# ANNUAL REPORT & ACCOUNTS
2006-2007

VIRIDIAN

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# GROUP FINANCIAL HIGHLIGHTS

**Underlying Business Results[1]**

- Pro-forma operating profit increased 6% to £140.2m (2006 - £132.4m)

**Statutory Results[2]**

- Revenue increased to £1,021.9m (2006 - £976.8m)
- Operating profit of £184.0m (2006 - £149.0m)

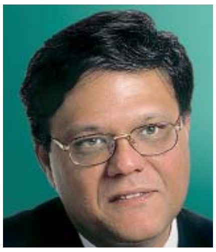
[1] Based on continuing operations and regulated entitlement as shown in the Financial Review.

[2] Based on continuing operations.

All references in this document to "Group" denote Viridian Group PLC and its subsidiary undertakings and to "Company" denote Viridian Group PLC, the parent company.

# CHAIRMAN'S STATEMENT

## ASIM ZAFAR



I am delighted that Viridian is now part of the Arcapita group following its acquisition by ElectricInvest Acquisitions on 8 December 2006.

Viridian has delivered an excellent set of results in 2006/07. Later this year we will see the commissioning of our new 412MW Huntstown 2 plant and the start of the Single Electricity Market, both of which will be significant developments for the Group.

Whilst Viridian's ownership may have changed, the Group's strategy remains the same and Arcapita is committed to supporting Viridian's management team in further developing the Group's energy businesses in both Northern Ireland and the Republic of Ireland.



On behalf of the Board I would like to thank all employees for their support and hard work during this successful year for the Group.

**Asim Zafar**

4 June 2007

# DIRECTORS' REPORT AND OPERATING AND FINANCIAL REVIEW

# OPERATING REVIEW

## History and Development of the Business

Viridian Group PLC (Viridian) was formed in 1998 following a capital reorganisation under which Viridian acquired Northern Ireland Electricity plc (NIE) and the Group's unregulated activities were separated from NIE.

Viridian's activities are conducted through two principal businesses:

- NIE - consists of four regulated businesses in Northern Ireland: transmission and distribution of electricity through T&D; power procurement through PPB; transmission system operation through SONI; and supply of electricity through NIE Supply; and
- VP&E - generation in the RoI and supply in the competitive electricity and gas markets in both Northern Ireland and the RoI.

In addition, Powerteam provides high voltage electrical contracting and other infrastructure services, principally to T&D, but also to a range of third party utility and industrial customers.

In December 2006, Viridian was acquired by ElectricInvest Acquisitions Limited (ElectricInvest Acquisitions), a company beneficially owned by the international investment firm Arcapita Bank B.S.C.(c) (Arcapita).



## Regulation and Legislation Northern Ireland

The electricity industry in Northern Ireland is governed principally by the Electricity (Northern Ireland) Order 1992 (1992 Order) as amended by the Energy (Northern Ireland) Order 2003 (2003 Order) (together the Orders) and by the conditions of the licences which have been granted under the 1992 Order.

The electricity industry in Northern Ireland is also subject to EU legislation relating to the environment and competition.

### Restructuring and privatisation

The 1992 Order provided for the restructuring and privatisation of the electricity industry in Northern Ireland in 1992 including the trade sale of power stations owned by NIE. PPB was established to administer the long-term power purchase contracts which were put in place with the new owners of the power stations. NIE retained responsibility for the transmission, distribution and supply of electricity. A framework was put in place to provide for the price regulation of NIE's activities.

### Regulation

The Northern Ireland Authority for Utility Regulation (NIAUR) and the Department of Enterprise, Trade and Investment (DETI) are the principal regulators. Each is given specific powers, duties and functions under the Orders. The functions of NIAUR include licensing (pursuant to a general authority given by DETI) and the general supervision and enforcement of the licensing regime. DETI's functions include licensing, the giving of consents for new power stations and overhead lines, fuel stocking, the encouragement of renewable generation and the regulation of matters relating to the quality and safety of electricity supply.

### The regulators' objectives and duties

The principal objective of both NIAUR and DETI in carrying out their functions in relation to electricity is to protect the interests of consumers of electricity, wherever appropriate, by promoting effective competition between those engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity. Each of NIAUR and DETI has a duty to carry out its functions in the manner which it considers is best calculated to further this principal objective, having regard to a number of factors, including the need to ensure that all reasonable demands for electricity are met and that licensees are able to finance their authorised activities. In performing that duty they are required to have regard to the interests of individuals whose circumstances include being disabled, chronically sick or of pensionable age or having low incomes or residing in rural areas. They must also have regard to the effect of the industry's activities on the environment and their role includes promoting energy efficiency.

The 2003 Order gives the Consumer Council responsibility for representing electricity consumers and dealing with their complaints. The Consumer Council has powers to investigate any matter relating to the interests of electricity customers and to obtain information from electricity licence holders.

The electricity industry in Northern Ireland is also subject to UK and EU legislation relating to the environment and competition.

## Competition in generation and supply

The principal rules for trading electricity in Northern Ireland are contained in the Supply Competition Code (SCC). At the time of restructuring of the industry in 1992, the SCC required all licensed generators to sell their entire capacity and output to PPB and required suppliers to buy all their requirements (with certain limited exceptions) from PPB at its regulated Bulk Supply Tariff (BST).

Since then there has been a staged approach to market opening which began in 1999 with competition for supply to large users. On 1 March 2005 supply to all non-residential customers became open to competition in line with the requirements of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity (the 2003 Electricity Directive). Consequently suppliers are able to supply non-residential customers (c58,000 at 31 March 2007 comprising c60% of the market by volume) from wholesalers (generators) of their choice rather than solely from PPB.

Suppliers to residential customers are still required to purchase their wholesale requirements (with the exception of supplies procured from renewable generation sources) from PPB. Full market opening, i.e. including all residential customers (currently 732,000), is scheduled to take place in November 2007.

## Licences

There are four types of electricity licence: transmission, public electricity supply (PES), second tier supply and generation. Taken together these licences: regulate the economic behaviour of licensees; set a framework for competition in generation and supply; underpin the arrangements relating to security of supply; protect the technical integrity of the system; and provide for certain types of consumer services.

### *NIE's transmission and PES licence*

NIE holds a transmission licence and a PES licence combined in one licence document (the Licence). The Licence requires NIE to carry on its activities through a number of separate businesses, including T&D, PPB, SONI and NIE Supply.

T&D is required to develop and maintain an efficient, co-ordinated and economical system of:

- electricity transmission - the bulk transfer of electricity across its high voltage network of overhead lines, underground cables and associated equipment mainly operating at 275kV and 110kV. NIE's transmission system is connected to that of the RoI through 275kV and 110kV interconnectors and to the transmission system in Scotland via the Moyle Interconnector; and

- electricity distribution - the transfer of electricity from the high voltage transmission system and its delivery to customers across a network of overhead lines and underground cables operating at 33kV, 11kV and lower voltages.

T&D must offer charges to suppliers for use of the transmission and distribution system on a price-regulated and non-discriminatory basis. It is also required to offer terms for connection to the system on a non-discriminatory basis approved by NIAUR.

NIAUR sets guaranteed and overall standards, the majority of which apply to services provided by T&D (e.g. the timely restoration of customers' supplies following an interruption and prescribed times for responding to customers' voltage complaints). The guaranteed standards apply in individual cases and NIE is obliged to make a payment to each customer affected if it fails to meet a guaranteed standard. The overall standards apply at the collective level and, whilst NIE is not required to make payments to customers if it fails to meet an overall standard, the Licence obliges NIE to conduct its business in such a way as can reasonably be expected to lead to it achieving the overall standards.

PPB is required to draw up, publish and maintain the BST in a form approved by NIAUR, under which it offers non-discriminatory, price-regulated terms for the sale of electricity to suppliers. An economic purchasing obligation requires it to contract for electricity at the best effective price reasonably obtainable, having regard to the sources available, and to keep its commitments under review. Once it has met the needs of residential customers not yet eligible for competition or business customers not taking part in the competitive market, PPB is incentivised, under its price control, to trade any contract surpluses in the competitive market. PPB is also required to draw up and publish a schedule of public service obligation (PSO) charges for the provision of services which are of a public service nature. PSO charges are approved by NIAUR and payable by all suppliers.

SONI is required to maintain the operating security standard and to publish a price-regulated system support services (SSS) charge for the provision of the services it provides as transmission system operator and market operator. SSS charges are payable by all suppliers.

NIE Supply is obliged, subject to certain exceptions, to supply electricity to premises in Northern Ireland upon request by the owner or occupier. Any customer whose maximum demand does not exceed 1MW is entitled to be supplied on a published price-regulated tariff, although customers may instead enter into a contract agreed with NIE Supply. Customers with a maximum demand greater than 1MW must enter into individual contracts if they wish to receive a supply of electricity from NIE Supply.

### *Other licences*

Second tier supply licences authorise holders to supply electricity to premises within Northern Ireland, but do not contain all the conditions imposed on NIE Supply in its capacity as the public electricity supplier for Northern Ireland. There are 12 holders of second tier licences, of which four (including Energia) are currently active in the competitive market.

Holders of generation licences are required to make their plant available for central despatch by SONI. Their licences contain provisions concerning change of control and the approval of power station operators. With certain limited exceptions, NIE is currently prohibited from owning generation assets in Northern Ireland.

*Licence compliance, modification, termination and revocation*
NIAUR has powers to enforce compliance with licence conditions. The 2003 Order provides for NIAUR to levy a financial penalty (up to 10% of revenue) for breach of a relevant condition.

NIAUR may modify the conditions of licences, either in accordance with their terms or in accordance with the procedures set out in the Orders, with the agreement of the licensee after due notice, public consultation and consideration of any representations and objections. In the absence of such agreement, NIAUR is required to make a referral to the Competition Commission before a proposed licence modification can be made. Modifications may introduce new conditions (relating to activities authorised by the licence or to other activities) or may amend existing conditions. A modification can be vetoed by DETI. Modifications of licence conditions may also be made by statutory order as a consequence of a reference under the Competition Act 1998.

Licences may be terminated by not less than 25 years' notice given by DETI and are revocable by DETI in certain circumstances including: where the licensee consents to revocation; where the licensee fails to comply with an enforcement order made by NIAUR; or where specified insolvency procedures are initiated in respect of the licensee or its assets. NIE's Licence may also be revoked if Viridian becomes insolvent or ceases to have control of NIE.

**Price controls**
NIE's regulated businesses are subject to price controls, defined in formulae set out in the Licence, which limit the revenues they may earn and the prices they may charge. The principles of price regulation employed in the relevant licence conditions reflect the general duties of NIAUR and DETI under the Orders. These include having regard to the need to ensure that licensees are able to finance their authorised activities. The revenues of T&D, PPB, SONI and NIE Supply are each subject to controls which are periodically reviewed by NIAUR.

If the amount of revenue recovered in any one year exceeds or falls short of the amount allowed by the relevant price control formula, a correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as appropriate. A surplus is referred to as an over-recovery and a deficit as an under-recovery.

The T&D price control has been reset with effect from 1 April 2007 and is scheduled to run for five years. This will be the fourth five year regulatory period since privatisation and it is referred to as Regulatory Period 4 (RP4).

The key aspects of the RP4 price control are as follows:

*Rate of return* - The allowed rate of return is consistent with the precedent established in the 2005 DNO review in GB in respect of the distribution portion of T&D's RAB (which is taken to represent 82% of the overall RAB) but a lower rate applies to the 18% representing the transmission portion. This results in a blended rate of return of 4.78% post tax real. This compares to the RP3 allowed rate of return of 4.55% post tax real (corresponding to 6.5% pre tax real). The allowed rate of return on the distribution portion of the RAB will either decrease or stay flat for the last two years of RP4 depending on the outcome of the next GB DNO review in 2010. The allowed rate of return on the transmission portion will remain unchanged.

*Operating costs* - The allowance for controllable costs in each year of RP4 is set equal to the RPI-indexed level of actual costs incurred during the corresponding year in RP3. This is subject to some specific reductions in 2007/08 and 2008/09 and also a small disallowance in respect of early retirement pension deficiency costs. The allowance for controllable costs will be reduced if the T&D price in any year of RP4 otherwise exceeds a price cap of 1.92p/kWh (in 2006/07 prices). Uncontrollable costs such as rates, wayleaves and licence fees will be passed through.

*Capital expenditure* - The capital expenditure budget for RP4 is £332m (in 2006/07 prices) compared to £273m in RP3 (in 2006/07 prices). This investment is driven by the need to replace worn assets and to meet continued growth in customer demand.

The current PPB price control fixes the maximum revenue which PPB can recover from sales of wholesale electricity to suppliers (including NIE Supply). In addition to recovery of its electricity purchase costs, the current price control provides PPB with a revenue entitlement which contains a fixed component and a variable component. Under the latter, PPB is incentivised to trade surplus contracted capacity to second tier suppliers as a means of reducing the impact of its power purchase costs on customers supplied under the BST. The costs which PPB incurs in the provision of services of a public service nature are recovered on a pass through basis via PSO charges. SONI's price control principally covers the cost of system support and market operator services as well as its own operating costs.

NIE Supply's current price control allows it to pass through to customers those costs which are separately regulated (principally relating to the cost of purchasing electricity at the BST from PPB and payment to T&D for use of the transmission and distribution system). Regulated income associated with NIE Supply's other costs is subject to a RPI-X formula (where X is set at 3% under the current price control). Two thirds of NIE Supply's income are fixed while the other third varies according to the number of customers supplied. The current price control has required NIE Supply to make a number of social and environmental commitments including: the installation of further keypad meters; further energy efficiency measures to deliver £6m of lifetime savings; and certain actions to stimulate the development of micro-renewable generation.

## Republic of Ireland

The principal legislative instruments governing the regulation of the energy sector in the RoI are the Electricity Regulation Act 1999 (the 1999 Act), the European Communities (Internal Market in Electricity) Regulations 2000 and 2005, the Gas (Interim) (Regulation) Act 2002 (the 2002 Act) and the European Communities (Internal Market in Natural Gas) (No. 2) Regulations 2004.

In addition, the energy sector in the RoI is subject to EU legislation relating to the environment and competition.

### Regulation

Overall policy responsibility for the energy sector lies with the Minister for Communications, Marine and Natural Resources. In this capacity, the Minister is advised by the Department of Communications, Marine and Natural Resources (DCMNR) and a range of other statutory bodies including the Commission for Energy Regulation (CER) and Sustainable Energy Ireland. CER is the national regulatory authority for the energy sector. It was established as the regulator of the electricity sector by the 1999 Act and was subsequently vested with regulatory authority over the downstream gas sector by the 2002 Act.

The functions of CER include: advising the Minister; licensing market participants; the general supervision and enforcement of the licensing regime; the regulation of third party access and network tariffs in both the gas and electricity sectors; the setting of gas and electricity market rules; and setting public electricity supply tariffs and residential gas tariffs. DCMNR's functions include drafting legislation, advising the Minister on issues of energy policy and promoting renewable energy.

### CER's objectives and duties

The principal objective of CER in carrying out its functions in relation to energy is to protect the interests of energy consumers, wherever appropriate, by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity and the transportation and supply of natural gas. CER has a duty to carry out its functions in a manner which does not discriminate between market participants and protects the interests of customers.

### Competition in electricity generation and supply

The principal rules for trading electricity in the RoI are set out in the Trading and Settlement Code issued by CER.

The electricity market in the RoI is fully open to competition. There are four types of licence: transmission; distribution; supply; and generation. Licences regulate the economic behaviour of licensees; set a framework for competition in generation and supply; underpin the arrangements relating to security of supply; and protect the technical integrity of the system. Huntstown 1 and Huntstown 2 hold generation licences and Energia holds a supply licence.

### Competition in gas supply

The gas market in the RoI is not yet fully open to competition, with residential customers still supplied by Bord Gáis Eireann (BGE). Full market opening is scheduled to take place by July 2007 in line with EU Directive 2003/55 concerning Common Rules for the Internal Market in Gas. The principal rules for shipping natural gas in the RoI are contained in the BGE Code of Operations. Energia holds a gas shipping/supply licence.

## Single Electricity Market

The Single Electricity Market (SEM) is scheduled to commence on 1 November 2007 and will replace the existing bilateral markets which currently operate in both Northern Ireland and the RoI. The SEM will be regulated by a committee composed of representatives from NIAUR and CER, together with an independent member whose vote may resolve matters which cannot be agreed between NIAUR and CER.

The SEM will be based on a gross mandatory pool through which all electricity (with limited exceptions) will be bought and sold across the island. Generators will make offers to sell their electricity into the pool and will be despatched centrally on the basis of their bids. Suppliers will purchase all of their wholesale requirements from the pool. There will be a single system marginal price (SMP) for the whole island that will be set for every half hour. The amounts paid to generators and the amounts charged to suppliers will be a function of the SMP, together with a range of other components including: capacity payments (payments to generators for making their capacity available); constraint payments (payments to generators when they are constrained on or off for reasons relating to operation of the transmission system); and ancillary service payments (payments to generators for services they provide to maintain the stable operation of the transmission system and to restore the power system in an emergency).



SONI is working jointly with Eirgrid, NIAUR and CER to implement the SEM. The principal steps are: establishing a single market operator through a contractual joint venture between SONI and Eirgrid; setting up the operational and commercial interfaces between the two companies in their roles as transmission system operator in each jurisdiction; and procuring the IT systems required to operate the new market. The capital costs are being split 25% SONI, 75% Eirgrid. As part of the arrangements for the SEM, Viridian has agreed with DETI and NIAUR to divest SONI.

The licensing regime in Northern Ireland will be modified to reflect the requirements of the SEM and the 2003 Electricity Directive. For example, the formal distinction between public electricity supply and second tier supply will be abolished and there will be a single category of supply licence. SONI will be granted two licences authorising it as transmission system operator and market operator. Changes in RoI to meet the requirements of the SEM will include the introduction of market operation as a licensable activity.

The price controls for PPB, SONI and NIE Supply are due to be reset at the same time as the introduction of the SEM.

## Key Performance Indicators

The Board has determined that the following key performance indicators (KPIs), covering both operational and financial performance, are the most effective measures of progress towards achieving the Group's objectives. The number of financial KPIs has been reduced since last year reflecting the Company's acquisition by ElectricInvest Acquisitions and the fact that its shares are no longer listed.

