151
At 31 March 2006	3,694
Movement on discount for the year	(694)
At 31 March 2007	3,000

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 35 years, at the end of its useful economic life. This provision is expected to be utilised within 35 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 4.3% (2006: 5.7%).

## 17 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Group	2007 £'000	2006 £'000
Deferred income tax assets	(1,215)	(803)
Deferred income tax liabilities	20,515	20,917
Deferred income tax liabilities – net	19,300	20,114

The gross movement on the deferred income tax account is as follows:

Group	£'000
At 1 April 2005	20,772
Income statement credit for the year	(658)
At 31 March 2006	20,114
Income statement credit for the year	(814)
At 31 March 2007	19,300

The movement in deferred tax assets and liabilities during the year is as follows:

Group	Accelerated capital allowances £'000	Tax Losses £'000	Valuation of intangible assets £'000	Temporary difference on tax on income receipt £'000	Total £'000
At 1 April 2005	5,092	-	15,947	(267)	20,772
Income statement charge/(credit) for the year	376	(540)	(498)	4	(658)
At 31 March 2006	5,468	(540)	15,449	(263)	20,114
Income statement charge/(credit) for the year	96	(675)	(498)	263	(814)
At 31 March 2007	5,564	(1,215)	14,951	-	19,300

# Notes to Financial Statements for the year ended 31 March 2007

## 18 Government grant

Group	£'000
At 1 April 2005	48,122
Amortised during the year	(1,592)
	<hr/>
At 31 March 2006	46,530
Amortised during the year	(1,503)
	<hr/>
At 31 March 2007	45,027
	<hr/> <hr/>

The current portion of deferred income is £1,503,000 (2006: £1,592,000). The non current portion is £43,524,000 (2006: £44,938,000).

## 19 Trade and other payables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade payables	259	108	-	-
Accruals and deferred income	1,388	2,428	6	10
Amounts owed to group undertakings	-	-	2,721	2,653
Amounts owed to related undertakings	253	69	-	-
Other tax and social security	397	176	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,297	2,781	2,727	2,663
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 20 Commitments

### Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a term of 100 years. There are no restrictions placed upon the lessee by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 £'000	2006 £'000
Not later than one year	88	82
After one year but not more than five years	352	328
After five years	8,190	7,790
	<hr/>	<hr/>
	8,630	8,200
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements for the year ended 31 March 2007

## 21 Related party transactions

The ultimate controlling parties of the group are the members of Northern Ireland Energy Holdings Limited. During the year the group entered into transactions, in the ordinary course of business, with related parties. Transactions entered into, and trading balances outstanding at 31 March with related parties, are as follows:

Group	Nature of Transaction	Amount of transaction		Amount owed (to)/from related party	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Ultimate parent undertaking	Loan provided to	10,250	-	10,316	(69)
Immediate parent undertaking	Loan provided to	-	-	24	4
Fellow subsidiary undertaking	Group relief surrender	-	-	117	-
Fellow subsidiary undertaking	Loan provided to	-	-	50	13
Fellow subsidiary undertaking	Survey costs payable	(593)	-	-	-
Ultimate parent undertaking	Charges payable	(239)	(122)	-	-
Ultimate parent undertaking	Interest receivable	313	-	-	-

Company	Nature of Transaction	Amount of transaction		Amount owed (to)/from related party	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Subsidiary undertaking	Loan received from	-	-	(2,375)	(2,653)
Subsidiary undertaking	Loan provided to	-	-	112,308	112,309
Fellow subsidiary undertaking	Group relief surrender	-	-	91	-
Ultimate parent undertaking	Group relief surrender	-	-	1	-
Ultimate parent undertaking	Interest receivable	313	-	-	-
Subsidiary undertaking	Interest receivable	8,971	8,554	-	-

Compensation of key management (including directors):

Group	2007 £'000	2006 £'000
Short term employee benefits	206	162
Post-employment benefits	24	24

## Notes to Financial Statements for the year ended 31 March 2007

## 22 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 ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

Interest rate risk profile of financial assets and liabilities:

	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
<b>As at 31 March 2007 Group</b>							
2.9376% index linked bond	(4,482)	(4,664)	(4,953)	(5,728)	(6,578)	(104,867)	(131,272)
Cash	40,963	-	-	-	-	-	40,963
Amounts owed by ultimate parent undertaking	-	-	-	-	-	10,250	10,250
	<u>36,481</u>	<u>(4,664)</u>	<u>(4,953)</u>	<u>(5,728)</u>	<u>(6,578)</u>	<u>(94,617)</u>	<u>(80,059)</u>
<b>As at 31 March 2006 Group</b>							
2.9376% index linked bond	(4,157)	(4,229)	(4,400)	(4,673)	(5,404)	(108,167)	(131,030)
Cash	39,173	-	-	-	-	-	39,173
Capital rebate	12,036	-	-	-	-	-	12,036
	<u>47,052</u>	<u>(4,229)</u>	<u>(4,400)</u>	<u>(4,673)</u>	<u>(5,404)</u>	<u>(108,167)</u>	<u>(79,821)</u>
<b>As at 31 March 2007 Company</b>							
2.9376% index linked bond	(4,482)	(4,664)	(4,953)	(5,728)	(6,578)	(104,867)	(131,272)
Amounts owed by ultimate parent undertaking	-	-	-	-	-	10,250	10,250
Amounts owed by subsidiary undertaking	3,743	3,895	4,136	4,784	5,494	90,256	112,308
	<u>(739)</u>	<u>(769)</u>	<u>(817)</u>	<u>(944)</u>	<u>(1,084)</u>	<u>(4,361)</u>	<u>(8,714)</u>
<b>As at 31 March 2006 Company</b>							
2.9376% index linked bond	(4,157)	(4,229)	(4,400)	(4,673)	(5,404)	(108,167)	(131,030)
Amounts owed by subsidiary undertaking	3,563	3,624	3,772	4,005	4,632	92,713	112,309
	<u>(594)</u>	<u>(605)</u>	<u>(628)</u>	<u>(668)</u>	<u>(772)</u>	<u>(15,454)</u>	<u>(18,721)</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 22 Financial instruments (continued)

Cash earns interest at a range of Bank of England base rate less 0.75% to Bank of England base rate plus 2%. The capital rebate attracts interest at a range of rates between 5.8% and 6.1%. Borrowings bear interest at a rate of 2.9376% per annum and are indexed linked to the Retail Price Index. Amounts owed by the ultimate parent undertaking earn interest at a rate of 4.75% per annum and the amounts owed by the subsidiary undertaking earn interest at a rate of 3.5173% per annum and are index linked to the Retail Price Index.

### 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 their carrying value as at the balance sheet date.

## 23 Ultimate parent undertaking

The immediate parent undertaking is Moyle Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are not prepared.

The ultimate parent undertaking is Northern Ireland Energy Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are prepared and are available to the public from Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.

## 24 Events after the balance sheet date

The UK government has announced that the main rate of Corporation Tax will be reduced from 30% to 28% with effect from 1 April 2008. In accordance with IFRSs, the existing rate of 30% is still used as a basis for the calculation of the deferred income taxes stated in these financial statements. If the new rate of Corporation Tax were applied to the current year financial statements, deferred income tax assets would decrease by £81,000 and deferred income tax liabilities would decrease by £1,368,000 at the balance sheet date. The impact of the change in rate for the year ended 31 March 2008 will depend on the taxable income for the year then ended.



**Premier Transmission Financing plc**  
Annual Report for the year ended  
31 March 2007

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## Directors and Advisors

### Directors

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

### Secretary

Arthur Cox Northern Ireland

### Registered office

Capital House  
3 Upper Queen Street  
Belfast  
BT1 6PU

### Solicitors

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

### Bankers

Barclays Bank plc  
Imperial House  
Donegall Square East  
Belfast  
BT1 5HD

### Registered auditors

PricewaterhouseCoopers LLP  
Waterfront Plaza  
8 Laganbank Road  
Belfast  
BT1 3LR

Registered Number: NI 053751

## Directors' report for the year ended 31 March 2007

The directors present their report and the audited financial statements for the year ended 31 March 2007.

### 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 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 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 the company's ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

### Results and dividends

The group's loss for the year is £6,542,000 (2006: £8,178,000 as restated). The directors do not recommend the payment of a dividend.

### Directors

The directors who served the group during the year were:

Alasdair Locke  
 Alan McClure  
 David Montgomery  
 Felicity Huston  
 Damian McAteer  
 Nuala Sheeran  
 Alan Rainey  
 William Cargo  
 Patrick Larkin (Appointed 22 January 2007)

### 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 the company's ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

### Political and charitable donations

No political or charitable donations have been made during the year (2006: £Nil).

### 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 25 days at 31 March 2007 (2006: 29 days).

### Events after the balance sheet date

For a description of events after the balance sheet date refer to note 23 to the financial statements.

### Prior period adjustment

The directors wish to draw the attention of readers to note 14 of these financial statements which explains the nature and effect of a prior period adjustment. During the period ended 31 March 2006 the group and company entered into two index-linked swaps in order to hedge against index-linked revenues receivable under the licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group and company, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to International Accounting Standard 39, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the standard. Accordingly the movement of the fair value of these index-linked swaps must be reported in the income statement under finance costs.

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £13,150,000 as at 31 March 2007. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £13,150,000 in respect of future revenues, however, this financial asset can not be recognised under International Accounting Standard 39 and therefore there is a significant miss-match of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported loss for the year would have been £2,448,000 (2006: £3,067,000) and the directors believe that this is a fairer representation of the results for the year.

## Directors' Report

### Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the

prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

### Auditors

PricewaterhouseCoopers LLP were appointed as auditors during the year and have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Arthur Cox Northern Ireland  
**Secretary**  
20 June 2007

# Independent Auditors' Report

## Independent auditors' Report to the shareholders of Premier Transmission Financing plc

We have audited the group and parent company financial statements ("financial statements") of Premier Transmission Financing plc for the year ended 31 March 2007, which comprise the group income statement, the group and parent statements of recognised income and expense, the group and parent balance sheets, the group and parent cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards to the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implication for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

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

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

### Opinion

#### In our opinion:

- the 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 and parent company's affairs as at 31 March 2007 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and, as regards to the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

As explained in note 1, the group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the groups affairs as at 31 March 2007 and of its loss and cash flows for the year then ended.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Belfast

17 July 2007

# Group Income Statement

## Group income statement

for the year ended 31 March 2007

	Notes	Year ended 31 March 2007 £000	14 months ended 31 March 2006 As restated £000
Revenue - continuing operations		14,353	14,761
Operating costs	2	(12,748)	(13,562)
<b>Earnings before depreciation and amortisation of intangible assets</b>		<b>5,088</b>	<b>4,680</b>
Amortisation of intangible assets		(1,402)	(1,402)
Depreciation net of amortisation of government grants		(2,081)	(2,079)
<b>Operating profit</b>		<b>1,605</b>	<b>1,199</b>
Finance income	4	1,015	909
Finance costs	4	(6,461)	(5,566)
Net loss on derivative financial instruments	4	(5,849)	(7,301)
Finance costs - net		(11,295)	(11,958)
Loss before income tax		(9,690)	(10,759)
Income tax credit	5	3,148	2,581
<b>Loss for the year</b>		<b>(6,542)</b>	<b>(8,178)</b>

## Group and parent company statement of recognised income and expense

for the year ended 31 March 2007

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Loss for the year	(6,542)	(8,178)	(5,478)	(7,979)
Total recognised income and expenses for the year	(6,542)	(8,178)	(5,478)	(7,979)