### Operational KPIs

The operational KPIs for NIE are:

- performance against the overall and guaranteed standards set by NIAUR;
- the number of complaints which the Consumer Council takes up on behalf of customers (Stage 2 complaints); and
- the average number of minutes lost per customer per annum through distribution interruptions, excluding major storms (CML).

The operational KPIs for VP&E are:

- generation plant availability (the percentage of time generation plant is available to produce full output); and
- the volume of electricity sales (TWh) in Northern Ireland and the RoI.

Operational KPIs and commentary on business performance are set out in the relevant Business Review.

The Board also regards the lost time incident rate (LTIR) as a KPI in respect of employee safety; details are set out in the Workplace section of the Corporate Social Responsibility (CSR) Report.

### Financial KPIs

The financial KPIs are:

- NIE operating profit (pro-forma based on regulated entitlement and pre exceptional items); and
- VP&E operating profit (pre exceptional items).

Financial KPIs and commentary on other financial matters are set out in the Financial Review.

## Business Reviews

## T&D

### Background information

The T&D business is responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network. The T&D business derives its revenue principally through use of system charges levied on electricity suppliers.

The T&D network comprises a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to customers via a number of substations. There are approximately 2,100km of the transmission system, of which some 80km are underground; and approximately 42,900km of the distribution system, of which some 13,100km are underground. At 31 March 2007, 790,000 customers were connected to the distribution system.

### Financial performance

T&D revenues (based on regulated entitlement) increased from £163.8m to £166.1m mainly due to higher income from new connections offset by lower price control revenues. Based on regulated entitlement, T&D profits increased from £83.2m to £88.7m due to a reduction in operating costs and profit from the disposal of property.

### Operational performance

| *KPIs* | **2007 Number** | 2006 Number |
|---|---|---|
| Overall standards - defaults | **None** | None |
| Guaranteed standards - defaults | **None** | None |
| Stage 2 complaints to the Consumer Council | **20**[1] | 27 |
| CML | **83** | 74 |

[1] subject to formal classification by the Consumer Council.

During the year, all the overall standards were achieved and there were no defaults against the guaranteed standards (2006 - none).

T&D's strong focus on service failure analysis has helped to limit the number of instances when customers are dissatisfied to the extent that they refer a complaint to the Consumer Council. The number of Stage 2 complaints reduced to 20 (2006 - 27).

The number of CML was within the RP3 regulatory target range of 70-90.

T&D continues to make substantial investment in its infrastructure assets. Total capital expenditure, including expenditure on customer service systems, other non-network assets and new systems required to support market opening in Northern Ireland was £102.1m (2006 - £73.5m).

## PPB/SONI

### Background information

*PPB*

PPB was established to administer the long-term power purchase agreements (PPAs) which were put in place with the purchasers of the power stations at privatisation of the electricity industry in Northern Ireland in 1992.

The current contracted capacity is 1,751MW comprising:

- Kilroot - 578MW (520MW coal/oil, 58MW gasoil); these contracts expire in 2024 but are cancellable by NIAUR from 2010;
- Ballylumford - 1,076MW (600MW CCGT, 116MW gasoil, 2 x 180MW gas/HFO); the 600MW contract expires in 2012 (although PPB has options to extend); the 116MW contract expires in 2020 (but is cancellable by NIAUR from 2010); PPB has exercised an option on one of the 180MW contracts extending it to 31 March 2008; the other 180MW contract expires in 2012 (but is cancellable at PPB's option from 2008);
- Coolkeeragh - 58MW (gasoil); this contract expires in 2020 but is cancellable by NIAUR from 2010; and
- Non-Fossil Fuel Obligation (NFFO) - PPB has contracts with renewable generators for 39MW secured under NFFO Orders which expire between 2009 and 2013.

In addition, PPB has a contract for 125MW of capacity on the Moyle Interconnector which expires in November 2007.

As a result of the Large Combustion Plant (LCP) Directive and the associated IPPC Directive, Kilroot has commenced the installation of flue gas desulphurisation (FGD) equipment and is implementing other boiler modifications to meet lower $NO_x$ emission requirements. Under the terms of its PPA with PPB, Kilroot is entitled to increase its availability payment capacity charges to recover the cost of FGD equipment and low $NO_x$ modifications. The increased charges will be passed through to Northern Ireland customers.

*SONI*

SONI is responsible for the safe, secure and economic operation of the transmission system in Northern Ireland. This includes despatch of generating plant and managing interconnector transfers to meet demand for electricity in Northern Ireland. SONI also undertakes the role of market operator in Northern Ireland and makes arrangements for interconnector capacity auctions and the provision of appropriate trading mechanisms for independent generators and suppliers.

### Financial performance

During the year PPB's and SONI's combined revenue (based on regulated entitlement) decreased to £443.4m (2006 - £485.2m). Last year's traded sales by PPB were high due to outages experienced by ESB's Coolkeeragh CCGT. Combined profits from PPB and SONI (based on regulated entitlement) increased to £11.4m (2006 - £9.8m) due to the recovery of certain costs provided for last year.

### Operational performance

During the year there was no loss of supply arising from the non-availability of generating plant. Peak demand for electricity in Northern Ireland was 1,723MW.

## NIE Supply

### Background information

NIE Supply acquires bulk supplies of electricity from PPB in order to supply customers either not yet eligible for competition, or who are eligible but have not moved to a second tier supplier. NIE Supply is also responsible for the billing and collection of customer accounts and other customer service functions. NIE Supply had 776,000 customers at 31 March 2007 (2006 - 760,000).

### Financial performance

NIE Supply's revenue (based on regulated entitlement) increased to £471.6m (2006 - £432.5m) due to increased tariffs arising from higher fuel costs. Profits (based on regulated entitlement) increased to £8.8m (2006 - £7.4m) due to the absence of certain restructuring and reorganisation costs incurred last year.

### Operational performance

| *KPI* | **2007 Number** | 2006 Number |
|---|---|---|
| Stage 2 complaints to the Consumer Council | **15** | 9 |

The number of Stage 2 complaints compares favourably with UK best practice benchmarks.

At 31 March 2007, NIE Supply had installed 190,000 keypad meters, exceeding the target of 175,000 set as part of its price control.

## Powerteam

### Background information

Powerteam is an unregulated power utility contractor specialising in the design, construction, commissioning and maintenance of high voltage transmission and distribution power systems, principally for T&D, but also through Powerteam Electrical Services for industrial customers in Northern Ireland and electricity companies in Great Britain and the RoI.

### Financial performance

Powerteam profits reduced to £3.5m (2006 - £4.6m) due to lower margins on its external sales.

### Operational performance

During the year external revenues decreased to £22.1m (2006 - £22.9m) due to a reduction in the level of work from ESB offset by an increase in revenue from overhead line and substation refurbishment contracts in Great Britain.

## VP&E

### Background information

VP&E operates as an integrated energy business comprising competitive supply, through Energia, in both Northern Ireland and the RoI, backed by its Huntstown generation assets in the RoI and wholesale contracts.

In November 2002, VP&E commissioned Huntstown 1, a 343MW CCGT plant on the Huntstown site north of Dublin. In July 2005, VP&E started construction of Huntstown 2, a 412MW CCGT plant, adjacent to Huntstown 1. The construction programme for Huntstown 2 is on track for commissioning in autumn 2007.

### Financial performance

VP&E's revenues increased from £381.1m to £451.1m primarily due to volume growth and higher prices reflecting higher fuel costs. Operating profit increased to £27.6m (2006 - £24.1m) reflecting volume growth and profit from the sale of renewable obligation certificates.

### Operational performance

| *KPIs* | **2007** | 2006 |
|---|---|---|
| Huntstown 1 availability (%) | **87.2** | 93.9 |
| Energia sales (TWh) | | |
| - Northern Ireland | **1.7** | 1.6 |
| - RoI | **4.1** | 3.9 |
| | **5.8** | 5.5 |

Huntstown 1 availability (after both planned and unplanned outages) reduced to 87.2% (2006 - 93.9%) primarily due to the impact of two unplanned outages.

In Northern Ireland, Energia's sales increased from 1.6TWh to 1.7TWh, with customer sites increasing to 4,100 (2006 - 3,800). In the RoI, Energia increased its sales from 3.9TWh to 4.1TWh, with customer sites increasing to 27,700 (2006 - 18,600), primarily among SMEs.

*Renewable energy*

Energia currently has 34MW of windfarm capacity under contract, with a further 11MW due to be commissioned in 2007. During the year, Energia entered into offtake contracts in Northern Ireland for 208MW of wind generation capacity in respect of projects which are in the process of obtaining planning permission. Energia is also aiming to negotiate further contracts with windfarm developers.

In the RoI, Energia has entered into offtake contracts for 165MW of wind generation capacity to be built in the next two years.

*Gas supply*

Energia currently supplies gas to a number of industrial and commercial customer sites in the RoI and Northern Ireland with an annualised demand of c46m therms.



## Employees

The Group had 1,554 employees at 31 March 2007 (2006 - 1,503).

1,408 employees are employed in Northern Ireland and 146 in the RoI. Approximately 66% of employees are union members, and are covered by collective bargaining arrangements. Employee relations in all businesses are positive and constructive.

The Group aims to align its human resources policies with key business drivers, which include performance and productivity improvement, cost reduction, business growth and innovation, and providing value to customers.

These policies are supported by clearly defined values and behaviours, a robust performance management process, a strong commitment to management development and organisational competence built upon appropriate capabilities and skills. The Group seeks to align employee interests with those of other key stakeholders through an effective approach to recognition and reward, based on business and individual performance achievements.

# FINANCIAL REVIEW

## Summary of Financial Performance

The Group's pro-forma operating profit increased from £132.4m to £140.2m. The calculation of Group pro-forma operating profit is shown below:

| Year to 31 March | 2007 £m | 2006 £m |
|---|---|---|
| Group statutory operating profit | **184.0** | 149.0 |
| Deduct: over-recovery of regulated entitlement | **(43.8)** | (16.6) |
| Group pro-forma operating profit | **140.2** | 132.4 |

The Group's financial KPIs are summarised in the table below:

| *KPIs* | 2007 £m | 2006 £m |
|---|---|---|
| NIE pro-forma operating profit | **109.4** | 101.0 |
| VP&E operating profit | **27.6** | 24.1 |

NIE pro-forma operating profit increased from £101.0m to £109.4m mainly due to higher profits from T&D and PPB. The calculation of NIE pro-forma operating profit is shown below:

| Year to 31 March | 2007 £m | 2006 £m |
|---|---|---|
| NIE statutory operating profit | **153.2** | 117.6 |
| Deduct: over-recovery of regulated entitlement | **(43.8)** | (16.6) |
| NIE pro-forma operating profit | **109.4** | 101.0 |

VP&E's operating profits increased from £24.1m to £27.6m as a result of volume growth and profit from the sale of renewable obligation certificates.

The tax charge (including deferred tax) increased to £43.9m (2006 - £36.2m) reflecting the higher level of profits and a small increase in the effective tax rate from 27.9% to 29.2%.

The pension liability in the Group's defined benefit scheme under IAS 19 Employee Benefits decreased to £28.0m at 31 March 2007 from £102.9m at 31 March 2006. This reduction reflects actuarial gains and the payment of a special pension contribution of £50m by the Company following the acquisition by ElectricInvest Acquisitions.

Net debt increased by £99.0m from £310.0m to £409.0m at 31 March 2007.

## Financing

### Role of Treasury

The role of the Group's treasury function is to manage liquidity, funding, investment and the Group's financial risk, including risk from volatility in currency, interest rates, commodity prices and counterparty credit risk. The treasury function's objective is to manage risk at optimum cost. The treasury function employs a continuous forecasting and monitoring process to manage risk and to ensure that the Group complies with its financial covenants.

### Liquidity and interest rate risk

Since it was acquired, the Group's policy has been to finance its operations through intercompany loan facilities with ElectricInvest Acquisitions which are repayable on demand, together with medium to long-term bank loans and other facilities.

During the year the Group repaid its revolving credit and Huntstown loan facilities.

The borrowings of the Group are denominated in Sterling and Euro and bear a mixture of fixed and floating interest rates. Interest rate exposure on borrowings is also managed through the use of derivative financial instruments.



| At 31 March | 2007 £m | 2006 £m |
|---|---|---|
| Cash and cash equivalents | **81.6** | 147.6 |
| Loans and other borrowings | **(490.6)** | (457.6) |
| Net debt | **(409.0)** | (310.0) |
| **Loans and other borrowings maturity analysis:** | | |
| In one year or less | **(217.5)** | (13.6) |
| In more than one year but less than five years | **(100.0)** | (186.5) |
| In more than five years | **(173.1)** | (257.5) |
| | **(490.6)** | (457.6) |
| **Loans and other borrowings fixed/floating analysis:** | | |
| Fixed rate debt | **(298.6)** | (309.5) |
| Variable rate debt | **(192.0)** | (148.1) |
| | **(490.6)** | (457.6) |

At 31 March 2007 the Group had undrawn committed facilities of £nil (2006 - £167.9m) and uncommitted facilities of £35.0m (2006 - £35.0m).

### Foreign currency risk

The Group's treasury policy is to identify foreign exchange exposures with a value equivalent to or greater than £0.5m with the percentage level of hedging dependent on the specific project. A high proportion of the Group's income and expenditure is denominated in Sterling; however both VP&E and Powerteam receive income and incur expenditure in Euro. Exchange rate exposures are identified, monitored and hedged through the use of financial instruments (mainly forward currency contracts and swap arrangements) in accordance with the Group's treasury policy. In particular, VP&E is exposed to foreign exchange movements in respect of its gas purchases denominated in Sterling.

Euro-denominated property, plant and equipment on the Group's balance sheet relating to Huntstown 1 and Huntstown 2 is broadly matched by Euro-denominated borrowings.

### Commodity risk

The Group's policy is to hedge the level of commodity risk exposure deemed appropriate on a project specific basis. VP&E is exposed to changes in the price of gas and, to a lesser extent, the price of $CO_2$ emission credits with VP&E receiving a 74% allocation in respect of Huntstown 1 for the first phase of the EU Emissions Trading Scheme (ETS). During the year VP&E employed financial commodity swaps to hedge gas price exposures identified.

### Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, derivative financial assets and other financial assets as outlined in the table below:

| At 31 March | 2007 £m | 2006 £m |
|---|---|---|
| Cash and cash equivalents | **81.6** | 147.6 |
| Trade and other receivables | **152.2** | 152.7 |
| Derivative financial assets | **2.5** | 11.0 |
| Other financial assets | **1.0** | 1.1 |
| | **237.3** | 312.4 |

The Group's credit risk is primarily attributable to its trade receivables. Provisions are made based on previous experience and identifiable events which indicate a reduction in the recoverability of cash flows. The Group considers that it is not exposed to major concentrations of credit risk in respect of its trade receivables, with exposure spread over a large number of customers. Energia has taken out credit insurance in respect of certain trade receivables. NIE's businesses dealing with second tier suppliers receive security in the form of letters of credit, parent company guarantees or cash collateral.

The Group may be exposed to credit-related loss in the event of non-performance by counterparties in respect of cash and cash equivalents and derivative financial instruments. The Group does not anticipate any non-performance given the high credit ratings of the established financial institutions that comprise these counterparties. The Group manages credit risk arising in respect of such counterparties by transacting only with bank counterparties rated investment grade and above.

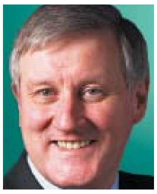
Further information on financial instruments is set out in the notes to the accounts in compliance with IFRS 7 Financial Instruments: Disclosures.

# BOARD OF DIRECTORS

## Asim Zafar (aged 42),
**Chairman (non-executive)** (N, R)

Appointed as non-executive Chairman in January 2007. He is an executive director of Arcapita, global head of Arcapita's asset-based and real estate investments and a director of ElectricInvest Acquisitions. He qualified as a chartered accountant with Deloitte and is a member of the Chartered Institute of Management Accountants.

## Patrick Haren (aged 56),
**Deputy Chairman (non-executive)**



Group Chief Executive of Viridian until his appointment as non-executive Deputy Chairman in April 2007. Formerly Chief Executive of NIE, having previously been Director of New Business Investment with ESB in the RoI and Chairman of ESB International. He is a non-executive director of Invest Northern Ireland, the economic development agency.

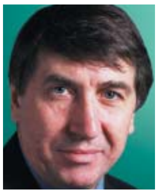
## Patrick Bourke (aged 50),
**Group Chief Executive** (E, N)

Appointed as Group Chief Executive in April 2007. Joined as Group Finance Director in September 2000. Previously Head of Mergers and Acquisitions and then Group Treasurer at Powergen plc. He was formerly a director of Barclays de Zoete Wedd and qualified as a chartered accountant with Peat Marwick (now KPMG).

## Henry Thompson (aged 55), (N)

Appointed as a non-executive director in January 2007. He is an executive director and Legal Counsel of Arcapita, General Manager of its UK business and a director of ElectricInvest Acquisitions. He is a member of the District of Columbia Bar.

## Harry McCracken (aged 57),
**Group Managing Director Viridian Power & Energy** (E)



Appointed Group Managing Director VP&E in February 2003. Previously Managing Director NIE with responsibility for the Group's regulated electricity businesses. Joined NIE in 1970 as an engineer and progressed to Corporate Planning Manager prior to appointment to the Board of NIE as Operations Director in 1992.

## Qaisar Zaman (aged 44), (N, R)

Appointed as a non-executive director in January 2007. He is responsible for Arcapita's investments in capital-intensive sectors within its asset-based investments business and is a director of ElectricInvest Acquisitions. He holds a BSc in Computer Science, an MBA and a Masters in International Management.

## Laurence MacKenzie (aged 45),
**Managing Director Electricity Infrastructure** (E)

Appointed as an executive director in March 2006. Managing Director of NIE's Electricity Infrastructure business (including T&D and Powerteam) and member of the Executive Committee since 2003. Joined as Managing Director of Powerteam in September 2000. Previously a general manager in power transformer manufacturing with ABB. He qualified as a chartered accountant with Peat Marwick (now KPMG).