# Group and Parent Company Balance Sheets

## Group and parent company balance sheets

at 31 March 2007

	Notes	Group		Company	
		2007 £000	2006 As restated £000	2007 £000	2006 As restated £000
<b>Assets</b>					
<b>Non current assets</b>					
Property, plant and equipment	7	101,926	105,013	-	-
Intangible assets	8	40,276	41,678	-	-
Investment in subsidiary undertakings	9	-	-	51,307	51,307
Financial assets	10	-	-	53,809	52,101
Deferred income tax asset	16	4,910	2,190	4,910	2,190
		<u>147,112</u>	<u>148,881</u>	<u>110,026</u>	<u>105,598</u>
<b>Current assets</b>					
Trade and other receivables	11	4,168	3,622	1,542	-
Cash and cash equivalents	12	19,026	17,554	731	86
		<u>23,194</u>	<u>21,176</u>	<u>2,273</u>	<u>86</u>
<b>Total assets</b>		<u><u>170,306</u></u>	<u><u>170,057</u></u>	<u><u>112,299</u></u>	<u><u>105,684</u></u>
<b>Equity</b>					
Ordinary shares	13 & 14	13	13	13	13
Retained earnings	14	(14,720)	(8,178)	(13,457)	(7,979)
<b>Total equity</b>		<u><u>(14,707)</u></u>	<u><u>(8,165)</u></u>	<u><u>(13,444)</u></u>	<u><u>(7,966)</u></u>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Borrowings	15	102,210	101,016	102,210	101,016
Deferred income tax liabilities	16	28,501	29,037	-	-
Government grant	17	34,488	35,584	-	-
Derivative financial instruments	21	13,150	7,301	13,150	7,301
		<u>178,349</u>	<u>172,938</u>	<u>115,360</u>	<u>108,317</u>
<b>Current liabilities</b>					
Trade and other payables	18	3,142	2,092	7,957	3,237
Borrowings	15	2,426	2,096	2,426	2,096
Government grant	17	1,096	1,096	-	-
		<u>6,664</u>	<u>5,284</u>	<u>10,383</u>	<u>5,333</u>
<b>Total liabilities</b>		<u><u>185,013</u></u>	<u><u>178,222</u></u>	<u><u>125,743</u></u>	<u><u>113,650</u></u>
<b>Total equity and liabilities</b>		<u><u>170,306</u></u>	<u><u>170,057</u></u>	<u><u>112,299</u></u>	<u><u>105,684</u></u>

## Group and Parent Company Cash Flow Statements

## Group and parent company cash flow statements

for the year ended 31 March 2007

	Notes	Group		Company	
		Year ended 31 March 2007 £'000	14 months Ended 31 March 2006 As restated £'000	Year ended 31 March 2007 £'000	14 months ended 31 March 2006 £'000
<b>Cash flows from operating activities</b>					
Profit before income tax and finance costs		1,605	1,199	(29)	-
Adjustments for:					
Depreciation of property, plant and equipment		3,176	3,175	-	-
Amortisation of government grant		(1,096)	(1,096)	-	-
Amortisation of intangible assets		1,402	1,402	-	-
Decrease/(increase) in trade and other receivables		167	1,757	(47)	-
Increase/(decrease) in trade and other payables		905	(4)	3,002	3,237
Income tax paid		(51)	(456)	-	-
Net cash generated from operating activities		6,108	5,977	2,926	3,237
<b>Investing activities</b>					
Interest received		1,010	921	3,276	3,149
Purchase of property, plant and equipment		(89)	(145)	-	-
Acquisition of subsidiaries, net of cash acquired		-	(47,334)	-	(51,307)
Receipt for tax losses from previous owners		-	2,933	-	-
Net cash generated from/(used in) investing activities		921	(43,625)	3,276	(48,158)
<b>Financing activities</b>					
Borrowing costs		-	(4,983)	-	(4,983)
Interest paid		(3,317)	(2,915)	(3,317)	(2,915)
Repayment of borrowings		(2,240)	(43,900)	(2,240)	(1,994)
Proceeds from borrowings		-	107,000	-	107,000
Proceeds from subsidiary undertakings		-	-	-	(52,101)
Net cash (used in)/generated from financing activities		(5,557)	55,202	(5,557)	45,007
Increase in cash and cash equivalents		1,472	17,554	645	86
Cash and cash equivalents at the beginning of the year	12	17,554	-	86	-
Cash and cash equivalents at the end of the year	12	19,026	17,554	731	86

# Notes to Financial Statements for the year ended 31 March 2007

## 1 Accounting policies

### General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The company is incorporated in Northern Ireland. The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

These financial statements were authorised for issue by the board of directors on 20 June 2007 and were signed on their behalf by Alasdair Locke and Felicity Huston.

### Statement of compliance with IFRSs

The financial statements of Premier Transmission Financing plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRSs), IFRIC interpretations and the Companies (Northern Ireland) Order 1986 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB).

### Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group's initial set up including the acquisition of Premier Transmission Limited and the issuing of a bond, 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 the group's 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 Northern Ireland Authority for Utility 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.

### New standards and interpretations not applied

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

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 7	Financial instruments: disclosures	1 January 2007
IAS 1	Amendment relating to the presentation of financial statements	1 January 2007
IFRS 8 *	Operating segments	1 January 2009
IAS 23 *	Borrowing costs (revised)	1 January 2009
International Financial Reporting Interpretation Committee (IFRIC)		
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of embedded derivatives	1 June 2006
IFRIC 10 *	Interim financial reporting and impairment	1 November 2006
IFRIC 11 *	Group and treasury share transactions	1 March 2007
IFRIC 12 *	Service concession arrangements	1 January 2008

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.

Under the 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 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.