## John Biles (aged 59), (*A)

Appointed as a non-executive director in August 2005. He has chaired the Audit Committee since October 2005. Non-executive director and chairman of the audit committee at Charter plc, ArmorGroup International plc and Hermes Pensions Management Ltd. Formerly Finance Director of FKI plc having previously been Group Financial Director of Chubb Security Plc following its demerger from Racal Electronics Plc (Racal) in 1992. Before this he held various financial director positions within Racal. He qualified as a chartered accountant with Price Waterhouse and Co.

## Peter Ewing (aged 46),
**Group Finance Director** (E)

Appointed Group Finance Director in May 2007. Joined as Finance Director of NIE in 1998 and appointed General Manager Group Finance of Viridian in 2003. Formerly Finance Director of Moy Park Limited and Associate Director of IBI Corporate Finance. He qualified as a chartered accountant with Arthur Andersen & Co.

## Mike Toms (aged 53), (* A)

Appointed as a non-executive director in November 2003. Non-executive director of UK Coal PLC and Oxera Consulting Limited. He was formerly Group Director, Planning and Regulatory Affairs at BAA and a member of the BAA plc Board. He was also a director of the Airports Property Partnership and a member of the Governing Board of the Airports Council International. Formerly held the positions of Chief Economist and Director of Corporate Strategy at BAA plc.

* - independent non-executive director
A - member of Audit Committee
E - member of Executive Committee
N - member of Nomination Committee
R - member of Remuneration Committee

# CORPORATE GOVERNANCE REPORT

## The Board

There have been a number of changes to the Board. In December 2006, Dipesh Shah and Duncan Lewis retired from the Board. In January 2007, Asim Zafar joined the Board as non-executive Chairman and Henry Thompson and Qaisar Zaman were appointed as non-executive directors. In April 2007, Patrick Haren stepped down as Group Chief Executive and was appointed as non-executive Deputy Chairman and Patrick Bourke, previously Group Finance Director, was appointed as Group Chief Executive. In May 2007, Peter Ewing, previously General Manager Group Finance, was appointed as Group Finance Director.

The directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that applicable rules and regulations are complied with and that Board procedures are observed.

### Audit Committee

The Audit Committee's remit is to:

- monitor the integrity of the financial statements;
- review significant financial reporting issues and judgements;
- review accounting policies;
- monitor and review the effectiveness of internal controls and the Group's risk management system;
- monitor and review the effectiveness of the internal audit function;
- oversee the relationship with the external auditors; and
- make recommendations on these matters to the Board for decision.

During the year the Audit Committee comprised John Biles (Chairman), Mike Toms and Duncan Lewis (until December 2006).

## Board Proceedings

The Board is responsible for the success of the Group. Its role is to determine long-term objectives and strategy. The Board approves major financial and investment decisions and reviews the Group's internal controls, risk management arrangements and governance structure.

To ensure that its broad range of responsibilities is managed effectively and in an appropriate manner, the Board has established a number of committees. These include the Executive Committee, the Remuneration Committee and the Audit Committee.

### Executive Committee

The Group Chief Executive is responsible for leading, managing and controlling the Company and its subsidiaries, subject to those matters reserved for decision by the Board. He chairs the Executive Committee, which is authorised, subject to the powers delegated to it and to reporting its significant decisions to the next Board meeting, to take whatever management action it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. During the year, the Executive Committee comprised the executive directors and Ian Thom, Company Secretary.

### Remuneration Committee

The Remuneration Committee aims to ensure that executive directors' remuneration packages are designed to attract, retain and motivate executive directors of the right calibre. The total remuneration package includes basic salary, benefits, a performance-related bonus that is dependent on performance against challenging corporate and individual targets and pension benefits.

During the period April 2006 to December 2006 the Remuneration Committee comprised the three non-executive directors (and from October 2006 to December 2006, the non-executive Chairman). Since January 2007 the Remuneration Committee comprises Asim Zafar and Qaisar Zaman. The Committee has access to the services of independent advisers as required.

## Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board's monitoring of controls covers a wide range including financial, operational and compliance controls together with risk management.

The Group's emphasis on sound management structures and policies and procedures is backed up by operational and financial review mechanisms and an externally resourced internal audit function, provided by PricewaterhouseCoopers LLP. The internal auditors report to the Executive Committee regularly on results of audits and follow-up reviews. The annual internal audit and risk assurance programme and significant internal audit findings are reviewed by the Audit Committee.

The Group's strategy is to follow an appropriate risk policy which effectively manages exposures related to the achievement of business objectives. The Risk Management Committee, chaired by the Group Finance Director, comprises a number of senior managers from across the Group and meets monthly to assist the Board in fulfilling its risk management and control responsibilities. It reports to the Audit Committee, the Executive Committee and the Board on a regular basis. The Committee regularly reviews individual business and functional risk registers.

The Executive Committee and the Board specifically consider risks which are managed at a corporate level and/or the management of which is determined by policy set at a corporate level:

### Health and safety risk
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 employees and third parties to the risk of injury, potential liability and/or loss of reputation. 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 the Group's health, safety and risk business plan. The Group's approach to health and safety issues is described more fully in the CSR Report.

### Regulatory risk
In Northern Ireland, the main regulatory risks faced by the Group relate to the management by NIE of a wide range of regulatory matters with NIAUR and DETI, including compliance with the Licence, the impact of price control reviews, the development of systems for market opening and the introduction of the SEM.

NIE's relationship with NIAUR and DETI is managed by senior management and by a dedicated regulatory affairs team through frequent meetings, informed dialogue and formal correspondence. The regulatory team also monitors licence compliance and the status of current regulatory transactions. NIE's approach to price control reviews is to be pro-active in promoting approaches that will lead to an agreed outcome. These include the extension of price controls in return for undertakings by the regulated business and adherence to relevant precedent and best practice.

In the RoI, the Group is exposed, through VP&E, to the impact of regulatory decisions as well as changes in legislation and/or regulation which impact its generation or supply activities, including the introduction of the SEM.

Through senior management and its regulatory team, VP&E maintains regular interaction with both CER and DCMNR at a number of levels. A pro-active approach is taken to consultations by CER and DCMNR on matters such as the structure and rules of the SEM, renewable energy support and tariff setting.



### Business performance risk
Business performance risk is the risk that one or more of the Group's businesses may not perform as expected either due to internal factors or due to competitive pressures in the markets in which it operates. Performance risks specific to each business are identified in individual business risk registers and managed at that level. At the Group level, business performance risk is managed through a number of measures: ensuring the appropriate management team is in place for each business; rigorous budget and business planning; monthly reporting and variance analysis; financial controls; key performance indicators; and regular forecasting. Investment decisions are accompanied by detailed analysis, both short and long-term, of the markets in which the Group operates.

### Business continuity risk
The Group has in place measures to manage the risk that one or more of its businesses sustains a greater than necessary financial impact through inability to carry on its operations either for a short or prolonged period. These include managing the risk of damage to the T&D network because of adverse weather conditions and the risk of interruptions to Huntstown 1's availability. In general, such risks are managed through: prudent and safe operational processes; a focused capital expenditure programme; sound maintenance practices; and insurance measures such as business interruption insurance. A specific emergency plan, regularly reviewed and tested, exists to address major incidents impacting the T&D network. In addition, each business maintains a business continuity plan and there is an IT disaster recovery plan which covers the whole Group. These plans are reviewed and tested annually.

### Management development
Long-term competitiveness and viability of the business depend on the Group's ability to attract and retain personnel of high quality. This risk is managed through development plans which are regularly reviewed and updated. These are accompanied by specific policies in areas such as training, management development and performance management.

### Financial and business control
Strong financial and business controls are necessary to ensure the integrity and reliability of financial and other information on which the Group relies for day-to-day operations, external reporting and for longer term planning. The Group exercises financial and business control through a combination of: qualified and experienced personnel; detailed performance analysis; established policies in areas such as treasury and commodity hedging; budgeting and cash flow forecasting; a fully integrated accounting system; and clearly defined approval limits. The internal auditors test the effectiveness of financial and business controls. The external auditors provide advice on specific accounting and tax issues as they arise.

### Pension risk
The Group is required to manage the risk that the costs of meeting its pension obligations increase in excess of expectations. The Focus (defined benefit) section of the Viridian Group Pension Scheme (VGPS) was closed to new entrants in 1998. Specialist actuarial and investment advice is taken with respect to management of VGPS's assets and liabilities. Following the acquisition of the Company, the trustees of VGPS, ElectricInvest Acquisitions and the Company agreed a funding package in respect of the Focus section of VGPS, comprising a one-off contribution of £50m and annual contributions of £6m, to be reviewed following the next actuarial valuation in March 2009.

### Social, ethical and environmental risk
The Group has in place measures to protect against financial and reputational risk from any failure to manage social, ethical and environmental (SEE) risks. In general, SEE risks are managed through embedding CSR into the Group's management processes and core business activities. SEE risks are incorporated into each risk register. Environmental risk, in particular, is managed through: a detailed environmental risk register; an environmental action plan; a certified environmental management system; and identification of potential environmental exposures. These matters are monitored by nominated environmental compliance officers in key parts of the business.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

The Group is committed to operating in a socially, ethically and environmentally responsible manner. It aims to be recognised as transparent and ethical in its dealings and to contribute to the general economic and social well-being and development of the communities in which it operates.

The Group recognises the importance of engaging with a wide range of stakeholders including: its shareholder; customers; employees; the wider community; those representing the environment; and suppliers. It does this through many channels including working closely with: industry regulators; consumer representative groups; various health and safety bodies; trade unions; business representatives; elected representatives and politicians; contractors; and landlords.

The Group has defined a number of principal CSR themes and priorities relevant to the management of SEE-related risks that may impact upon the short and long-term value of the Group. These are classified under the headings of Workplace, Environment, Marketplace and Community.

## Workplace

A principal CSR priority for the Group is to ensure the safety of employees, contractors and the general public through the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The Group's health and safety policy aims to promote high standards and is supported by specific safety principles, rules, policies and procedures. Laurence MacKenzie, Managing Director Electricity Infrastructure, is the Board member with responsibility for health and safety.

The Group health and safety management system is based upon the principles of the Health & Safety Executive for Northern Ireland (HSENI) guidance "Successful Health and Safety Management" and the Health and Safety Commission guidance "Directors' Responsibilities for Health and Safety". The Group's approach to employment-related performance, such as safety and sickness absence, is to set targets in line with legislation and best practice. Safety performance is reported to the Energy Networks Association (ENA) and the Group safety and risk department regularly engages with other relevant organisations including the Royal Society for the Prevention of Accidents (RoSPA), HSENI, DETI and the Department of Trade and Industry.

Formal processes for accident investigation and incident analysis are in place. During the year there were 12 reportable accidents across the Group compared to seven in the previous year. The LTIR, which measures the number of lost time incidents per 100 employees, increased to 0.9 (2006 - 0.3). Most of the lost time accidents were due to manual handling, slips, trips and falls and resulted in minor injuries. The most serious lost time incident involved an engineer sustaining burns as a result of the failure of an 11kV ring main unit.

| *KPI* | **2007 Number** | 2006 Number |
|---|---|---|
| LTIR (per 100 employees) | **0.9** | 0.3 |

Contractors working on NIE's electricity network, and on Huntstown 1 and Huntstown 2, must adhere to the same safety rules and requirements as Group employees. During the year there were no fatalities involving employees or contractors working for the Group (2006 - nil).

The Group is committed to a working environment: in which personal and employment rights are upheld; which ensures equality of opportunity for all employees and job applicants; and which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for skills enhancement and personal development.

The Group's equal opportunities policy commits the Group to providing equality of opportunity for all employees and job applicants. Equal opportunity measures and statistics are reported formally to the Equality Commission for Northern Ireland.

In addition to formal complaints and grievance procedures, the Group has trained harassment advisers and operates a harassment advice line. The Group engages with relevant external organisations, including Opportunity Now, which promotes gender equality, the Equality Forum NI, an employers' forum for sharing knowledge and best practice on equality issues, the Equality Commission for Northern Ireland and the Employers' Forum on Disability.

The Group believes that the pro-active management of illness and absenteeism is to the mutual benefit of the Group and its employees. An employee health and well-being policy is in place with specific policies on stress management, mental health, HIV infection and AIDS, alcohol and drug-related problems, smoking and first aid. An external occupational health service is available for employees. Sickness absence for the Group was 2.77% in 2006/07 compared to 2.95% the previous year, below the national average of 3.5%.

The Group has a wide range of family-friendly working arrangements in place including maternity, paternity, adoption, parental and dependant leave, a child care scheme, career breaks, job sharing and flexible working hours.

Learning and development needs are identified through performance, planning and review (PPR) processes. Powerteam is IIP accredited and a process of re-accreditation is underway for T&D and Powerteam.

The Group places a significant emphasis on internal communications. Employee communications occur through team briefings, employee surveys, communication and involvement groups, project groups and inter-company forums and through interaction and consultation with trade unions. A managed process of communication occurs at the individual employee level and the PPR processes are designed to include upward feedback.

## Environment

Key CSR priorities for the Group are to:

- minimise the Group's impact on the physical environment through environmentally responsible management and adherence to relevant statutory and regulatory standards; and
- contribute to a reduction of the impact of energy-related activities on the environment through the promotion and provision of renewable energy options, environmentally-friendly energy and energy efficiency measures.

Harry McCracken, Group Managing Director VP&E, is the Board member with responsibility for environmental issues. The Group's environmental policy commits the Group to protecting the environment and is designed to ensure compliance with all relevant legislative and regulatory requirements. Where practical and economically viable, the Group seeks to develop standards in excess of such requirements. Areas of particular focus include the responsible management of emissions and waste, measures to protect against oil pollution and the promotion of energy efficiency. The Group has designated environmental compliance officers and auditors in its relevant operations.

NIE and Powerteam are certified to ISO 14001:2004 for their environmental management system. Following the eighth environmental management survey conducted by ARENA Network in Northern Ireland in 2006, the Group attained the top position for the utilities sector achieving an overall score of 95.3%.

Huntstown 1 operates in compliance with its Integrated Pollution Prevention and Control (IPPC) licence, with reporting on emissions based on calendar years. For calendar year 2006, the station's emissions of $NO_x$, $SO_2$ and $CO_2$ were 536 tonnes, 1 tonne and 862,695 tonnes respectively. Through the operation of their respective IPPC licences, Huntstown 1 complies, and Huntstown 2 will comply once commissioned, with the emission limits for $NO_x$, $SO_2$ and dust under the LCP Directive. In February 2007 Huntstown 1 achieved ISO 14001:2004 certification for its plant environmental systems and management processes.

During the year NIE Supply managed a £4.7m energy efficiency programme aimed at reducing $CO_2$ emissions and alleviating fuel poverty in Northern Ireland. A total of 25 energy efficiency schemes was implemented with estimated lifetime reductions of 426GWh in energy demand. This represented an estimated 117,000 tonnes of $CO_2$ savings and customer benefits of £24.5m over the lifetime of these measures. Many of these schemes provide whole house energy efficiency solutions and were developed to target the most vulnerable customers. In addition, through commitments in NIE Supply's price control, a further £16m of lifetime savings to customers has been delivered via investment in energy efficiency measures since 2000. NIE Supply has continued to promote EcoEnergy, its "green" electricity tariff, which is currently used by 21,500 customers. In addition, it has achieved its price control target of committing to support 1,000 micro-renewable installations.

During the year the Group provided financial support to Action Renewables, a joint venture with DETI aimed at raising awareness and encouraging the installation of renewable energy technologies in Northern Ireland.

An ESCo (Energy Services Company) project team within NIE Supply oversees sustainable energy activities, regulated and unregulated, and considers business opportunities in this emerging field.

The NIE Sustainable Management of Assets and Renewable Technologies (SMART) programme is part of the regulatory framework agreed between T&D and NIAUR. The programme has been developed to support emerging renewable technologies and to encourage environmentally friendly approaches to the provision of T&D network infrastructure to meet customer demand in Northern Ireland. The Smart 1 programme, which supports emerging renewable and low $CO_2$ technologies, has committed £1.25m to support 38 renewable programmes and projects including photovoltaics, solar water heating, biomass, domestic CHP, tidal power and hydro-electric power.

As part of its price control arrangements under RP4, NIE has committed to a £1m Sustainable Networks Programme to fund research focused on identifying the best long-term options for development of the T&D network to accommodate Government objectives on sustainability.

A new website (www.nie-yourenergy.co.uk) provides a wide range of information and advice on energy efficiency and renewable energy.

Energia continues to promote energy efficiency schemes in Northern Ireland through the Customer Energy Efficiency Levy approved by NIAUR. In 2006/07, 52 schemes were supported delivering estimated annual savings to customers of £0.6m.



## Marketplace

A key CSR priority is to maintain a highly ethical approach to regulatory responsibilities, obligations under licences, public positioning and marketing of products and services. The Group aims to be transparent and ethical in all its dealings with third parties and has a number of policies in place to underpin this objective. Policies include internal ethical dealing and "whistleblowing" procedures as well as the Group's corporate governance arrangements.

The Group's procurement practices aim to ensure transparency and fairness in dealings with suppliers, including a policy to make payment to suppliers in accordance with agreed terms of business.

As a major purchaser the Group recognises that it has an opportunity to encourage suppliers of materials and services to deliver good environmental and safety performance and to maintain responsible practices towards their employees and the communities in which they operate. The Group subscribes to the Achilles utilities vendor database to pre-qualify potential suppliers for major contracts; this assessment includes environmental and health and safety practices. All potential suppliers are pre-qualified on a fair and equal basis. In addition the Group's procurement team assesses CSR practices through questionnaires issued with invitation-to-tender documents. Evidence that potential suppliers support and respect internationally-proclaimed human rights is sought during this stage of the procurement process.

## Community

Through its mainstream business activities and its community involvement policy, the Group seeks to make a sustainable positive impact on the community in which it operates, both in Northern Ireland and in the RoI. The Group's community involvement policy is aligned to four key themes: growth, environment, education and safety.

During the year, NIE continued its public safety awareness programme, promoting the importance of electrical safety to farmers and agricultural and building contractors. The NIE-initiated "Kidzsafe" programme, conducted in association with other agencies raises safety awareness among primary school children in an effort to reduce incidences of vandalism and electricity-related injuries. NIE offers contractors undertaking road works a wide range of advice and assistance to help them avoid damaging electrical underground cables. During the year NIE launched an information campaign highlighting the dangers of electricity to over 3,000 trainees in the construction industry.