# Notes to Financial Statements for the year ended 31 March 2007

## Basis of consolidation

The group financial statements consolidate the financial statements of Premier Transmission Financing plc and its subsidiary undertaking drawn up to 31 March. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

## Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

## Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

## 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline	43 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

# Notes to Financial Statements for the year ended 31 March 2007

## Impairment of non-financial 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.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Current loans and receivables are classified as 'trade and other receivables' in the balance sheet.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group financial assets is impaired.

## Derivative financial instruments

The group enters into derivatives financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the income statement.

## Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor,

probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

## Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## Ordinary shares

Ordinary shares are classified as equity.

## Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

# Notes to Financial Statements for the year ended 31 March 2007

## Income tax and deferred income tax

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged 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 income statement 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 the income statement so as to match them with the expenditure to which they relate.

## Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## Pensions and other post-retirement benefits

The group contributes to individual's personal pension schemes. Contributions are recognised in the income statement in the period in which they become payable.

## Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

### *Estimate of useful economic life of assets*

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 33.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 34.5 years depreciation would have decreased by £86,000 and if the remaining useful economic life had been assessed at 32.5 years depreciation would have increased by £101,000.

## Comparatives

Certain comparatives have been restated to present a fairer comparison with the current year. These restatements principally relate to the disclosure of social security costs in employee benefit expense and the transfer of borrowing fees of £54,000 from operating costs to finance costs. These restatements had no effect on the group's loss for the period ended 31 March 2006.

# Notes to Financial Statements for the year ended 31 March 2007

## 2 Expenses by nature

	Year ended 31 March 2007 £'000	14 months ended 31 March 2006 £'000
Employee benefit expense (Note 3)	317	344
Depreciation and amortisation (net of amortisation of deferred government grant)	3,482	3,481
Operating lease payments	65	57
Fees payable to the company's auditor in respect of the audit of the company's financial statements	20	26
Fees payable to the company's auditor in respect of taxation services	4	2
Other expenses	8,860	9,652
Total operating costs	<u>12,748</u>	<u>13,562</u>

## 3 Employee benefit expense

	Year ended 31 March 2007 £'000	14 months ended 31 March 2006 £'000
Wages and salaries	266	280
Social security costs	26	37
Pension costs	25	27
	<u>317</u>	<u>344</u>

The average monthly number of employees during the period (including directors holding contracts of service with the Group) was 3 (2006: 3).

	Year ended 31 March 2007 £'000	14 months ended 31 March 2006 As restated £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	147	142
Contributions paid to defined contribution pension scheme	17	17
	<u>164</u>	<u>159</u>
Members of defined contribution pension scheme	<u>Number 1</u>	<u>Number 1</u>

Directors' emoluments represent the remuneration of the group's executive director, William Cargo. The remaining directors of the group received £198,000 (2006: £209,000) for their services to group companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies

## Notes to Financial Statements for the year ended 31 March 2007

## 4 Finance income and costs

	Year ended 31 March 2007	14 months ended 31 March 2006 As restated
	£'000	£'000
<b>Interest Expense:</b>		
Borrowing fees	251	54
Borrowings	6,210	5,512
Net loss on derivative financial instruments (note 14)	5,849	7,301
	<u>12,310</u>	<u>12,867</u>
<b>Interest income:</b>		
Short term bank deposits	(1,010)	(909)
Income tax receivable	(5)	-
	<u>(1,015)</u>	<u>(909)</u>
Finance income	<u>11,295</u>	<u>11,958</u>
Finance costs - net	<u>11,295</u>	<u>11,958</u>

## 5 Income tax credit

	Year ended 31 March 2007	14 months ended 31 March 2006 As restated
	£'000	£'000
<b>Current income tax:</b>		
Payments for group relief	4	-
Adjustments in respect of previous periods - group relief	104	-
	<u>108</u>	<u>-</u>
<b>Total current income tax</b>	<u>108</u>	<u>-</u>
<b>Deferred income tax:</b>		
Adjustments in respect of previous periods	(341)	-
Arising on derivative financial instruments (note 14)	(1,755)	(2,190)
Origination and reversal of temporary differences	(1,160)	(391)
	<u>(3,256)</u>	<u>(2,581)</u>
<b>Total deferred income tax</b>	<u>(3,256)</u>	<u>(2,581)</u>
<b>Total income tax credit</b>	<u>(3,148)</u>	<u>(2,581)</u>

The income tax credit in the income statement differs from the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	Year ended 31 March 2007	14 months ended 31 March 2006 As restated
	£'000	£'000
Loss before income tax	(9,690)	(10,759)
Tax calculated at the UK standard rate of corporation tax of 30% (2006: 30%)	(2,908)	(3,228)
Deferred income tax assets not recognised	-	228
Income not subject to tax	(3)	-
Adjustments in respect of previous periods	(237)	-
Surrender of tax losses for nil consideration	-	419
	<u>(3,148)</u>	<u>(2,581)</u>
<b>Total income tax credit</b>	<u>(3,148)</u>	<u>(2,581)</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 6 Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is £5,478,000 (14 months ended 31 March 2006: £7,979,000 as restated).

## 7 Property, plant and equipment

Group	Pipeline £'000	Computer equipment £'000	Total £'000
<b>Cost</b>			
At 28 January 2005	-	-	-
On acquisition	108,043	-	108,043
Additions	-	145	145
	<hr/>	<hr/>	<hr/>
At 31 March 2006	108,043	145	108,188
Additions	-	89	89
	<hr/>	<hr/>	<hr/>
At 31 March 2007	108,043	234	108,277
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>			
At 28 January 2005	-	-	-
Provided during the period	3,127	48	3,175
	<hr/>	<hr/>	<hr/>
At 31 March 2006	3,127	48	3,175
Provided during the year	3,127	49	3,176
	<hr/>	<hr/>	<hr/>
At 31 March 2007	6,254	97	6,351
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book amount</b>			
At 31 March 2007	101,789	137	101,926
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2006	104,916	97	105,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All labour and overheads attributable to the construction of the Scotland to 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.

Depreciation expense of £3,176,000 (2006: £3,175,000) has been fully charged to operating costs.

Borrowings are secured on the property, plant and equipment of the group.

## Notes to Financial Statements for the year ended 31 March 2007

**8 Intangible assets**

Group	Goodwill	Licences	Total
Cost	£'000	£'000	£'000
On acquisition	2,435	40,645	43,080
At 31 March 2006 and 31 March 2007	2,435	40,645	43,080
<b>Amortisation</b>			
Provided during the period	-	1,402	1,402
At 31 March 2006	-	1,402	1,402
Provided during the year	-	1,402	1,402
At 31 March 2007	-	2,804	2,804
<b>Net book amount</b>			
At 31 March 2007	2,435	37,841	40,276
At 31 March 2006	2,435	39,243	41,678

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 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.

**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 cash flows. The cash flow projections over a 28 year period which matches the remaining licence duration and the useful life of the related assets. The key assumptions, which have been determined on the basis of management 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 repayments.

The projections are based on a financial model for a period of 28 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 5.28% (2006: 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.

## Notes to Financial Statements for the year ended 31 March 2007

### 8 Intangible assets (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.

An analysis of the book and fair value of the assets and liabilities of Premier Transmission Limited as at acquisition date is as follows:

Group	Book value £'000	Fair value £'000
Property, plant and equipment	108,043	108,043
Intangible assets	-	40,645
Other current assets	8,060	8,060
Cash and cash equivalents	3,973	3,973
Other current liabilities	(2,764)	(2,764)
Deferred income tax	(17,235)	(29,429)
Government grants	(37,776)	(37,776)
Borrowings	(41,880)	(41,880)
Net assets	20,421	48,872
Goodwill arising on acquisition		2,435
Discharged by cash		51,307

The business combination contributed £1,145,000 to the result of the group in the period ended 31 March 2006 and £14,761,000 of revenues in the period ended 31 March 2006.

### 9 Investments

Company	Interested in Subsidiary undertaking £'000
Cost	
Additions	51,307
At 31 March 2006 and 31 March 2007	51,307

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 to Northern Ireland pipeline

## Notes to Financial Statements for the year ended 31 March 2007

## 10 Financial assets

	2007 £'000	2006 £'000
<b>Company</b>		
Amounts owed by related undertakings	53,809	52,101

The fair values of the company's financial assets are £44,731,000 (2006: £43,638,000).

## 11 Trade and other receivables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	302	1,372	-	-
Prepayments and accrued income	1,081	182	-	-
Other receivables	2,683	2,025	685	-
Income tax receivables	93	20	-	-
Amounts owed by group undertakings	-	-	857	-
Amounts owed by related undertakings	9	23	-	-
	<u>4,168</u>	<u>3,622</u>	<u>1,542</u>	<u>-</u>

## 12 Cash and cash equivalents

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash at bank and in hand	731	86	731	86
Short-term bank deposits	18,295	17,468	-	-
	<u>19,026</u>	<u>17,554</u>	<u>731</u>	<u>86</u>

## 13 Called up share capital

	2007 £'000	2006 £'000
<b>Group and Company</b>		
<b>Authorised</b>		
50,000 ordinary shares of £1 each	50	50
<b>Allotted and fully paid</b>		
12,500 ordinary shares of £1 each	13	13

# Notes to Financial Statements for the year ended 31 March 2007

## 14 Reconciliation of movements in equity

Group	Ordinary shares	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	-	(8,178)	-	(8,178)
At 31 March 2006 as previously reported	13	(877)	(7,301)	(8,165)
Prior period adjustment	-	(7,301)	7,301	-
At 31 March 2006 as restated	13	(8,178)	-	(8,165)
Total recognised income and expense for the year	-	(6,542)	-	(6,542)
At 31 March 2007	13	(14,720)	-	(14,707)

Company	Ordinary shares	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	-	(7,979)	-	(7,979)
At 31 March 2006 as previously reported	13	(678)	(7,301)	(7,966)
Prior period adjustment	-	(7,301)	7,301	-
At 31 March 2006 as restated	13	(7,979)	-	(7,966)
Total recognised income and expense for the year	-	(5,478)	-	(5,478)
At 31 March 2007	13	(13,457)	-	(13,444)

During the period ended 31 March 2006 the group and company designated two index-linked based swaps as a cash flow hedge of index-linked revenues received. Only one element of the group's revenue under its agreement with the regulator is index-linked and therefore to comply with paragraph 82 of IAS39 the group would have to designate the index-linked swaps as a cash flow hedge against revenues in its entirety for all risks. As revenues are also based on operating costs, which can vary considerably, hedging against revenues in its entirety for all risks is ineffective. Accordingly the index-linked swaps do not qualify as a cash flow hedge and are therefore accounted for as non-hedged derivative financial instruments. The correct treatment for the index-linked swaps is to recognise the movement in the fair value of these derivatives through the income statement.

The effect of this restatement is to remove the cash flow hedge reserve of £7,301,000 and increase the loss for the period ended 31 March 2006 by £7,301,000. In addition the deferred tax adjustment arising on the fair value of the index-linked swaps was taken directly to equity. Under the correct accounting treatment for derivatives the deferred tax adjustments should be reported in the income statement. The effect of this restatement is to reduce the loss for the period ended 31 March 2006 by £2,190,000 and reduce retained earnings.

## Notes to Financial Statements for the year ended 31 March 2007

**15 Borrowings**

	2007 £'000	2006 £'000
<b>Group and company</b>		
<b>Non-current</b>	102,210	101,016
5.2022% Guaranteed Secured Bonds		
<b>Current</b>		
5.2022% Guaranteed Secured Bonds	2,426	2,096
<b>Total borrowings</b>	<u>104,636</u>	<u>103,112</u>

The 5.2022% Guaranteed Secured Bonds 2030 was issued 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, including default interest.