The Group recognises the social dimension of debt management and NIE Supply continues to offer a wide range of payment options and debt prevention measures. NIE Supply had installed 190,000 keypad meters by March 2007, exceeding the target of 175,000 in its price control. This pay-as-you-go metering enables customers to budget for their electricity payments, whilst attracting a 2.5% discount to the standard price of electricity, and provides user-friendly credit and consumption information. In addition NIE Supply has provided a new "time of use" keypad product which enables customers to benefit from lower electricity charges at certain times of the day.

NIE provides financial and in-kind support for Northern Ireland's Energy Saving Trust Advice Centres and engages with organisations including the Fuel Poverty Advisory Group and the Department of Social Development.



NIE aims to ensure that its customers receive a quality service at an affordable price. T&D prices have reduced by around 43% in real terms since NIE was privatised. T&D's strong record of cost efficiency, delivered while improving network performance and performance against customer standards, is part of its mainstream business commitment to the community.

NIE offers a number of services to its customers that are promoted through its codes of practice (produced in several different languages) and through various advice providers, including Citizens Advice Bureaux, Advice NI and Energy Saving Trust Advice Centres. NIE aims to assist its customers with special needs through a number of these services. The total number of customers using the critical care register was over 2,400 at 31 March 2007, with over 2,600 on the customer care register.

As part of its price control arrangements for RP4, NIE has committed to a £1m Vulnerable Customer Programme to help alleviate fuel poverty in Northern Ireland.

During the year, the Group provided various charities and organisations with sponsorship totalling £155,000 (2006 - £145,000).

# DIRECTORS' REPORT

The directors of Viridian Group PLC present their report and the Group accounts for the year ended 31 March 2007.

## Results and Dividends

The results for the year ended 31 March 2007 show a profit after tax of £106.2m. In addition to the payment of the final dividend of £32.6m in respect of the year ended 31 March 2006, interim dividends totalling £88.5m have been declared and paid during the year. The Board does not propose a final dividend.

## Principal Activities and Review of Business Developments

The Group's regulated energy activities of power procurement, transmission and distribution, transmission system operation and supply of electricity are carried out through its subsidiaries, NIE and SONI. The Group's unregulated energy activities are carried out through its subsidiary VP&E which comprises Energia - competitive market supply, and Huntstown - power generation. The Group also provides specialist power utility contracting services through unregulated subsidiaries trading as Powerteam.

Reviews of the Group's activities and potential future developments are provided in the Operating and Financial Review.

## Risk Management

Discussion of the principal risks and uncertainties facing the Group are described in the Internal Control section of the Corporate Governance Report. The Group's financial risk management objectives and policies, including those applied in relation to the use of financial instruments, are described in the Financial Review.

## Acquisition of Viridian

On 6 October 2006 the Boards of Viridian and ElectricInvest Acquisitions announced that they had reached agreement on the terms of a recommended proposal by ElectricInvest Acquisitions, a company beneficially owned by Arcapita, to acquire the entire issued share capital of the Company.

The acquisition was implemented by way of a court-sanctioned Scheme of Arrangement under Article 418 of the Companies (Northern Ireland) Order 1986. The Scheme of Arrangement became effective on 8 December 2006 and, on that date, the Company's shares ceased to be listed on the official lists maintained by the UK Listing Authority and the Irish Stock Exchange.

## Share Capital

Details of the authorised and issued share capital are given in note 29 to the accounts. On 6 April 2006 the remaining Redeemable B shares were redeemed at par. On the Scheme of Arrangement becoming effective on 8 December 2006, the ordinary share capital was reduced by the cancellation of shares in consideration for which ElectricInvest Acquisitions paid shareholders £13.25 per share. Thereafter, the authorised share capital was increased to its former amount by the creation of the same number of new ordinary shares, allotted and issued to ElectricInvest Acquisitions.

## Directors

The Board of Directors section gives details of current directors. The directors who held office during the year were as follows:

John Biles

Patrick Bourke

Patrick Haren

Duncan Lewis (resigned 22 December 2006)

Laurence MacKenzie

Harry McCracken

Dipesh Shah (resigned 27 December 2006)

Henry Thompson (appointed 5 January 2007)

Mike Toms

Asim Zafar (appointed 5 January 2007)

Qaisar Zaman (appointed 5 January 2007)

Henry Thompson, Asim Zafar and Qaisar Zaman each appointed Thor Johnsen as an alternate director on 11 January 2007.

The Company purchased and maintained directors' and officers' liability insurance throughout the period.

## Directors' Interests

On the acquisition of the Company on 8 December 2006, all of the directors' interests in ordinary shares of the Company, including interests under the Share Incentive Plan (SIP), Sharesave Scheme, Executive Share Option Scheme (ESOS), Performance Share Plan (PSP) and Co-investment Plan (CIP) were sold, exercised, vested or lapsed. No director had any interests as at 31 March 2007 (or at his date of resignation if earlier). Some of the directors' interests have been rolled over into loan notes issued by ElectricInvest Acquisitions.

The directors' beneficial interests in ordinary shares of the Company (which included those of their families and those held by the trustees of the SIP), together with details in respect of share awards under the PSP, CIP and options to acquire ordinary shares under the Sharesave Scheme and ESOS, as at 31 March 2006 (or at date of appointment if later), were as follows:

| | Ordinary Shares Number | Sharesave Scheme Number | ESOS Number | CIP Number | PSP Number |
|---|---|---|---|---|---|
| J Biles | - | - | - | - | - |
| P Bourke | 31,874 | 1,347 | - | 6,070 | 65,783 |
| P Haren | 69,222 | 3,697 | - | 29,883 | 99,299 |
| T Johnsen | - | - | - | - | - |
| D Lewis | - | - | - | - | - |
| L MacKenzie | 3,370 | 1,347 | 25,939 | 796 | 16,749 |
| H McCracken | 50,958 | 1,347 | - | 18,973 | 65,783 |
| D Shah | - | - | - | - | - |
| H Thompson | - | - | - | - | - |
| M Toms | 1,800 | - | - | - | - |
| A Zafar | - | - | - | - | - |
| Q Zaman | - | - | - | - | - |



During the year options and contingent share awards granted, exercised, vested or lapsed were as follows:

| | Granted | Exercised/Vested | | | | Lapsed | | |
|---|---|---|---|---|---|---|---|---|
| | PSP Number | Sharesave Scheme Number | ESOS Number | CIP Number | PSP Number | Sharesave Scheme Number | CIP Number | PSP Number |
| P Bourke | 26,896 | - | - | 3,406 | 59,316 | 1,347 | 2,664 | 33,363 |
| P Haren | 43,033 | 396 | - | 16,768 | 89,937 | 3,301 | 13,115 | 52,395 |
| L MacKenzie | 22,216 | - | 25,939 | 446 | 14,465 | 1,347 | 350 | 24,500 |
| H McCracken | 26,896 | - | - | 10,646 | 59,316 | 1,347 | 8,327 | 33,363 |

Under the Scheme of Arrangement in December 2006, participants were able to exercise options granted under the Sharesave Scheme to the extent of their savings at that time. Alternatively, participants could choose to continue to save under their contracts until February 2009 and receive on that date the amount, for their lapsed share options, which would have been payable for shares under the Scheme of Arrangement. Patrick Bourke, Laurence MacKenzie and Harry McCracken chose to continue to save under their savings contracts.

## Research and Development

The Group is committed to a programme of research and development appropriate to its businesses. In particular NIE, in conjunction with local universities and other partners, is committed to research and development activities aimed at identifying the best long-term options for network development to accommodate the Government's sustainability objectives.

## Equal Opportunities

The Group has been pro-active in implementing human resource policies and procedures to ensure compliance with fair employment, sex discrimination, equal pay, disability discrimination, race discrimination, sexual orientation and age discrimination legislation in Northern Ireland. It regularly monitors its actions to promote compliance and to ensure that it provides equality of opportunity in all its employment practices.

## Disability

The Group has taken active steps to implement the Disability Discrimination Act. It is Group policy to provide people with disabilities equal opportunities for employment, training and career development, having regard to aptitude and ability. Any member of staff who becomes disabled during employment is given assistance and re-training where possible.

## Employee Participation

The Group recognises the value of effective communication with employees. There are well-established arrangements for consultation and the promotion of employee relations through a framework of company councils. Several Group-wide consultative committees are also in place dealing with areas such as health and safety and current ideas. Powerteam is IIP accredited.

## Health and Safety at Work of Employees

The Group strives for continual improvement in safety performance through review of safe working practices and increased safety awareness of all employees. Details of lost time incidents are contained in the Workplace section of the CSR Report.

## Charitable and Political Donations

In addition to sponsorship to charities and organisations of £155,000 (2006 - £145,000), donations to charities in the year were £17,000 (2006 - £50,000). There were no contributions for political purposes.

## Auditors

A resolution to re-appoint Ernst & Young LLP as external auditors and to authorise the directors to determine their remuneration will be proposed at the AGM.

## Payment of Suppliers

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers throughout the EU and beyond 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 contractual terms.



By order of the Board

Ian Thom
Company Secretary
Registered Office
120 Malone Road
Belfast BT9 5HT
Registered Number: NI 33250

4 June 2007

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the annual report and accounts in accordance with applicable United Kingdom law and those IFRS as adopted by the EU.

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

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance of the Company and the Group, and disclose and explain any departure from IFRS where, in their view, compliance would be so misleading as to conflict with a fair presentation; and
- state that (except for any such departure) the accounts have been prepared in accordance with IFRS adopted by the EU.



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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRIDIAN GROUP PLC

We have audited the Group and Company financial statements (the financial statements) of Viridian Group PLC for the year ended 31 March 2007. The financial statements comprise the Group Income Statement, Group and Company Statements of Recognised Income and Expense, Group and Company Balance Sheets, Group and Company Cash Flow Statements and the related notes 1 to 33. The financial statements have been prepared under the accounting policies set out therein.

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

## Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) 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 (ISA) (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information provided in the Key Performance Indicators and Business Reviews sections of the Operating Review and in the Financial Review together with the discussion of the principal risks and uncertainties facing the Group as described in the Internal Control section of the Corporate Governance Report, that are cross referred from the Principal Activities and Review of Business Developments and Risk Management sections of the Directors' Report.

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

## Basis of Audit Opinion

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



We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986, of the state of the Company's affairs as at 31 March 2007;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditors
Belfast

4 June 2007

## Group Income Statement
for the year ended 31 March 2007

| | Note | 2007 £m | 2006 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3, 4 | **1,021.9** | 976.8 |
| Operating costs | 4 | **(837.9)** | (827.8) |
| **OPERATING PROFIT** | | **184.0** | 149.0 |
| Exceptional costs incurred as a result of acquisition of the Group | 6 | **(18.4)** | - |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE FINANCE COSTS** | | **165.6** | 149.0 |
| Interest receivable | | **7.4** | 10.4 |
| Finance costs | | **(27.3)** | (28.0) |
| Net pension scheme interest | | **4.4** | (1.7) |
| Net finance costs | 7 | **(15.5)** | (19.3) |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE TAX CHARGE** | | **150.1** | 129.7 |
| Tax charge | 8 | **(43.9)** | (36.2) |
| **PROFIT FROM CONTINUING OPERATIONS AFTER TAX CHARGE** | | **106.2** | 93.5 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 9 | **-** | 110.9 |
| **PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | | **106.2** | 204.4 |



## Statements of Recognised Income and Expense
for the year ended 31 March 2007

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Exchange difference on retranslation of foreign subsidiaries | **(0.5)** | 0.6 | **-** | - |
| (Losses)/gains on cash flow hedges | **(40.8)** | 22.5 | **0.6** | (0.8) |
| Actuarial gain on pension scheme assets and liabilities | **14.3** | 31.5 | **-** | - |
| Deferred tax credit/(charge) on items taken directly to equity | **0.7** | (12.1) | **(0.1)** | 0.2 |
| **Net (expense)/income recognised directly in equity** | **(26.3)** | 42.5 | **0.5** | (0.6) |
| **Transfers** | | | | |
| Losses/(gains) transferred from equity to the income statement on cash flow hedges | **20.9** | (14.3) | **(0.1)** | 0.3 |
| Deferred tax (credit)/charge transferred from equity to the income statement | **(2.6)** | 1.7 | **-** | - |
| **Profit for the financial year** | **106.2** | 204.4 | **24.6** | 163.8 |
| **Total recognised income and expense for the year attributable to the equity holders of the parent company** | **98.2** | 234.3 | **25.0** | 163.5 |

# Balance Sheets
## As at 31 March 2007

| | Note | Group 2007 | Group 2006 restated | Company 2007 | Company 2006 |
|---|---|---|---|---|---|
| | | **£m** | £m | **£m** | £m |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | **1,104.2** | 1,009.5 | **-** | - |
| Intangible assets | 13 | **36.4** | 14.9 | **-** | - |
| Investment in subsidiaries | 14 | **-** | - | **697.0** | 697.0 |
| Financial assets: | | | | | |
| Derivative financial assets | 21 | **0.5** | - | **-** | - |
| Other financial assets | 15 | **0.9** | 1.0 | **-** | - |
| Deferred tax assets | 8 | **-** | - | **0.3** | 0.4 |
| | | **1,142.0** | 1,025.4 | **697.3** | 697.4 |
| **Current assets** | | | | | |
| Inventories | 16 | **9.3** | 7.6 | **-** | - |
| Trade and other receivables | 17 | **152.2** | 152.7 | **0.3** | 2.3 |
| Financial assets: | | | | | |
| Derivative financial assets | 21 | **2.0** | 11.0 | **-** | - |
| Other financial assets | 15 | **0.1** | 0.1 | **233.9** | 84.4 |
| Cash and cash equivalents | 18 | **81.6** | 147.6 | **34.3** | 85.7 |
| | | **245.2** | 319.0 | **268.5** | 172.4 |
| **TOTAL ASSETS** | | **1,387.2** | 1,344.4 | **965.8** | 869.8 |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | **199.6** | 180.6 | **2.4** | 2.1 |
| Current tax payable | | **36.9** | 34.6 | **1.7** | 3.0 |
| Deferred income | 26 | **6.0** | 5.6 | **-** | - |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 21 | **18.5** | 3.7 | **0.2** | 0.3 |
| Other financial liabilities | 20 | **217.5** | 13.6 | **358.2** | 149.4 |
| Short-term provisions | 25 | **10.0** | 16.2 | **-** | - |
| | | **488.5** | 254.3 | **362.5** | 154.8 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 8 | **119.8** | 94.1 | **-** | - |
| Deferred income | 26 | **179.8** | 164.2 | **-** | - |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 21 | **6.7** | 9.9 | **0.7** | 1.0 |
| Other financial liabilities | 20 | **273.1** | 444.0 | **-** | 57.1 |
| Long-term provisions | 25 | **19.2** | 22.5 | **-** | - |
| Pension liability | 32 | **28.0** | 102.9 | **-** | - |
| | | **626.6** | 837.6 | **0.7** | 58.1 |
| **TOTAL LIABILITIES** | | **1,115.1** | 1,091.9 | **363.2** | 212.9 |
| **NET ASSETS** | | **272.1** | 252.5 | **602.6** | 656.9 |
| **Equity** | | | | | |
| Share capital | 29 | **34.3** | 34.0 | **34.3** | 34.0 |
| Share premium | 30 | **14.1** | 9.1 | **14.1** | 9.1 |
| Merger reserve | 30 | **-** | - | **358.0** | 358.0 |
| Capital redemption reserve | 30 | **97.9** | 97.1 | **97.9** | 97.1 |
| Hedge reserve | 30 | **(19.7)** | (2.2) | **(0.5)** | (0.9) |
| Foreign currency translation reserve | 30 | **0.3** | 0.8 | **-** | - |
| Accumulated profits | 30 | **145.2** | 113.7 | **98.8** | 159.6 |
| **TOTAL EQUITY** | | **272.1** | 252.5 | **602.6** | 656.9 |



The accounts were approved by the Board of directors and authorised for issue on 4 June 2007. They were signed on its behalf by:

Patrick Bourke
Group Chief Executive

Peter Ewing
Group Finance Director

# Cash Flow Statements
for the year ended 31 March 2007

| | Note | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|---|
| **Cash generated from/(used in) operations** | 23 | **142.6** | 165.2 | **(12.7)** | (0.1) |
| Interest received | | **7.8** | 10.0 | **9.6** | 10.0 |
| Interest paid | | **(27.2)** | (26.4) | **(10.4)** | (10.5) |
| Preference dividend received from subsidiary | | **-** | - | **3.2** | - |
| Current taxes (paid)/received | | **(17.8)** | (25.4) | **(1.0)** | 0.9 |
| **Net cash flows from/(used in) operating activities** | | **105.4** | 123.4 | **(11.3)** | 0.3 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(132.6)** | (90.1) | **-** | - |
| Purchase of intangible assets | | **(24.0)** | (4.6) | **-** | - |
| Proceeds from disposal of property, plant and equipment | | **5.1** | 0.1 | **-** | - |
| Contributions in respect of property, plant and equipment | | **22.0** | 17.1 | **-** | - |
| Dividends received from subsidiaries | | **-** | - | **36.8** | 164.0 |
| Receipt of deferred consideration | | **-** | 11.9 | **-** | - |
| Payment of loans made to subsidiaries | | **-** | - | **(149.5)** | (6.1) |
| Net proceeds from disposal of subsidiary | 9 | **-** | 133.5 | **-** | - |
| **Net cash flows (used in)/from investing activities** | | **(129.5)** | 67.9 | **(112.7)** | 157.9 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of share capital | | **5.3** | 9.5 | **5.3** | 9.5 |
| Proceeds from borrowings | | **278.1** | 24.4 | **278.1** | 24.4 |
| Repayment of borrowings | | **(239.8)** | (19.9) | **(125.4)** | (22.0) |
| Payments in respect of Redeemable B shares | | **(0.8)** | (97.1) | **(0.8)** | (97.1) |
| Expenses associated with return of capital | | **-** | (0.2) | **-** | (0.2) |
| Capital contribution received from parent company | | **36.5** | - | **36.5** | - |
| Equity dividends paid | | **(121.1)** | (46.6) | **(121.1)** | (46.6) |
| **Net cash flows (used in)/from financing activities** | | **(41.8)** | (129.9) | **72.6** | (132.0) |
| Net (decrease)/increase in cash and cash equivalents | | **(65.9)** | 61.4 | **(51.4)** | 26.2 |
| Cash and cash equivalents at beginning of year | | **147.6** | 86.6 | **85.7** | 59.5 |
| Effects of foreign exchange | | **(0.1)** | (0.4) | **-** | - |
| **Cash and cash equivalents at end of year** | 18 | **81.6** | 147.6 | **34.3** | 85.7 |

# NOTES TO THE ACCOUNTS

## 1. General Information

Viridian Group PLC is a public limited company incorporated and domiciled in Northern Ireland.