The fair value of the bond is £119,622,000 (2006: £119,601,000).

The maturity profile of borrowings is as follows:

	2007 £'000	2006 £'000
<b>Group and company</b>		
In one year or less or on demand	2,426	2,096
In more than one year but not more than two years	2,587	2,242
In more than two years but not more than five years	8,795	7,643
In more than five years	90,828	91,131
	<u>104,636</u>	<u>103,112</u>

**16 Deferred income tax**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Deferred income tax assets	(4,910)	(2,190)	(4,910)	(2,190)
Deferred income tax liabilities	28,501	29,037	-	-
Deferred income tax liabilities/(assets) - net	<u>23,591</u>	<u>26,847</u>	<u>(4,910)</u>	<u>(2,190)</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 16 Deferred income tax (continued)

The gross movement on the deferred income tax account is as follows:

	Group As restated £'000	Company As restated £'000
Arising on business combinations	29,428	-
Income statement credit for the period	(2,581)	(2,190)
At 31 March 2006	26,847	(2,190)
Income statement credit for the year	(3,256)	(2,720)
At 31 March 2007	23,591	(4,910)

The movement in deferred tax assets and liabilities during the year is as follows:

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Tax losses £'000	Derivative financial Instruments As restated £'000	Total As restated £'000
Arising on business combinations	17,685	11,743	-	-	29,428
Income statement (credit)/charge	(421)	30	-	(2,190)	(2,581)
At 31 March 2006	17,264	11,773	-	(2,190)	26,847
Income statement credit	(115)	(421)	(965)	(1,755)	(3,256)
At 31 March 2007	17,149	11,352	(965)	(3,945)	23,591

Company	Tax losses £'000	Derivative financial Instruments As restated £'000	Total As restated £'000
Income statement credit for the period	-	(2,190)	(2,190)
At 31 March 2006	-	(2,190)	(2,190)
Income statement credit for the year	(965)	(1,755)	(2,720)
At 31 March 2007	(965)	(3,945)	(4,910)

# Notes to Financial Statements for the year ended 31 March 2007

## 17 Government grant

Group	£'000
Arising on business combinations	37,776
Amortised during the period	(1,096)
At 31 March 2006	36,680
Amortised during the year	(1,096)
At 31 March 2007	35,584

The current portion of deferred income is £1,096,000 (2006: £1,096,000). The non-current portion is £34,488,000 (2006: £35,584,000).

## 18 Trade and other payables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade payables	587	566	50	-
Accruals and deferred income	1,763	1,183	4	11
Amounts owed to group undertakings	-	-	7,903	3,226
Amounts owed to related undertakings	139	14	-	-
Other tax and social security	634	312	-	-
Other payables	19	17	-	-
	<u>3,142</u>	<u>2,092</u>	<u>7,957</u>	<u>3,237</u>

## 19 Commitments

### Operating lease commitments - group as lessee

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

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 £'000	2006 £'000
Not later than one year	65	57
After one year but not more than five years	260	228
After five years	1,495	1,368
	<u>1,820</u>	<u>1,653</u>

# Notes to Financial Statements for the year ended 31 March 2007

## 20 Related party transactions

The ultimate controlling parties of the group are the members of Northern Ireland Energy Holdings Limited. During the year the group entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into, and trading balances outstanding at 31 March with related parties, are as follows:

Group	Nature of transaction	Amount of transaction		Amount owed (to)/from related party	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Fellow subsidiary undertaking	Loan received from	-	-	(14)	(14)
Ultimate parent undertaking	Loan provided to	-	-	9	23
Ultimate parent undertaking	Charges payable	(265)	(222)	-	-
Fellow subsidiary undertaking	Survey costs payable	(446)	-	-	-
Fellow subsidiary undertaking	Group relief claimed	(125)	-	(125)	-

Company	Nature of transaction	Amount of transaction		Amount owed (to)/from related party	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Subsidiary undertaking	Loan received from	-	-	(7,889)	(3,212)
Fellow subsidiary undertaking	Loan received from	-	-	(14)	(14)
Subsidiary undertaking	Loan provided to	-	-	53,809	52,101
Subsidiary undertaking	Group relief surrendered	857	-	857	-
Subsidiary undertaking	Interest receivable	3,276	3,047	-	-

Compensation of key management (including directors):

Group	2007	2006
	£'000	As restated £'000
Short term employee benefits	147	142
Post-employment benefits	17	17

During the period ended 31 March 2006, 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.

## Notes to Financial Statements for the year ended 31 March 2007

## 21 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 ultimate parent undertaking, Northern Ireland Energy Holdings Limited.

Interest rate risk profile of financial assets and liabilities:

	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
As at 31 March 2007 Group							
5.2022% Secured Bonds	(2,426)	(2,587)	(2,755)	(2,930)	(3,110)	(90,828)	(104,636)
Cash	19,026	-	-	-	-	-	19,026
	<u>16,600</u>	<u>(2,587)</u>	<u>(2,755)</u>	<u>(2,930)</u>	<u>(3,110)</u>	<u>(90,828)</u>	<u>(85,610)</u>
As at 31 March 2006 Group							
5.2022% Secured Bonds	(2,096)	(2,242)	(2,390)	(2,546)	(2,707)	(91,131)	(103,112)
Cash	17,554	-	-	-	-	-	17,554
	<u>15,458</u>	<u>(2,242)</u>	<u>(2,390)</u>	<u>(2,546)</u>	<u>(2,707)</u>	<u>(91,131)</u>	<u>(85,558)</u>
As at 31 March 2007 Company							
5.2022% Secured Bonds	(2,426)	(2,587)	(2,755)	(2,930)	(3,110)	(90,828)	(104,636)
Amounts owed by subsidiary undertakings	-	-	-	-	-	53,809	53,809
Cash	731	-	-	-	-	-	731
	<u>(1,695)</u>	<u>(2,587)</u>	<u>(2,755)</u>	<u>(2,930)</u>	<u>(3,110)</u>	<u>(37,019)</u>	<u>(50,096)</u>
As at 31 March 2006 Company							
5.2022% Secured Bonds	(2,096)	(2,242)	(2,390)	(2,546)	(2,707)	(91,131)	(103,112)
Amounts owed by subsidiary undertakings	-	-	-	-	-	52,101	52,101
Cash	86	-	-	-	-	-	86
	<u>(2,010)</u>	<u>(2,242)</u>	<u>(2,390)</u>	<u>(2,546)</u>	<u>(2,707)</u>	<u>(39,030)</u>	<u>(50,925)</u>

Cash earns interest at a range of Bank of England base rate less 0.75% to Bank of England base rate plus 2%. Borrowings bear interest at a rate of 5.2022% per annum. Amounts owed by subsidiary undertakings bear interest at a rate of 2.953% per annum and are index linked to the Retail Price Index.

# Notes to Financial Statements for the year ended 31 March 2007

## 21 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 their carrying value as at the balance sheet date.

### Derivative financial instruments

During the period ended 31 March 2006 the group and company entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with paragraph 82 of IAS39 these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedged derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the income statement under net finance costs.

## 22 Ultimate parent undertaking

The immediate parent undertaking is Premier Transmission Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are not prepared.

The ultimate parent undertaking is Northern Ireland Energy Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are prepared and are available to the public from Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.

## 23 Events after the balance sheet date

The UK government has announced that the main rate of Corporation Tax will be reduced from 30% to 28% with effect from 1 April 2008. In accordance with IFRSs, the existing rate of 30% is still used as a basis for the calculation of the deferred income taxes stated in these financial statements. If the new rate of Corporation Tax were applied to the current year financial statements, deferred income tax assets would decrease by £327,000 and deferred income tax liabilities would decrease by £1,900,000 at the balance sheet date. The impact of the change in rate for the year ended 31 March 2008 will depend on the taxable income for the year then ended.

“ A mutual energy  
company working  
for consumers ”



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# The Moyle Interconnector



Paddy Larkin, Managing Director,  
Moyle Interconnector

The Moyle Interconnector links the electricity grids of Northern Ireland and Scotland through submarine cables running between converter stations at Ballycronan More in Islandmagee,

County Antrim and Auchencrosh in Ayrshire. The link has a capacity of 500MW.

The commissioning of the Moyle Interconnector marked a real watershed for the electricity consumers and economy of Northern Ireland. When it went into commercial operation in early 2002, it ended the isolation of Northern Ireland from the much larger electricity systems and markets of Great Britain and the European mainland, where interconnection of national electricity systems has been the norm for many years. It has made a major contribution to the drive for lower electricity prices in Northern Ireland, which has a history of high energy costs.

The Moyle Interconnector has enhanced the security of electricity supply throughout Ireland and reduced the costs of running the electricity system. It now provides competition in the emerging electricity market arrangements in Ireland and makes possible trading with our neighbouring market in Great Britain. The majority of its transmission capacity is available for third party access, i.e. to anybody who wants to trade in electricity in either direction between Ireland and Great Britain or beyond.

Electrical interconnection between Northern Ireland and Scotland had been considered for more than thirty years before the Moyle Interconnector project



began in 1990. Early studies had established that direct current (DC) interconnection would be superior to the alternating current (AC) alternative both technically and economically and this was confirmed in subsequent feasibility studies.

The study carried out in 1990, which included the first seabed survey, led to the signing of the initial interconnector agreement between Northern Ireland Electricity (NIE) and Scottish Power. Following a protracted planning process, including Public Inquiries in Northern Ireland and Scotland, the last of the main consents was granted in 1998 with detailed planning permission for the converter stations following in 2000.

The configuration of the Moyle Interconnector was chosen to provide the high reliability required of a link that was expected to be the equal largest infeed to the Irish electricity system for many years. Implementation involved the construction of High Voltage Direct Current (HVDC) converter stations of 2x250MW dual monopole design in Northern Ireland and Scotland, the installation of an underground and submarine DC cable system consisting of two separate 250 MW cables running

## Background Information



the 63km route length between the stations and the construction of 64km of 275kV AC overhead line in Scotland.

In 1999, Moyle Interconnector Limited (Moyle), was established within Viridian Group PLC to construct the link. At the end of that year, Moyle awarded two turnkey contracts for the design, manufacture, installation and commissioning of the major elements of the interconnector. Nexans Norway AS was the supplier of the cable systems, while Siemens plc provided the converter stations connected to the transmission systems in Northern Ireland and Scotland.

In 2000, Scottish Power awarded the contract for construction of 64km of 275kV single circuit overhead line from their existing Coyllton substation

to Moyle's converter station at Auchencrosh. Balfour Beatty was the contractor.

Manufacture and construction took place during 2000 and 2001. The Moyle Interconnector was commissioned in December 2001 and, after a trial operation period, began full commercial operation in April 2002.

The Moyle Interconnector was purchased from the Viridian Group and mutualised within Northern Ireland Energy Holdings in 2003.



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## Background Information

# Scotland-Northern Ireland Gas Pipeline



Bill Cargo, Managing Director,  
Premier Transmission Limited

As part of the Northern Ireland Energy Holdings Group Premier Transmission Limited (PTL) is the owner and operator of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP).

The full share capital of PTL was acquired from the 50/50 joint venture owners, BG Group plc and Keyspan Energy Development Corporation, on 18 March 2005 by Northern Ireland Energy Holdings Ltd (NIEH).