The accounts have been prepared in accordance with IFRS as adopted by the EU and applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

At the date of authorisation of these accounts, the following standards, which have not been applied in these accounts, were in issue but not yet effective:

IAS 1 Amendment - Presentation of Financial Statements: Capital Disclosures (effective for accounting periods beginning on or after 1 January 2007).

IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009).

The directors do not anticipate that the adoption of these standards will have a material impact on the Group's accounts in the period of initial application.

Following a reassessment of the offset requirements of IAS 12 Income Taxes, the directors have restated the presentation of the comparative amounts of deferred tax assets and deferred tax liabilities on the face of the Group's balance sheet to show a net deferred tax liability.



## 2. Accounting Policies

The principal accounting policies are set out below:

### Basis of consolidation

The Group accounts consolidate the accounts of Viridian Group PLC (the Company) and entities controlled by the Company (its subsidiaries). Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the identifiable net assets of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised immediately in the income statement and is not subsequently reversed. Goodwill is stated at cost less any impairment in value.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

The Group has adopted the exemption allowed in IFRS 1 from restating business combinations which occurred before the transition date (1 April 2004). Goodwill in respect of acquisitions prior to the transition date has been retained at the previous UK GAAP balance subject to being tested for impairment at that date.

### Foreign currency translation

The functional and presentation currency of the Company is Sterling (£). The functional currency of foreign subsidiaries is the Euro (€).

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates prevailing at the balance sheet date are recognised in the income statement.

## 2. Accounting Policies (continued)

On consolidation, the assets and liabilities of the Group's foreign subsidiaries are translated into Sterling at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average rates of exchange for the period. Exchange differences arising are classified as equity and transferred to the Group's foreign currency translation reserve. When a foreign entity is sold, such translation differences are recognised in the income statement as part of the gain or loss on disposal. On consolidation, cash flows of the Group's foreign subsidiaries are translated at the average rates of exchange for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are recorded at the closing rate of exchange at each balance sheet date.

### Property, plant and equipment

Property, plant and equipment are included in the balance sheet at cost, less accumulated depreciation and any recognised impairment loss. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of overheads. Interest on funding attributable to significant capital projects is capitalised during the period of construction and written off as part of the total cost of the asset.

Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis so as to write off the cost, less estimated residual values, over their estimated useful economic lives as follows:

Infrastructure assets - up to 40 years

Generation assets - up to 30 years

Non-operational buildings - freehold and long leasehold - up to 50 years

Fixtures and equipment - up to 25 years

Vehicles and mobile plant - up to 5 years



The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its continued use. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net selling price and the carrying amount of the asset.

### Computer software

The cost of acquiring computer software is capitalised and amortised on a straight-line basis over its estimated useful economic life which is between three and ten years. Costs include direct labour relating to software development and an appropriate portion of directly attributable overheads.

The carrying value of computer software is reviewed for impairment annually when the asset is not yet in use and subsequently when events or changes in circumstances indicate that the carrying value may not be recoverable.

Gains or losses arising from derecognition of computer software are measured as the difference between the net selling price and the carrying amount of the asset.

### Inventories

Inventories are stated at the lower of average purchase price and net realisable value.

## 2. Accounting Policies (continued)

### Financial instruments

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits and short-term managed funds with maturities of three months or less.

**Interest bearing loans and overdrafts**

Interest bearing loans and overdrafts are initially recorded at fair value, being the proceeds received net of direct issue costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method. Except for interest capitalised in relation to significant capital projects interest payable is reflected in the income statement as it arises.

**Trade and other receivables**

Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the asset is impaired. Balances are written off when the probability of recovery is assessed as being remote.

**Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

**Derivative financial instruments and hedge accounting**

The Group uses foreign exchange contracts, interest rate swap contracts and commodity contracts to hedge the risks of changes in foreign currency exchange rates, interest rates and commodity prices. Such derivative financial instruments are stated at fair value.

Changes in the fair value of derivative financial instruments which are designated as effective hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income or expense.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

The Group has adopted IFRS 7 Financial Instruments: Disclosures in these accounts.



### Operating lease contracts

Leases are classified as operating lease contracts whenever the terms of the lease do not transfer substantially all the risks and benefits of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, exclusive of value added tax and other sales related taxes.

The following specific recognition criteria must also be met before revenue is recognised:

**Energy supply**

Revenue is recognised on the basis of energy supplied during the period. Revenue for energy supply includes an assessment of energy supplied to customers between the date of the last meter reading and the balance sheet date, estimated using historical consumption patterns.

## 2. Accounting Policies (continued)

**Service contract accounting**

Profit on service contracts is taken as the work is carried out if the outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the period end, by recording revenue and related costs as contract activity progresses. Revenue is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

**Interest receivable**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Government grants and customer contributions**

Government grants and customer contributions received in respect of property, plant and equipment are deferred and released to the income statement by instalments over the estimated useful economic lives of the related assets. Grants received in respect of expenditure charged to the income statement during the year are included in the income statement.

**Tax**

The tax charge represents the sum of tax currently payable and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes both items of income or expense that are taxable or deductible in other years as well as items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax payable or recoverable on differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is not recognised on temporary differences where they arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

**Dividends**

Final dividends are recorded in the Group's accounts in the period in which shareholder approval is obtained. Interim dividends are recorded in the period in which they are paid.

**Provisions**

Provisions are recognised when (i) the Group has a present obligation (legal or constructive) as a result of a past event (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included within finance costs.

## 2. Accounting Policies (continued)

### Emission allowances

The Group recognises liabilities in respect of its obligations to deliver emissions allowances to the extent that the allowances to be delivered exceed the free allocation from government or a similar body. Any liabilities recognised are measured based on the current estimates of the amounts that will be required to satisfy the obligation.

### Decommissioning

Provision is made for estimated decommissioning costs at the end of the estimated useful economic lives of the Group's generation assets on a discounted basis based on price levels and technology at the balance sheet date. Changes in these estimates and changes to the discount rates are dealt with prospectively. Capitalised decommissioning costs are depreciated over the estimated useful economic lives of the related assets. The unwinding of the discount is included within finance costs.

### Pensions and other post-retirement benefits

The Group has both defined benefit and defined contribution pension arrangements. The amount recognised in the balance sheet in respect of liabilities represents the present value of the obligations offset by the fair value of assets.

Pension scheme assets are measured at fair value and liabilities are measured using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur and are recognised outside the income statement and presented in the statement of recognised income and expense.

The cost of providing benefits under the defined benefit scheme is charged to the income statement over the periods benefiting from employees' service. Past service cost is recognised immediately to the extent that the benefits are already vested. Curtailment losses are recognised in the income statement in the period they occur. The expected return on pension scheme assets and the interest on pension scheme liabilities are included within finance costs.

Pension costs in respect of defined contribution arrangements are charged to the income statement as they become payable.

The Group has adopted the exemption allowed in IFRS 1 to recognise all cumulative actuarial gains and losses at the transition date in reserves. The Group has also adopted IAS 19 Amendment - Actuarial Gains and Losses, Group Plans and Disclosures.

### Company's investments in subsidiaries

The Company recognises its investments in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of investment.



### Share-based payments

Prior to its acquisition, the Company had a number of all-employee and discretionary employee share schemes under which it made equity-settled share-based payments to eligible employees. Equity-settled share-based payments were measured at fair value at the date of grant using models appropriate for each award. Up to the date of acquisition the fair value of each award was expensed on a straight-line basis over the vesting period, based on the estimated number of shares that would ultimately vest. On the date of acquisition, any expense in respect of options which became exercisable or conditional share awards which vested which had not been charged to the income statement, was recognised as an exceptional charge.

As allowed under its transitional provisions, IFRS 2 Share-based Payment has been applied only to equity-settled awards granted after 7 November 2002 which were unvested on 1 January 2005.

### Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## 3. Business and Geographical Information

The Group's operating businesses are organised and managed separately according to the nature of the goods and services provided as described in note 14. Inter-segment pricing is determined on an arm's length basis.

### (i) Revenue and profit

| **Continuing operations** | **2007 External £m** | **2007 Internal £m** | **2007 Total £m** | 2006 External £m | 2006 Internal £m | 2006 Total £m |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| NIE | **548.4** | **129.4** | **677.8** | 569.5 | 123.7 | 693.2 |
| Powerteam | **22.1** | **47.4** | **69.5** | 22.9 | 46.0 | 68.9 |
| VP&E | **450.4** | **0.7** | **451.1** | 380.2 | 0.9 | 381.1 |
| Other | **1.0** | **0.5** | **1.5** | 4.2 | - | 4.2 |
| | **1,021.9** | **178.0** | **1,199.9** | 976.8 | 170.6 | 1,147.4 |
| Inter-group elimination | | | **(178.0)** | | | (170.6) |
| | | | **1,021.9** | | | 976.8 |
| **Operating profit** | | | | | | |
| NIE | | | **153.2** | | | 117.6 |
| Powerteam | | | **3.5** | | | 4.6 |
| VP&E | | | **27.6** | | | 24.1 |
| Other | | | **0.9** | | | 3.9 |
| | | | **185.2** | | | 150.2 |
| Inter-group elimination | | | **(1.2)** | | | (1.2) |
| **Group operating profit** | | | **184.0** | | | 149.0 |
| **Exceptional costs incurred as a result of acquisition of the Group** | | | | | | |
| NIE | | | **(2.5)** | | | - |
| Powerteam | | | **(0.9)** | | | - |
| VP&E | | | **(1.0)** | | | - |
| Unallocated | | | **(14.0)** | | | - |
| | | | **(18.4)** | | | - |
| **Profit from continuing operations before finance costs** | | | **165.6** | | | 149.0 |
| Interest receivable | | | **7.4** | | | 10.4 |
| Finance costs | | | **(27.3)** | | | (28.0) |
| Net pension scheme interest | | | **4.4** | | | (1.7) |
| Net finance costs | | | **(15.5)** | | | (19.3) |
| **Profit from continuing operations before tax charge** | | | **150.1** | | | 129.7 |
| Tax charge | | | **(43.9)** | | | (36.2) |
| **Profit from continuing operations after tax charge** | | | **106.2** | | | 93.5 |
| **Discontinued operations** | | | | | | |
| Sx3 | | | **-** | | | 109.1 |
| Release of provision in respect of prior year disposals | | | **-** | | | 1.8 |
| Profit for the year from discontinued operations | | | **-** | | | 110.9 |
| **Profit for the year** | | | **106.2** | | | 204.4 |

In addition to the disclosures given above, the directors believe the following breakdown of NIE's business according to regulated entitlement is relevant to understanding the Group's results:

| | **Revenue** | | **Operating profit** | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| **Based on regulated entitlement** | | | | |
| Power Procurement/SONI | **443.4** | 485.2 | **11.4** | 9.8 |
| Transmission and Distribution | **166.1** | 163.8 | **88.7** | 83.2 |
| NIE Supply | **471.6** | 432.5 | **8.8** | 7.4 |
| Other | **2.4** | 1.3 | **0.5** | 0.6 |
| Inter-group elimination | **(449.5)** | (406.2) | **-** | - |
| | **634.0** | 676.6 | **109.4** | 101.0 |
| Adjustment for over-recovery | **43.8** | 16.6 | **43.8** | 16.6 |
| | **677.8** | 693.2 | **153.2** | 117.6 |

The adjustment for over-recovery represents the amount by which NIE over-recovered against its regulated entitlement.

# 3. Business and Geographical Information (continued)

### (ii) Discontinued operations - Sx3

On 25 April 2005 the Group completed the disposal of Sx3. The results of Sx3 are disclosed within discontinued operations as follows:

| | **2007 External £m** | **2007 Internal £m** | **2007 Total £m** | 2006 External £m | 2006 Internal £m | 2006 Total £m |
|---|---|---|---|---|---|---|
| Revenue | **-** | **-** | **-** | 6.7 | 1.4 | 8.1 |
| Profit after tax for the year | | | **-** | | | 0.2 |

The revenue and assets of the discontinued operations (based on geographical location of customers for external revenue and geographical location of assets for segment assets and capital additions) are primarily based in the UK.

### (iii) Balance sheet

Operating assets and liabilities are analysed as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| **Operating assets** | | |
| **Continuing operations** | | |
| NIE | **1,029.6** | 947.9 |
| Powerteam | **16.7** | 17.6 |
| VP&E | **294.7** | 259.1 |
| Other | **3.7** | 0.7 |
| **Consolidation adjustments** | | |
| Inter-group elimination | **(7.4)** | (6.2) |
| Inter-business assets | **(32.7)** | (23.4) |
| | **1,304.6** | 1,195.7 |
| Unallocated assets | **82.6** | 148.7 |
| Total assets | **1,387.2** | 1,344.4 |
| **Operating liabilities** | | |
| **Continuing operations** | | |
| NIE | **343.4** | 334.9 |
| Powerteam | **9.8** | 7.8 |
| VP&E | **108.5** | 75.8 |
| Other | **10.8** | 7.6 |
| **Consolidation adjustment** | | |
| Inter-business liabilities | **(32.7)** | (23.4) |
| | **439.8** | 402.7 |
| Unallocated liabilities | **675.3** | 689.2 |
| Total liabilities | **1,115.1** | 1,091.9 |
| **Net assets** | **272.1** | 252.5 |

Unallocated assets include cash and cash equivalents and financial assets. Unallocated liabilities include deferred tax liabilities, current tax payable, other financial liabilities and pension liability.

## 3. Business and Geographical Information (continued)

### (iv) Other information

| | 2007 £m | 2006 £m |
|---|---|---|
| **Capital additions** | | |
| **Continuing operations** | | |
| NIE | **108.7** | 76.0 |
| Powerteam | **1.2** | 0.9 |
| VP&E | **63.8** | 18.2 |
| Inter-group elimination | **(1.4)** | (1.3) |
| **Discontinued operations** | | |
| Release of unrealised profits | **-** | 1.1 |
| | **172.3** | 94.9 |
| **Depreciation and amortisation** | | |
| **Continuing operations** | | |
| NIE | **36.7** | 34.6 |
| Powerteam | **0.7** | 0.7 |
| VP&E | **12.3** | 9.8 |
| Other | **0.7** | 0.5 |
| Inter-group elimination | **(0.2)** | (0.1) |
| **Discontinued operations** | | |
| Release of unrealised profits | **-** | 0.1 |
| | **50.2** | 45.6 |
| **Increase in provisions** | | |
| **Continuing operations** | | |
| NIE | **1.8** | 2.4 |
| Powerteam | **-** | 0.2 |
| Other | **-** | 0.3 |
| | **1.8** | 2.9 |



### (v) Geographical information - continuing operations

The following table provides an analysis of the Group's revenue and assets by geographical segment based on the location of customers for external revenue and the location of assets for segment assets and capital additions.

| | UK 2007 £m | RoI 2007 £m | Total 2007 £m | UK 2006 £m | RoI 2006 £m | Total 2006 £m |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| NIE | **521.7** | **26.7** | **548.4** | 539.9 | 29.6 | 569.5 |
| Powerteam | **8.8** | **13.3** | **22.1** | 5.1 | 17.8 | 22.9 |
| VP&E | **127.2** | **323.2** | **450.4** | 105.9 | 274.3 | 380.2 |
| Other | **1.0** | **-** | **1.0** | 4.2 | - | 4.2 |
| | **658.7** | **363.2** | **1,021.9** | 655.1 | 321.7 | 976.8 |
| **Capital additions** | **112.0** | **60.3** | **172.3** | 81.0 | 13.9 | 94.9 |

| | Total 2007 £m | Total 2006 £m |
|---|---|---|
| **Segment assets** | | |
| UK | **1,025.4** | 950.5 |
| RoI | **282.7** | 250.3 |
| Inter-segment assets | **(3.5)** | (5.1) |
| | **1,304.6** | 1,195.7 |
| Unallocated assets | **82.6** | 148.7 |
| Total assets | **1,387.2** | 1,344.4 |

## 4. Revenue and Operating Costs

An analysis of external revenue is as follows:

| | 2007 Continuing £m | 2007 Discontinued £m | 2007 Total £m | 2006 Continuing £m | 2006 Discontinued £m | 2006 Total £m |
|---|---|---|---|---|---|---|
| Energy business | | | | | | |
| - regulated | **548.4** | **-** | **548.4** | 569.5 | - | 569.5 |
| - unregulated | **450.4** | **-** | **450.4** | 380.2 | - | 380.2 |
| Contracting services | **22.1** | **-** | **22.1** | 22.9 | - | 22.9 |
| Software and IT services | **-** | **-** | **-** | - | 6.7 | 6.7 |
| Other | **1.0** | **-** | **1.0** | 4.2 | - | 4.2 |
| **Revenue** | **1,021.9** | **-** | **1,021.9** | 976.8 | 6.7 | 983.5 |
| Interest receivable | **7.4** | **-** | **7.4** | 10.4 | - | 10.4 |
| | **1,029.3** | **-** | **1,029.3** | 987.2 | 6.7 | 993.9 |

Other revenue includes profit on disposal of property held for resale.

Operating costs are analysed as follows:

| | 2007 Continuing £m | 2007 Discontinued £m | 2007 Total £m | 2006 Continuing £m | 2006 Discontinued £m | 2006 Total £m |
|---|---|---|---|---|---|---|
| Energy costs | **668.7** | **-** | **668.7** | 660.3 | - | 660.3 |
| Employee costs (note 5) | **45.4** | **-** | **45.4** | 41.8 | 2.9 | 44.7 |
| Depreciation and amortisation | **44.2** | **-** | **44.2** | 39.9 | - | 39.9 |
| Other operating charges | **79.6** | **-** | **79.6** | 85.8 | 3.5 | 89.3 |
| | **837.9** | **-** | **837.9** | 827.8 | 6.4 | 834.2 |



Operating costs include:

| | 2007 £m | 2006 £m |
|---|---|---|
| Depreciation charge on property, plant and equipment | **47.7** | 44.0 |
| Associated release of customers' contributions and grants | **(6.0)** | (5.7) |
| | **41.7** | 38.3 |
| Amortisation of intangibles | **2.5** | 1.6 |
| Cost of inventories recognised as an expense | **1.7** | 1.4 |
| Net foreign currency differences | **-** | 2.5 |
| Minimum lease payments due under operating leases: | | |
| Plant and equipment | **2.5** | 2.3 |
| Land and buildings | **0.4** | 0.4 |
| PPAs | **144.8** | 129.5 |
| Profit on disposal of property, plant and equipment | **4.7** | - |

## 4. Revenue and Operating Costs (continued)

**Auditors' remuneration**

| Auditors' remuneration in respect of services to the Group: | **2007 £m** | 2006 £m |
|---|---|---|
| Audit of the financial statements | **0.3** | 0.2 |
| Other fees to auditors | | |
| - IFRS transition | **-** | 0.1 |
| - tax advice | **0.2** | 0.1 |
| | **0.2** | 0.2 |

Auditors' remuneration in respect of audit services to the Company was £95,000 (2006 - £75,000).

In addition, auditors' remuneration for non-audit services (tax and other advice) in respect of the disposal of Sx3 was £0.1m for the year ended 31 March 2006.

## 5. Employees

**Employee costs**

| | **2007** | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Continuing £m** | **Discontinued £m** | **Total £m** | Continuing £m | Discontinued £m | Total £m |
| Salaries | **55.2** | **-** | **55.2** | 51.5 | 2.4 | 53.9 |
| Social security costs | **5.3** | **-** | **5.3** | 5.4 | 0.3 | 5.7 |
| Pension costs | | | | | | |
| - defined contribution plans | **1.0** | **-** | **1.0** | 0.8 | 0.1 | 0.9 |
| - defined benefit plans | **11.1** | **-** | **11.1** | 9.0 | 0.1 | 9.1 |
| Share-based payments | | | | | | |
| - equity-settled | **1.1** | **-** | **1.1** | 1.3 | - | 1.3 |
| | **73.7** | **-** | **73.7** | 68.0 | 2.9 | 70.9 |
| Less: charged to the balance sheet | **(28.3)** | **-** | **(28.3)** | (26.2) | - | (26.2) |
| Charged to the income statement | **45.4** | **-** | **45.4** | 41.8 | 2.9 | 44.7 |

**Employee numbers**

| | **Average during the year** | | **Actual headcount at 31 March** | |
|---|---|---|---|---|
| | **Number 2007** | Number 2006 | **Number 2007** | Number 2006 |
| NIE | **350** | 351 | **349** | 362 |
| Powerteam | **1,029** | 1,044 | **1,054** | 1,021 |
| VP&E | **136** | 106 | **147** | 116 |
| Other | **4** | 4 | **4** | 4 |
| | **1,519** | 1,505 | **1,554** | 1,503 |

## 5. Employees (continued)

**Directors' emoluments**

| | 2007 £m | 2006 £m |
|---|---|---|
| Emoluments in respect of qualifying services | **2.9** | 1.8 |
| Aggregate contributions to defined contribution pension schemes | **0.4** | 0.5 |

Emoluments include compensation payments in respect of the cessation of employee share schemes. No other amounts were paid to the directors in respect of long-term incentive plans.

The remuneration in respect of the highest paid director was as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Emoluments | **1,096** | 775 |
| Total accrued pension at 31 March (per annum) | **173** | 140 |

| | 2007 Number | 2006 Number |
|---|---|---|
| Number of directors who exercised share options | **2** | 2 |
| Number of directors who received shares under long-term incentive schemes | **4** | 3 |
| Members of the defined benefit pension scheme | **3** | 3 |
| Members of the defined contribution scheme | **1** | 1 |

The highest paid director exercised share options under the Sharesave Scheme during the year and also received shares under the Group's long-term incentive schemes.



## 6. Exceptional items

Recognised after arriving at operating profit:

| | Note | 2007 £m | 2006 £m |
|---|---|---|---|
| Costs incurred as a result of acquisition of the Group: | | | |
| Legal and professional fees | (i) | **14.0** | - |
| Accelerated share-based payment charges | (ii) | **0.6** | - |
| Employee share scheme compensation payments | (iii) | **3.8** | - |
| | | **18.4** | - |

(i) Legal and professional fees incurred in respect of the acquisition of the Company by ElectricInvest Acquisitions.
(ii) Accelerated share-based payment charges relate to the early exercise of options and vesting of awards under the employee share schemes on the acquisition of the Company by ElectricInvest Acquisitions.
(iii) Employee share scheme compensation payments relate to the cessation of employee share schemes following the acquisition by ElectricInvest Acquisitions.

## 7. Net Finance Costs

| | 2007 £m | 2006 £m |
|---|---|---|
| **Interest receivable** | | |
| Bank interest | **7.4** | 7.9 |
| Loan note interest | **-** | 0.9 |
| Release of provision held against interest receivable on deferred consideration | **-** | 1.6 |
| | **7.4** | 10.4 |
| **Interest payable** | | |
| Bank loans and overdrafts | **(11.2)** | (10.0) |
| Eurobond | **(12.1)** | (12.1) |
| Loans from parent company | **(2.1)** | - |
| | **(25.4)** | (22.1) |
| Less: charged to balance sheet | **1.9** | 0.4 |
| Total interest charged to the Group Income Statement | **(23.5)** | (21.7) |
| **Interest rate swaps** | **(2.7)** | (4.5) |
| **Other finance costs** | | |
| Unwinding of discount on decommissioning provision | **(0.1)** | (0.1) |
| Other finance charges | **(1.0)** | (1.7) |
| | **(1.1)** | (1.8) |
| **Total finance costs** | **(27.3)** | (28.0) |
| **Net pension scheme interest** | | |
| Expected return on pension scheme assets | **50.7** | 43.6 |
| Interest on pension scheme liabilities | **(46.3)** | (45.3) |
| | **4.4** | (1.7) |
| **Net finance costs** | **(15.5)** | (19.3) |

## 8. Tax Charge

### (i) Analysis of charge in the year

| | 2007 £m | 2006 £m |
|---|---|---|
| **Group Income Statement** | | |
| ***Current tax charge*** | | |
| UK corporation tax at 30% (2006 - 30%) - continuing operations | **21.8** | 32.4 |
| - discontinued operations | **-** | 0.1 |
| Corporation tax overprovided in previous years | **(1.7)** | - |
| Total current tax charge | **20.1** | 32.5 |
| ***Deferred tax charge*** | | |
| Origination and reversal of temporary differences in current year | **23.9** | 4.6 |
| Origination and reversal of temporary differences relating to prior years | **(0.1)** | (0.8) |
| Total deferred tax charge | **23.8** | 3.8 |
| Tax charge reported in the Group Income Statement | **43.9** | 36.3 |

The tax charge in the Group Income Statement is disclosed as follows:

| | 2007 £m | 2006 £m |
|---|---|---|
| Tax charge on continuing operations | **43.9** | 36.2 |
| Tax charge on discontinued operations | **-** | 0.1 |
| | **43.9** | 36.3 |

**Deferred tax relating to items charged/(credited) to equity**

| | 2007 £m | 2006 £m |
|---|---|---|
| Actuarial gains on pension liability | **4.3** | 9.5 |
| Revaluation of cash flow hedges | **(2.4)** | 0.9 |
| Tax charge in the Group Statement of Recognised Income and Expense | **1.9** | 10.4 |



### (ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%). The differences are reconciled below:

| | 2007 £m | 2006 £m |
|---|---|---|
| Profit from continuing operations before tax charge | **150.1** | 129.7 |
| Profit from discontinued operations before tax charge | **-** | 111.0 |
| Accounting profit before tax charge | **150.1** | 240.7 |
| Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2006 - 30%) | **45.0** | 72.2 |
| Profit on disposal of discontinued operations | **-** | (33.2) |
| Lower taxes on overseas earnings | **(1.9)** | (2.2) |
| Tax overprovided in previous years | **(1.8)** | (0.8) |
| Other | **2.6** | 0.3 |
| Tax charge for the year | **43.9** | 36.3 |

## 8. Tax Charge (continued)

### (iii) Temporary differences associated with Group investments

At 31 March 2007, no deferred tax liability (2006 - £nil) is recognised for taxes that would be payable on the undistributed profits of the Group's foreign subsidiaries. The temporary differences associated with the Group's investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to £5.8m (2006 - £4.2m).

There are no tax consequences for the Company attaching to the payment of dividends to shareholders.

### (iv) Deferred tax

The deferred tax liability included in the Group Balance Sheet is as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| ***Deferred tax assets*** | | |
| Pension liability | **8.4** | 30.9 |
| Special pension contribution (2005/06) | **3.7** | 5.6 |
| Provisions | **8.4** | 10.9 |
| Revaluations of derivative financial instruments | **3.0** | 0.6 |
| Tax losses carried forward | **8.5** | 7.8 |
| Other | **-** | 0.2 |
| Deferred tax assets | **32.0** | 56.0 |
| ***Deferred tax liabilities*** | | |
| Accelerated capital allowances | **146.6** | 146.4 |
| Held-over gains on property disposals | **5.2** | 3.7 |
| Deferred tax liabilities | **151.8** | 150.1 |
| **Net deferred tax liability** | **119.8** | 94.1 |



The deferred tax included in the Group Income Statement is as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Accelerated capital allowances | **0.2** | 0.1 |
| Temporary differences in respect of provisions | **2.5** | 1.1 |
| Held-over gains on property disposals | **1.5** | 0.5 |
| Temporary differences in respect of pensions | **20.1** | 2.4 |
| Tax losses carried forward | **(0.7)** | (0.4) |
| Other | **0.2** | 0.1 |
| Deferred tax charge | **23.8** | 3.8 |

**Company**

The deferred tax asset included in the Company Balance Sheet is as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Revaluations of derivative financial instruments | **0.3** | 0.4 |

## 9. Discontinued Operations

Profit for the year from discontinued operations comprises:

| | Note | **2007 £m** | 2006 £m |
|---|---|---|---|
| Profit from Sx3 | (i) | - | 109.1 |
| Release of provision in respect of prior year disposals | (ii) | - | 1.8 |
| Profit for the year from discontinued operations | | - | 110.9 |

### (i) Profit from Sx3

The results of Sx3 for the period until disposal on 25 April 2005 are included as discontinued operations in the Group Income Statement as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Revenue | - | 6.7 |
| Operating costs | - | (6.4) |
| **Operating profit** | - | 0.3 |
| Net finance costs | - | - |
| **Profit before tax charge** | - | 0.3 |
| Current tax charge | - | (0.1) |
| Deferred tax charge | - | - |
| Total tax charge | - | (0.1) |
| **Profit after tax charge** | - | 0.2 |
| **Profit on disposal of Sx3** | - | 108.9 |
| **Profit from Sx3** | - | 109.1 |



The cash flows of Sx3 which have been included in the Group Cash Flow Statement are as follows:

| | **2007 £m** | 2006 £m |
|---|---|---|
| Net cash flows from operating activities | - | 0.5 |
| Net cash flows used in investing activities | - | (0.2) |
| Net cash flows used in financing activities | - | (0.1) |

## 9. Discontinued Operations (continued)

### (i) Profit from Sx3 (continued)

The disposal of Sx3 resulted in a book gain of £108.9m for the year ended 31 March 2006, being the disposal proceeds less the carrying amount of the subsidiary's net assets, attributable goodwill and costs of disposal. The tax effect in the Group Income Statement relating to the profit on disposal was £nil.

| | As at 25 April 2005 £m |
|---|---|
| Disposal proceeds | 155.0 |
| Less net assets sold: | |
| Intangible assets - goodwill | 32.4 |
| Intangible assets - software development costs | 2.7 |
| Property, plant and equipment | 28.2 |
| Deferred tax asset | 2.9 |
| Inventory | 3.2 |
| Trade and other receivables | 33.6 |
| Cash and cash equivalents | 17.2 |
| Trade and other payables | (37.4) |
| Current tax payable | (1.6) |
| Loans | (3.3) |
| Provisions | (0.5) |
| Deferred income - support & maintenance contracts | (28.1) |
| Deferred tax liabilities | (0.7) |
| Pension liability | (6.8) |
| Net assets sold | 41.8 |
| Costs of disposal | 4.3 |
| **Profit on disposal of Sx3** | 108.9 |
| **Net cash inflow arising on disposal** | |
| Cash consideration | 155.0 |
| Cash and cash equivalents disposed of | (17.2) |
| Costs of disposal | (4.3) |
| | 133.5 |



### (ii) Release of provision in respect of prior year disposals

Profit for the year ended 31 March 2006 from discontinued operations includes the release of a provision in respect of deferred consideration from previous disposals which was received during the year ended 31 March 2006.

## 10. Profit for the Financial Year

The profit dealt with in the accounts of the Company is £24.6m (2006 - £163.8m).

## 11. Dividends Paid and Proposed

| | 2007 £m | 2006 £m |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the year** | | |
| *Equity dividends on ordinary shares:* | | |
| Final dividend of 26.61p for the year ended 31 March 2006 (2005 - 25.34p) | **32.6** | 34.0 |
| First interim dividend of 11.00p for the year ended 31 March 2007 (2006 - 10.28p) | **13.5** | 12.6 |
| Second interim dividend of 60.65p for the year ended 31 March 2007 | **75.0** | - |
| Dividends paid | **121.1** | 46.6 |
| **Proposed for approval at AGM** | | |
| *Equity dividends on ordinary shares:* | | |
| Final dividend of 26.61p for the year ended 31 March 2006 | **-** | 32.6 |

## 12. Property, Plant and Equipment

**Group**

| | Infrastructure assets £m | Generation assets £m | Non-operational land and buildings £m | Fixtures and equipment £m | Vehicles and mobile plant £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2005 | 1,182.0 | 174.2 | 13.7 | 50.8 | 7.2 | 1,427.9 |
| Exchange adjustment | - | 2.5 | 0.1 | - | - | 2.6 |
| Additions | 68.5 | 16.5 | 0.5 | 4.1 | 0.1 | 89.7 |
| Disposals | (0.5) | - | - | - | - | (0.5) |
| At 31 March 2006 | 1,250.0 | 193.2 | 14.3 | 54.9 | 7.3 | 1,519.7 |
| Exchange adjustment | - | (5.3) | (0.3) | - | - | (5.6) |
| Additions | 78.4 | 60.2 | 0.7 | 8.2 | 0.2 | 147.7 |
| Disposals | (0.9) | - | - | - | - | (0.9) |
| **At 31 March 2007** | **1,327.5** | **248.1** | **14.7** | **63.1** | **7.5** | **1,660.9** |
| **Depreciation** | | | | | | |
| At 1 April 2005 | 404.8 | 20.1 | 0.7 | 33.7 | 6.9 | 466.2 |
| Exchange adjustment | - | 0.5 | - | - | - | 0.5 |
| Charge for the year | 29.3 | 9.8 | 0.1 | 4.7 | 0.1 | 44.0 |
| Disposals | (0.5) | - | - | - | - | (0.5) |
| At 31 March 2006 | 433.6 | 30.4 | 0.8 | 38.4 | 7.0 | 510.2 |
| Exchange adjustment | - | (0.8) | - | - | - | (0.8) |
| Charge for the year | 31.3 | 11.5 | 0.1 | 4.7 | 0.1 | 47.7 |
| Disposals | (0.4) | - | - | - | - | (0.4) |
| **At 31 March 2007** | **464.5** | **41.1** | **0.9** | **43.1** | **7.1** | **556.7** |
| **Net book value** | | | | | | |
| At 31 March 2005 | 777.2 | 154.1 | 13.0 | 17.1 | 0.3 | 961.7 |
| At 31 March 2006 | 816.4 | 162.8 | 13.5 | 16.5 | 0.3 | 1,009.5 |
| **At 31 March 2007** | **863.0** | **207.0** | **13.8** | **20.0** | **0.4** | **1,104.2** |

Included in infrastructure assets are amounts in respect of assets under construction amounting to £42.3m (2006 - £36.8m) and capitalised interest of £4.5m (2006 - £4.4m).

Included in generation assets are amounts in respect of assets under construction amounting to £74.2m (2006 - £18.8m) and capitalised interest of £13.1m (2006 - £11.8m).

## 13. Intangible Assets

**Group**

| | Computer software £m | Goodwill £m | Other £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2005 | 17.1 | 2.0 | - | 19.1 |
| Additions acquired externally | 4.6 | - | 0.6 | 5.2 |
| Disposals | - | - | (0.2) | (0.2) |
| At 31 March 2006 | 21.7 | 2.0 | 0.4 | 24.1 |
| Additions acquired externally | 24.0 | - | 0.6 | 24.6 |
| Disposals | - | | (0.6) | (0.6) |
| **At 31 March 2007** | **45.7** | **2.0** | **0.4** | **48.1** |
| **Amortisation/impairment** | | | | |
| At 1 April 2005 | 7.0 | 0.6 | - | 7.6 |
| Amortisation charge for the year | 1.6 | - | - | 1.6 |
| At 31 March 2006 | 8.6 | 0.6 | - | 9.2 |
| Amortisation charge for the year | 2.5 | - | - | 2.5 |
| **At 31 March 2007** | **11.1** | **0.6** | **-** | **11.7** |
| **Net book value** | | | | |
| At 31 March 2005 | 10.1 | 1.4 | - | 11.5 |
| At 31 March 2006 | 13.1 | 1.4 | 0.4 | 14.9 |
| **At 31 March 2007** | **34.6** | **1.4** | **0.4** | **36.4** |



Included in computer software are amounts in respect of assets under construction amounting to £15.9m (2006 - £9.8m) and capitalised interest of £0.3m (2006 - £nil).

**Impairment testing**

Goodwill arising on acquisitions has been capitalised and is reviewed for impairment annually. For the purposes of impairment testing the carrying value of the Group's goodwill relates to one cash generating unit (Huntstown 1).