NIEH is a company limited by guarantee which has been formed in order to acquire and hold important energy infrastructure assets for the benefit of energy consumers. The acquisitions are funded by long-term bond finance.

### Operating Information

The 24-inch diameter pipeline is 135 kilometres long and runs from Twynholm in Scotland to Ballylumford in Northern Ireland.

It transports gas to Ballylumford Power Station which generates over half of Northern Ireland's electricity needs and feeds the Phoenix Natural Gas natural gas distribution system in Belfast and the Greater Belfast area.

### History & Development

Constructed over a period of three years between 1994 and 1996, the pipeline was completed to schedule and within budget. The pipeline operates under an 'open access', non-discriminatory commercial framework.

Premier Transmission is regulated by the Northern Ireland Authority for Energy Regulation. One of Premier Transmission's principal aims is to



## Background Information



maximise use of the Scotland to Northern Ireland Pipeline (SNIP). To ensure open access to all, commercial arrangements between Premier Transmission and its customers follow agreed rules laid down within the Premier Transmission Transportation Code. This is a multi-party transportation agreement which governs the contractual obligations and day-to-day operations of the pipeline and its clients.

Through its Transportation Agreement with Bord Gáis Éireann, Premier Transmission offers Shippers to Northern Ireland a seamless service between Moffat, on the Transco National Transmission System, through the Bord Gáis Éireann SW Scotland Pipeline to their exit point in Northern Ireland or Stranraer.

Under its mutual status PTL is able to secure significant capital and operating cost savings which ultimately benefit energy consumers in Northern Ireland.



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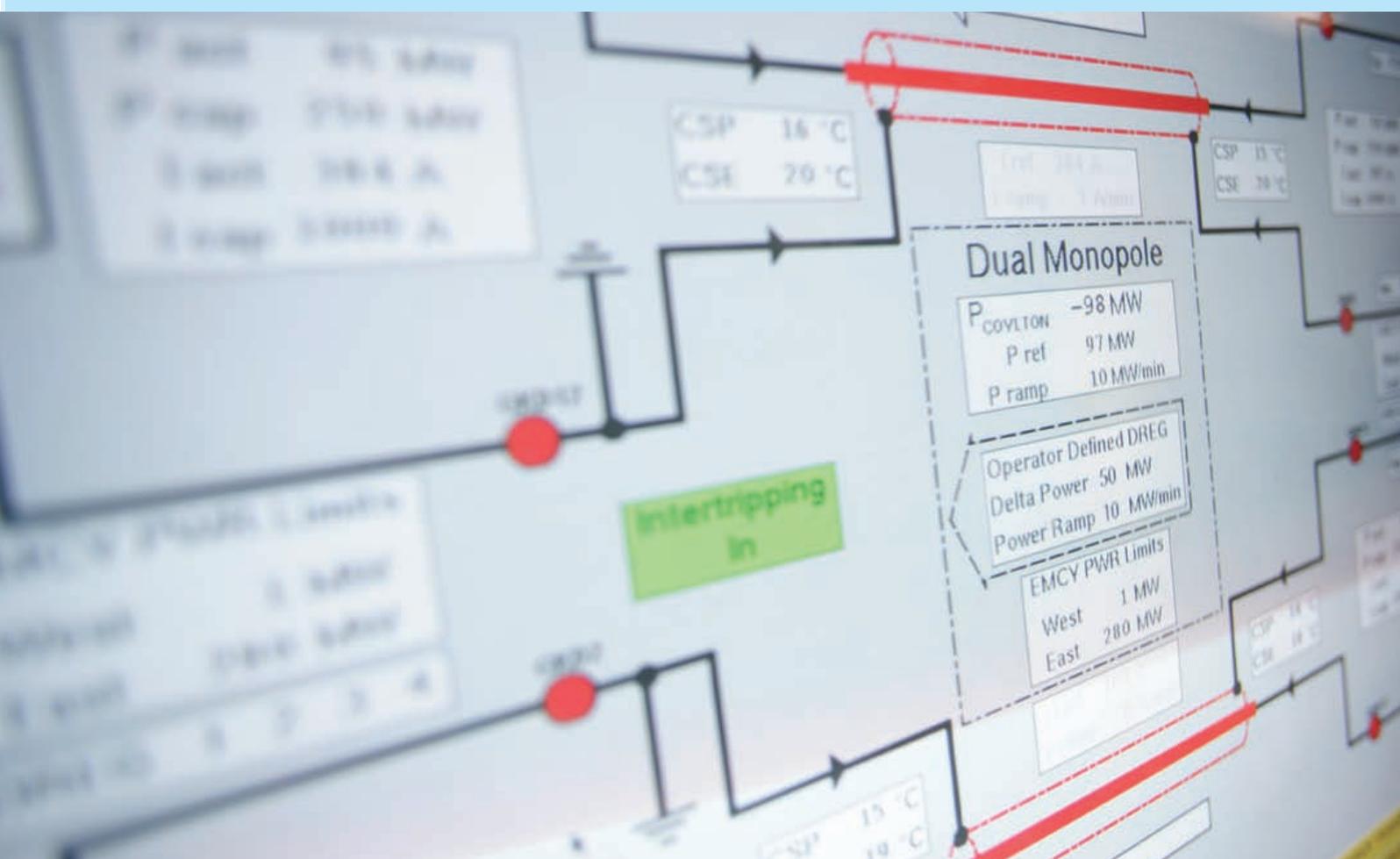
*“ I am very pleased to report on a further successful year for the Group and on the ongoing contribution of our mutual business to the energy consumers of Northern Ireland. ”*

**Alasdair Locke**, Chairman Northern Ireland Energy Holdings

Premier Transmission  
High Pressure Gas  
Reduction Station

# 07

# Annual Report and Accounts





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