The recoverable amount in respect of Huntstown 1 goodwill (£1.4m at 31 March 2007) is based on its value in use, which has been determined using discounted future cash flows. The cash flow projections cover a 26 year period, being the estimated remaining useful life of Huntstown 1. The key assumptions relate to Huntstown 1 plant performance and wholesale electricity prices. The plant performance assumptions regarding availability and efficiency take into account the plant's long-term maintenance plan and normal plant degradation. The wholesale electricity price forecasts are derived from management's expectations regarding the SEM, electricity demand growth, generation plant additions and retirements, fuel and $CO_2$ costs, financing costs and other plant running costs. The projections are based on business plans for a period of 5 years which have been reviewed by the Board and management forecasts thereafter. The assumptions regarding electricity demand growth are based on Eirgrid published forecasts. The cash flows were discounted using a pre tax nominal discount rate of 10% (2006 - 10%).

## 14. Investments

**Company - Investment in subsidiaries**

| | £m |
|---|---|
| **Cost** | |
| **At 1 April 2006 and 31 March 2007** | **697.0** |

Details of the principal investments in which the Group or Company (unless indicated) held 20% or more of the nominal value of any class of share capital during the year are as follows:

| Subsidiary undertakings | Holding | Proportion held of voting rights and shares | | Nature of business |
|---|---|---|---|---|
| **NIE** | | | | |
| Northern Ireland Electricity plc | Ordinary shares and Preference shares | 100% | | Power procurement, transmission, distribution and supply of electricity |
| SONI Ltd | Ordinary shares | 100% | * | Transmission system operator |
| **Powerteam** | | | | |
| NIE Powerteam Ltd | Ordinary shares | 100% | * | Infrastructure contracting |
| Powerteam Electrical Services (UK) Ltd | Ordinary shares | 100% | * | Infrastructure contracting |
| Powerteam Electrical Services Ltd | Ordinary shares | 100% | * | Infrastructure contracting |
| **VP&E** | | | | |
| Viridian Power and Energy Ltd | Ordinary shares | 100% | | Holding company |
| Power and Energy Holdings Ltd | Ordinary shares | 100% | * | Holding company |
| Huntstown Power Company Ltd | Ordinary shares | 100% | * | Electricity generation |
| GenSys Power Ltd | Ordinary shares | 100% | * | Operating and maintenance services |
| Viridian Power Ltd | Ordinary shares | 100% | * | Generation development |
| Viridian Energy Supply Ltd (trading as Energia) | Ordinary shares | 100% | * | Energy supply |
| Viridian Energy Ltd (trading as Energia) | Ordinary shares | 100% | * | Energy supply |
| **Other** | | | | |
| Viridian Capital Ltd | Ordinary shares | 100% | | Holding company |
| Viridian Enterprises Ltd | Ordinary shares | 100% | * | Holding company |
| Viridian Properties Ltd | Ordinary shares | 100% | * | Property |
| Viridian Insurance Ltd | Ordinary shares | 100% | * | Insurance |



* held by a subsidiary undertaking.

All the above companies are incorporated in Northern Ireland with the exception of:
- Viridian Insurance Ltd incorporated in the Isle of Man; and
- Powerteam Electrical Services Ltd, Power and Energy Holdings Ltd, Huntstown Power Company Ltd, GenSys Power Ltd, Viridian Power Ltd and Viridian Energy Ltd incorporated in the RoI.

## 15. Other Financial Assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| **Non-current** | | | | |
| Financial assets | **0.4** | 0.3 | **-** | - |
| Other loans | **0.5** | 0.7 | **-** | - |
| | **0.9** | 1.0 | **-** | - |
| **Current** | | | | |
| Intra-group loans | **-** | - | **233.9** | 84.4 |
| Other loans | **0.1** | 0.1 | **-** | - |
| | **0.1** | 0.1 | **233.9** | 84.4 |

The directors consider that the carrying amount of financial assets equates to fair value.

## 16. Inventories

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| Materials and consumables | **5.7** | 4.9 |
| Work-in-progress | **3.6** | 2.7 |
| | **9.3** | 7.6 |

## 17. Trade and Other Receivables



| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Trade receivables (including unbilled consumption) | **141.6** | 142.2 | **-** | - |
| Amounts recoverable on service contracts | **2.8** | 2.7 | **-** | - |
| Other receivables | **1.3** | 0.3 | **-** | - |
| Amounts owed by subsidiaries | **-** | - | **-** | 1.7 |
| Prepayments and accrued income | **6.5** | 7.5 | **0.3** | 0.6 |
| | **152.2** | 152.7 | **0.3** | 2.3 |

Trade receivables are stated net of a provision of £8.8m (2006 - £7.4m) for estimated irrecoverable amounts based on past default experience:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| At 1 April | **7.4** | 7.3 |
| Increase in provision | **4.0** | 2.6 |
| Bad debts written off | **(2.6)** | (2.5) |
| **At 31 March** | **8.8** | 7.4 |

The above provision includes £8.2m (2006 - £6.0m) in respect of individual balances impaired based on the age of debt and past default experience.

## 17. Trade and Other Receivables (continued)

The following shows an aged analysis of the Group's trade receivables:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| **Within credit terms** | | |
| Current | **126.5** | 126.2 |
| **Past due** | | |
| 30 - 60 days | **7.3** | 5.7 |
| 60 - 90 days | **2.7** | 2.7 |
| + 90 days | **5.1** | 7.6 |
| | **141.6** | 142.2 |

The directors consider that the carrying amount of trade and other receivables approximates to fair value.

## 18. Cash and Cash Equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Cash at bank and in hand | **3.2** | 4.2 | **-** | - |
| Short-term bank deposits | **74.1** | 138.6 | **34.3** | 85.7 |
| Short-term managed funds | **4.3** | 4.8 | **-** | - |
| | **81.6** | 147.6 | **34.3** | 85.7 |



Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits and short-term managed funds are invested for periods of between one day and three months depending on the cash requirements of the Group, and earn interest at the short-term deposit rates. The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

Euro-dominated balances within Group cash and cash equivalents amount to £34.0m (2006 - £15.3m); the remainder is denominated in Sterling.

For the purposes of the Cash Flow Statements, cash and cash equivalents comprise the following at 31 March:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Cash at bank and in hand | **3.2** | 4.2 | **-** | - |
| Short-term bank deposits | **74.1** | 138.6 | **34.3** | 85.7 |
| Short-term managed funds | **4.3** | 4.8 | **-** | - |
| | **81.6** | 147.6 | **34.3** | 85.7 |

## 19. Trade and Other Payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Trade payables | **74.0** | 78.5 | **-** | - |
| Other payables | **8.3** | 7.9 | **1.1** | - |
| Payments received on account | **30.7** | 23.7 | **-** | - |
| Amounts owed to subsidiaries | **-** | - | **0.2** | 0.8 |
| Tax and social security | **4.0** | 5.9 | **-** | - |
| Accruals | **82.6** | 64.6 | **1.1** | 1.3 |
| | **199.6** | 180.6 | **2.4** | 2.1 |

The directors consider that the carrying amount of trade and other payables equates to fair value.

## 20. Other Financial Liabilities

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2007** | 2006 | **2007** | 2006 |
| | | **£m** | £m | **£m** | £m |
| **Current** | | | | | |
| Interest payable on Eurobond | | **6.4** | 6.4 | **-** | - |
| Interest payable on EIB loan | | **0.4** | 0.3 | **-** | - |
| Interest payable on revolving credit facility | | **-** | 0.1 | **-** | - |
| Huntstown bank loan | | **-** | 6.0 | **-** | - |
| Intra-group loans | | **-** | - | **147.5** | 148.6 |
| Loan facility from parent company | | **210.7** | - | **210.7** | - |
| Redeemable B shares | 29 | **-** | 0.8 | **-** | 0.8 |
| | | **217.5** | 13.6 | **358.2** | 149.4 |
| **Non-current** | | | | | |
| Eurobond | | **173.1** | 173.0 | **-** | - |
| EIB loan | | **100.0** | 100.0 | **-** | - |
| Huntstown bank loan | | **-** | 113.9 | **-** | - |
| Revolving credit facility | | **-** | 57.1 | **-** | 57.1 |
| | | **273.1** | 444.0 | **-** | 57.1 |



Loans and other borrowings outstanding are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| In one year or less or on demand | **217.5** | 13.6 | **358.2** | 149.4 |
| In more than one year but not more than two years | **-** | 6.5 | **-** | - |
| In more than two years but not more than five years | **100.0** | 180.0 | **-** | 57.1 |
| In more than five years | **173.1** | 257.5 | **-** | - |
| | **490.6** | 457.6 | **358.2** | 206.5 |

## 20. Other Financial Liabilities (continued)

The principal features of the Group's borrowings are as follows:

- the Eurobond is repayable in 2018 and carries a fixed interest rate of 6.875%;
- the £100m EIB loan is repayable in 2009 and carries a floating interest rate based on LIBOR. The weighted average interest rate during the year was 4.80% (2006 - 4.59%);
- the loan facility with the parent company is repayable on demand; £119.1m (€175.4m) of the loan carries interest fixed at 6.18% through interest rate swaps and the balance carries a floating interest rate based on LIBOR and EURIBOR. The weighted average interest rate during the year was 5.66%.

With the exception of the Eurobond which had a fair value at 31 March 2007 of £186.7m (2006 - £199.3m) based on current market prices, the directors consider that the carrying amount of loans and other borrowings equates to fair value.

The principal and accrued interest in respect of the Huntstown bank loan, which was secured over the assets of Huntstown 1, was repaid on 22 December 2006. Interest was fixed at 6.43% through interest rate swaps.

The principal and accrued interest in respect of the revolving credit facility was repaid on 29 January 2007. The weighted average interest for the period until the date of repayment was 3.48% (2006 - 3.25%).

## 21. Derivative Financial Instruments

| | Foreign exchange contracts £m | Commodity swaps £m | Interest rate swaps £m | Total £m |
|---|---|---|---|---|
| **2007** | | | | |
| **Group** | | | | |
| Non-current assets | - | **0.5** | **-** | **0.5** |
| Current assets | **0.1** | **1.9** | **-** | **2.0** |
| Current liabilities | **(0.2)** | **(16.8)** | **(1.5)** | **(18.5)** |
| Non-current liabilities | **-** | **(0.1)** | **(6.6)** | **(6.7)** |
| **At 31 March 2007** | **(0.1)** | **(14.5)** | **(8.1)** | **(22.7)** |
| **Company** | | | | |
| Current liabilities | **-** | **-** | **(0.2)** | **0.2** |
| Non-current liabilities | **-** | **-** | **(0.7)** | **0.7** |
| **At 31 March 2007** | **-** | **-** | **(0.9)** | **0.9** |
| **2006** | | | | |
| **Group** | | | | |
| Current assets | 1.5 | 9.5 | - | 11.0 |
| Current liabilities | (0.3) | (0.5) | (2.9) | (3.7) |
| Non-current liabilities | - | - | (9.9) | (9.9) |
| At 31 March 2006 | 1.2 | 9.0 | (12.8) | (2.6) |
| **Company** | | | | |
| Current liabilities | - | - | (0.3) | (0.3) |
| Non-current liabilities | - | - | (1.0) | (1.0) |
| At 31 March 2006 | - | - | (1.3) | (1.3) |

The Group's objectives, policies and strategies in respect of derivative financial instruments are described in the Financial Review.

## 21. Derivative Financial Instruments (continued)

**Foreign exchange contracts - cash flow hedges**

The Group has entered into foreign exchange contracts in respect of a proportion of the forecast Sterling costs of its Euro-denominated RoI subsidiaries for the year ending 31 March 2008. The timing and amount of these foreign exchange contracts match the forecast requirements and the contracts are considered effective hedges. At 31 March 2007 the fair value of foreign exchange contracts was a liability of £0.1m (2006 - asset of £1.2m). At 31 March 2007 an unrealised loss of £0.1m (2006 - £0.9m gain), net of deferred tax of £nil (2006 - £0.1m), relating to foreign exchange contracts is included in equity. During the year, realised gains of £3.4m (2006 - £2.5m gains) were removed from equity and are primarily included within energy costs in the Group Income Statement in respect of completed hedges.

During the year no gains or losses (2006 - £0.2m gains) were realised in respect of foreign exchange contracts for which hedge accounting was discontinued due to the hedge designation being revoked. No gains or losses (2006 - £0.2m losses) were realised in respect of foreign exchange contracts that did not qualify for hedge accounting.

The fair value of foreign exchange contracts has been calculated by applying the forward price derived from third party market price quotations.

**Commodity swaps - cash flow hedges**

The Group has entered into commodity swap contracts in respect of a proportion of its forecast gas purchases up to 31 March 2009. The timing and amount of the swap contracts match the forecast requirements and the contracts are considered effective hedges. At 31 March 2007 the fair value of commodity swap contracts was a liability of £14.5m (2006 - asset of £9.0m). At 31 March 2007 an unrealised loss of £12.7m (2006 - £7.9m gain), net of deferred tax of £1.8m (2006 - £1.1m), relating to swap contracts is included in equity. During the year, realised losses of £21.6m (2006 - £16.3m gain) were removed from equity and are included within energy costs in the Group Income Statement in respect of completed hedges.

During the year profits of £0.2m (2006 - losses of £1.8m) were realised in respect of commodity swaps for which hedge accounting was discontinued due to the hedge designation being revoked. Losses of £0.2m (2006 - gains of £1.8m) were made in respect of commodity swaps that did not qualify for hedge accounting.

The fair value of commodity contracts has been calculated by applying the forward price derived from third party market price quotations.

**Interest rate swaps - cash flow hedges**

The Group has entered into interest rate swap contracts whereby it pays a fixed rate of interest and receives a variable rate of interest on the outstanding principal of certain Euro-denominated borrowings. The terms of the swap contracts match the forecasted interest payment profile and the contracts are considered effective hedges. At 31 March 2007 the fair value of interest rate swaps was a liability of £8.1m (2006 - £12.8m liability). At 31 March 2007 an unrealised loss of £6.9m (2006 - £11.0m loss), net of deferred tax of £1.2m (2006 - £1.8m), relating to swap contracts is included in equity. During the year, realised losses of £2.7m (2006 - £4.5m losses) were removed from equity and are included within finance costs in the Group Income Statement in respect of completed hedges.

The fair value of interest rate swaps has been valued by calculating the present value of future cash flows, estimated using forward rates from third party market price quotations.

## 22. Sensitivity Analysis - Financial Instruments

At 31 March 2007, the Group is exposed to future changes in the fair value of unsettled derivative financial instruments. The sensitivity analysis for each type of market risk showing the impact on equity is set out below. These sensitivities are based on an assessment of market rate movements during the year and each is considered to be a reasonably possible range. Except for interest rate risk there is no impact on the Group Income Statement.

The impact on the fair value of foreign exchange contracts is calculated by increasing/decreasing by 2% the effective Sterling:Euro (£:€) exchange rates of third party price quotations.

The impact on the fair value of commodity swaps is calculated by increasing/decreasing by 10p per therm the effective commodity prices of third party gas price quotations.

The impact on the fair value of interest rate swaps is calculated by increasing/decreasing by 1% the Euro interest rates of third party price quotations.

| | Credit/(charge) | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| **Foreign exchange contracts** | | |
| 2% increase in £:€ exchange rate | **0.9** | 1.2 |
| 2% decrease in £:€ exchange rate | **(0.9)** | (1.2) |
| **Commodity swaps** | | |
| 10 pence increase in gas price per therm | **18.6** | 10.0 |
| 10 pence decrease in gas price per therm | **(18.6)** | (10.0) |
| **Interest rate swaps** | | |
| 1% increase in Euro interest rates | **5.6** | 7.0 |
| 1% decrease in Euro interest rates | **(6.1)** | (7.6) |

A 1% increase/(decrease) in effective interest rates would increase/(decrease) the interest charged to the Group Income Statement by £3.2m (2006 - £2.7m).

As at 31 March 2007, the Group had net Euro-denominated financial liabilities of £1.5m (2006 - £2.9m) where the functional currency is Sterling, in respect of which a 2% movement in the £:€ exchange rate would have an insignificant impact.

As at 31 March 2007, the Group had Euro-denominated net assets of £14.4m (2006 - £23.4m). A 2% increase/decrease in the Sterling:Euro exchange rates would decrease/increase the Group's net assets by £0.3m.

## 23. Reconciliation of Operating Profit to Net Cash Flows from Operating Activities

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| **Cash flows from operating activities** | | | | |
| Operating profit: | | | | |
| Continuing operations | **184.0** | 149.0 | **39.3** | 164.0 |
| Discontinued operations | **-** | 0.3 | **-** | - |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | **47.7** | 44.0 | **-** | - |
| Amortisation of intangible assets | **2.5** | 1.6 | **-** | - |
| Amortisation of customers' contributions and grants | **(6.0)** | (5.7) | **-** | - |
| Profit on disposal of property, plant and equipment | **(4.7)** | - | **-** | - |
| Share-based payments | **0.7** | 0.1 | **-** | - |
| Exceptional costs incurred as a result of acquisition of the Group | **(17.0)** | - | **(14.0)** | - |
| Defined benefit pension charge less contributions paid | **(56.2)** | (29.0) | **-** | - |
| Net movement in provisions | **(10.3)** | (4.4) | **-** | - |
| Preference dividend income from subsidiaries | **-** | - | **(3.2)** | - |
| Equity dividend income from subsidiaries | **-** | - | **(36.8)** | (164.0) |
| Operating cash flows before movement in working capital | **140.7** | 155.9 | **(14.7)** | - |
| Decrease/(increase) in working capital | **1.9** | 9.3 | **2.0** | (0.1) |
| Cash generated from/(used in) operations | **142.6** | 165.2 | **(12.7)** | (0.1) |

## 24. Net Debt

| | Group 2007 £m | 2006 £m |
|---|---|---|
| Cash and cash equivalents | **81.6** | 147.6 |
| Debt due before 1 year: | | |
| Interest payable on Eurobond | **(6.4)** | (6.4) |
| Bank loans | **(0.4)** | (6.4) |
| Loan from parent company | **(210.7)** | - |
| Redeemable B shares | **-** | (0.8) |
| | **(217.5)** | (13.6) |
| Debt due after 1 year: | | |
| Eurobond | **(173.1)** | (173.0) |
| Bank loans | **(100.0)** | (271.0) |
| | **(273.1)** | (444.0) |
| **Total net debt** | **(409.0)** | (310.0) |

**Reconciliation of net cash flow to movement in net debt**

| | 2007 £m | 2006 £m |
|---|---|---|
| (Decrease)/increase in cash and cash equivalents | **(65.9)** | 61.4 |
| Proceeds from borrowings | **(278.1)** | (24.4) |
| Repayment of borrowings | **239.8** | 19.9 |
| Payments in respect of Redeemable B shares | **0.8** | 97.1 |
| Expenses associated with return of capital | **-** | 0.2 |
| (Increase)/decrease in net debt resulting from cash flows | **(103.4)** | 154.2 |
| Loan disposed of with discontinued operations | **-** | 3.3 |
| Issue of Redeemable B shares (including expenses) | **-** | (98.1) |
| Increase in interest accruals | **(0.4)** | - |
| Translation difference | **4.8** | (2.7) |
| **(Increase)/decrease in net debt in year** | **(99.0)** | 56.7 |
| **Net debt at beginning of year** | **(310.0)** | (366.7) |
| **Net debt at end of year** | **(409.0)** | (310.0) |

## 25. Provisions

| Group | Reorganisation and restructuring £m | Liability and damage claims £m | Provision for former associate £m | Decommissioning £m | Environment £m | Total £m |
|---|---|---|---|---|---|---|
| **Current** | 3.1 | 0.9 | 0.4 | - | 11.8 | 16.2 |
| **Non-current** | - | 7.2 | - | 2.2 | 13.1 | 22.5 |
| **Total at 1 April 2006** | **3.1** | **8.1** | **0.4** | **2.2** | **24.9** | **38.7** |
| Applied in the year | (2.6) | (0.3) | (0.1) | - | (8.6) | (11.6) |
| Released to income statement | (0.3) | (0.2) | - | - | - | (0.5) |
| Increase in provisions | - | 0.1 | - | - | 1.7 | 1.8 |
| Unwinding of discount | - | - | - | 0.1 | 0.7 | 0.8 |
| **Current** | 0.2 | 0.9 | 0.3 | - | 8.6 | 10.0 |
| **Non-current** | - | 6.8 | - | 2.3 | 10.1 | 19.2 |
| **Total at 31 March 2007** | **0.2** | **7.7** | **0.3** | **2.3** | **18.7** | **29.2** |



**Reorganisation and restructuring**
Reorganisation and restructuring provisions relate to amounts expected to be paid to VGPS in accordance with voluntary severance arrangements. These provisions are expected to be utilised within the next year.

**Liability and damage claims**
Notwithstanding the intention of the directors to defend vigorously claims made against the Group, liability and damage claim provisions have been made which represent the directors' best estimate of costs expected to arise from ongoing third party litigation matters and employee claims. These provisions are expected to be utilised within a period not exceeding five years.

**Provision for former associate (Lislyn Limited)**
Provision has been made for obligations expected to arise in respect of those members of Lislyn's defined benefit pension scheme who were employees of NIE at privatisation. The provision is expected to be utilised within the next year.

**Decommissioning**
Provision has been made for decommissioning Huntstown 1. The provision represents the present value of the current estimated costs of closure of the plant at the end of its useful economic life. The provision has been discounted using a rate of 4.43% (2006 - 4.46%) and is expected to be utilised within a period not exceeding thirty years.

**Environment**
Provision has been made for expected costs of decontamination and demolition arising from obligations in respect of power station sites formerly owned by NIE. It is anticipated that most expenditure will take place within the next five years.

## 26. Deferred Income

**Group**

| | Grants £m | Customers' contributions £m | Total £m |
|---|---|---|---|
| **Current** | 0.7 | 5.9 | 6.6 |
| **Non-current** | 10.7 | 141.1 | 151.8 |
| **Total at 1 April 2005** | **11.4** | **147.0** | **158.4** |
| Receivable | - | 17.1 | 17.1 |
| Released to income statement | (0.5) | (5.2) | (5.7) |
| **Current** | 0.5 | 5.1 | 5.6 |
| **Non-current** | 10.4 | 153.8 | 164.2 |
| **Total at 31 March 2006** | **10.9** | **158.9** | **169.8** |
| Receivable | 0.2 | 21.8 | 22.0 |
| Released to income statement | (0.5) | (5.5) | (6.0) |
| **Current** | 0.5 | 5.5 | 6.0 |
| **Non-current** | 10.1 | 169.7 | 179.8 |
| **Total at 31 March 2007** | **10.6** | **175.2** | **185.8** |



## 27. Lease Obligations

**Property, plant and equipment**

The Group has entered into leases on certain items of property, plant and equipment. These leases contain options for renewal before the expiry of the lease term at rentals based on market prices at the time of renewal.

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

| | **2007 £m** | 2006 £m |
|---|---|---|
| Within one year | **1.0** | 1.4 |
| After one year but not more than five years | **4.2** | 2.8 |
| More than five years | **3.5** | 2.5 |
| | **8.7** | 6.7 |

**PPAs**

NIE has entered into PPAs with generating companies in Northern Ireland to make payments for the availability of generating capacity as well as for the purchase of electricity generated. The principal contracts are with Premier Power Ltd (Ballylumford), AES Kilroot Power Ltd (Kilroot) and ESB Independent Energy Limited (Coolkeeragh). The main Ballylumford contracts expire in 2012 but NIE has options to extend up to 2022. Payment terms for these extension periods are pre-defined in the contracts. The Kilroot contracts expire in 2024 but NIAUR has early contract cancellation rights that can be exercised from November 2010. The Coolkeeragh contracts expire in 2020 but again NIAUR has early contract cancellation rights that can be exercised from November 2010.

## 27. Lease Obligations (continued)

Under IFRIC 4 Determining Whether an Arrangement Contains a Lease, the PPAs are deemed to contain lease arrangements. Under IAS 17 Leases, these lease arrangements are classified as operating leases and the availability payments are classified as operating lease rentals. The availability payments are dependent on the availability of the generators and are therefore variable in nature. The estimated future minimum lease payments are as follows:

| | 2007 £m | 2006 £m |
|---|---|---|
| Within one year | **168.9** | 136.0 |
| After one year but not more than five years | **649.0** | 665.4 |
| More than five years | **1,168.9** | 1,321.4 |
| | **1,986.8** | 2,122.8 |

As a result of changes in environmental legislation, FGD equipment is being installed at the Kilroot plant. Under the terms of the PPA, Kilroot will be entitled to increase its availability charges to recover the cost of installation, including financing, when the equipment is commissioned. The amounts disclosed in the table above include estimates in respect of this cost.

## 28. Commitments and Contingent Liabilities

### (i) Capital commitments

At 31 March 2007 the Group had contracted future capital expenditure in respect of property, plant and equipment of £68.4m (2006 - £122.9m).



### (ii) Contingent liabilities

**Contract buy-out agreement**
In December 2000 a number of the PPA contracts at Ballylumford were renegotiated. As part of these arrangements a contract buy-out (CBO) agreement was entered into to make payments to fund a buy-out of the profit element under the original agreements at Ballylumford. The CBO agreement has provisions under which a termination amount becomes payable in certain circumstances. The size of the payment depends on the termination date. NIE does not anticipate that any liability will arise and no provision has been made.

**Protected persons**
The Group has contingent liabilities in respect of obligations under the Electricity (Protected Persons) Pensions Regulations (Northern Ireland) 1992 to protect the pension rights of employees of NIE at privatisation. This includes members employed in companies which have subsequently been disposed of by the Group. The Group does not anticipate that any liability will arise other than that recognised in the accounts.

**Power station sites**
NIE leases sites to power stations in Northern Ireland. Under the terms of the lease agreements NIE may be required to pay compensation if a lease is terminated. Since the extent of the compensation will depend on the circumstances which give rise to the termination, it is not possible to identify the magnitude of any potential liability. NIE does not anticipate that any liability for compensation will arise and no provision has been made.

**PPAs**
Under the terms of the PPAs, where modifications to generating equipment are necessary as a result of a change in law and a generator is unable to procure the necessary financing, NIE must either provide such finance or pay the costs incurred by the generator in carrying out such modifications. The costs incurred by NIE in meeting these obligations are recoverable under its Licence, but will require to be financed by NIE until such recovery is achieved. NIE does not anticipate any liability for modifications which require financing and no provision has been made.

## 29. Share Capital

| Authorised | **2007 £** | 2006 £ |
|---|---|---|
| 194,400,000 ordinary shares of $27^{7}/_{9}$p each (2006 - 194,400,000 ordinary shares of $27^{7}/_{9}$p each) | **54,000,000** | 54,000,000 |
| 136,000,000 Redeemable non-cumulative non-voting shares of 73p each (Redeemable B shares) | **99,280,000** | 99,280,000 |
| | **153,280,000** | 153,280,000 |

| Allotted and fully paid | Ordinary shares Number | Ordinary shares £ | Redeemable B shares Number | Redeemable B shares £ |
|---|---|---|---|---|
| At 1 April 2005 | 133,755,106 | 33,438,776 | - | - |
| Shares allotted during the year under employee share schemes | 387,674 | 96,919 | - | - |
| Share capital cancelled | (134,142,780) | (33,535,695) | - | - |
| Share capital issued on 15 August 2005 | 120,728,502 | 33,535,722 | - | - |
| Shares allotted during the period under employee share schemes | 1,736,985 | 482,496 | - | - |
| Redeemable B shares issued | | - | 134,142,780 | 97,924,229 |
| Redeemable B shares redeemed | - | - | (132,971,916) | (97,069,498) |
| At 1 April 2006 | 122,465,487 | 34,018,218 | 1,170,864 | 854,731 |
| Shares allotted during the period to 6 December 2006 under employee share schemes | 1,190,516 | 330,699 | - | - |
| Redeemable B shares redeemed | - | - | (1,170,864) | (854,731) |
| Share capital on 6 December 2006 | 123,656,003 | 34,348,917 | - | - |
| Share capital cancelled on 8 December 2006 | (118,982,972) | (33,050,852) | - | - |
| Share capital issued on 8 December 2006 | 118,982,972 | 33,050,852 | - | - |
| Shares allotted during the period from 8 December 2006 to 31 March 2007 under the Sharesave scheme | 1,051 | 292 | - | - |
| **At 31 March 2007** | **123,657,054** | **34,349,209** | **-** | **-** |

On 6 April 2006 the remaining Redeemable B shares were redeemed at par.

On the Scheme of Arrangement becoming effective on 8 December 2006, the share capital was reduced by the cancellation of shares in consideration for which ElectricInvest Acquisitions paid shareholders £13.25 per share. The authorised share capital was increased to its former amount by the creation of the same number of new ordinary shares, allotted and issued to ElectricInvest Acquisitions. The remaining issued share capital was transferred to ElectricInvest Acquisitions in consideration for the allotment and issue of unsecured loan notes in ElectricInvest Acquisitions to shareholders who validly elected for the loan note alternative.

During the year, options in respect of employee share schemes were exercised for a total consideration of £5.3m (2006 - £9.5m).

## 30. Reconciliation of Movements in Equity

**Group**

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Capital contribution reserve £m | Hedge reserve £m | Foreign currency translation reserve £m | Accumulated profits £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 April 2005** | **33.4** | **13.2** | **-** | **-** | **(9.4)** | **0.2** | **116.3** | **153.7** |
| Total recognised income and expense for the year | - | - | - | - | 7.2 | 0.6 | 226.5 | 234.3 |
| Other items charged to reserves | - | - | - | - | - | - | (1.1) | (1.1) |
| Issue of Redeemable B shares | - | (13.0) | - | - | - | - | (84.9) | (97.9) |
| Expenses associated with return of capital | - | - | - | - | - | - | (0.2) | (0.2) |
| Payments in respect of Redeemable B shares | - | - | 97.1 | - | - | - | (97.1) | - |
| Proceeds from exercise of share options | 0.6 | 8.9 | - | - | - | - | - | 9.5 |
| Share-based payments | - | - | - | - | - | - | 0.8 | 0.8 |
| Equity dividends | - | - | - | - | - | - | (46.6) | (46.6) |
| **At 1 April 2006** | **34.0** | **9.1** | **97.1** | **-** | **(2.2)** | **0.8** | **113.7** | **252.5** |
| Total recognised income and expense for the year | - | - | - | - | (17.5) | (0.5) | 116.2 | 98.2 |
| Other items charged to reserves | - | - | - | - | - | - | (0.7) | (0.7) |
| Payments in respect of Redeemable B shares | - | - | 0.8 | - | - | - | (0.8) | - |
| Proceeds from exercise of share options | 0.3 | 5.0 | - | - | - | - | - | 5.3 |
| Share-based payments | - | - | - | - | - | - | 1.4 | 1.4 |
| Capital contribution received | - | - | - | 36.5 | - | - | - | 36.5 |
| Transfer capital contribution | - | - | - | (36.5) | - | - | 36.5 | - |
| Equity dividends | - | - | - | - | - | - | (121.1) | (121.1) |
| **At 31 March 2007** | **34.3** | **14.1** | **97.9** | **-** | **(19.7)** | **0.3** | **145.2** | **272.1** |

## 30. Reconciliation of Movements in Equity (continued)

**Company**

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Capital contribution reserve £m | Hedge reserve £m | Merger reserve £m | Accumulated profits £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 April 2005** | **33.4** | **13.2** | **-** | **-** | **(0.6)** | **442.9** | **139.7** | **628.6** |
| Total recognised income and expense for the year | - | - | - | - | (0.3) | - | 163.8 | 163.5 |
| Issue of Redeemable B shares | - | (13.0) | - | - | - | (84.9) | - | (97.9) |
| Expenses associated with return of capital | - | - | - | - | - | - | (0.2) | (0.2) |
| Payments in respect of Redeemable B shares | - | - | 97.1 | - | - | - | (97.1) | - |
| Proceeds from exercise of share options | 0.6 | 8.9 | - | - | - | - | - | 9.5 |
| Equity dividends | - | - | - | - | - | - | (46.6) | (46.6) |
| **At 1 April 2006** | **34.0** | **9.1** | **97.1** | **-** | **(0.9)** | **358.0** | **159.6** | **656.9** |
| Total recognised income and expense for the year | - | - | - | - | 0.4 | - | 24.6 | 25.0 |
| Payments in respect of Redeemable B shares | - | - | 0.8 | - | - | - | (0.8) | - |
| Proceeds from exercise of share options | 0.3 | 5.0 | - | - | - | - | - | 5.3 |
| Capital contribution received | - | - | - | 36.5 | - | - | - | 36.5 |
| Transfer capital contribution | - | - | - | (36.5) | - | - | 36.5 | - |
| Equity dividends | - | - | - | - | - | - | (121.1) | (121.1) |
| **At 31 March 2007** | **34.3** | **14.1** | **97.9** | **-** | **(0.5)** | **358.0** | **98.8** | **602.6** |



The balance classified as share capital comprises the nominal value of the Company's share capital, consisting of $27\frac{7}{9}$p ordinary shares (2006 - $27\frac{7}{9}$p ordinary shares).

The balance classified as share premium records the total net proceeds on the issue of the Company's equity share capital less the nominal value of the share capital.

The balance classified as capital redemption reserve arises from the legal requirement to maintain the capital of the Company following the return of that amount of capital to shareholders during the year.

The balance classified as hedge reserve records the gain or loss on cash flow hedges determined to be effective hedges.

The balance classified as foreign currency translation reserve records the exchange difference arising from the retranslation of the accounts of foreign subsidiaries.

The balance classified as merger reserve relates to the capital reorganisation under which the Company acquired NIE in 1998.

## 31. Share-Based Payments

Prior to its acquisition in December 2006, the Company operated a number of equity-settled employee share schemes. These schemes ceased to operate following the acquisition.

### (i) Share-based payments expense

The share-based payment expense recognised for share-based payments in respect of employee services received during the year was £1.7m (2006 - £1.3m) of which £0.6m (2006 - £nil) was recognised as exceptional. The exceptional charge was in respect of accelerated charges as options became exercisable and conditional share awards vested on the acquisition.

In accordance with the exception permitted under IFRS 2, no expense was recognised for the year ended 31 March 2006 in respect of options over 290,152 shares which were granted before 7 November 2002.

### (ii) Share option schemes

The all-employee Sharesave Scheme was a savings related scheme whereby employees entered into a three year save-as-you-earn contract with options to acquire shares. The exercise price represented 80% of the market price at the time of grant. The options were normally exercisable during the six month period following the three year savings contract, subject to continuous employment.

On the sanctioning of the Scheme of Arrangement in December 2006, options that had accrued by that date became exercisable. As an alternative to the exercise of the options participants were offered the opportunity to save until the end of the savings contract and receive a compensation payment at the normal maturity date, equal to the gain they would have realised had they been able to exercise their options in full at the Scheme of Arrangement.

Under the discretionary ESOS, the exercise price of options granted was the market price at the time of grant. The options were normally exercisable between the third and tenth anniversaries of the date of grant, subject to continuous employment. On the sanctioning of the Scheme of Arrangement in December 2006, all options granted became exercisable.

Details of the number of options and weighted average exercise prices were as follows:



| | Sharesave Scheme | | ESOS | |
|---|---|---|---|---|
| | Options Number | Weighted average exercise price Pence | Options Number | Weighted average exercise price Pence |
| Outstanding at 31 March 2005 | 1,568,859 | 402.0 | 1,430,394 | 569.3 |
| Granted | 745,706 | 694.0 | 85,495 | 731.0 |
| Exercised | (1,492,565) | 402.0 | (632,094) | 550.1 |
| Forfeited | (53,310) | 424.1 | (6,817) | 572.9 |
| Expired | (7,755) | 402.0 | (25,350) | 646.3 |
| Outstanding at 31 March 2006 | 760,935 | 686.6 | 851,628 | 597.4 |
| Granted | - | - | - | - |
| Exercised | (41,417) | 584.7 | (837,328) | 595.9 |
| Forfeited | (713,174) | 694.0 | (10,477) | 668.7 |
| Expired | (4,298) | 438.6 | (3,823) | 725.9 |
| **Outstanding at 31 March 2007** | **2,046** | **694.0** | **-** | **-** |
| Exercisable at 31 March 2006 | 20,084 | 441.2 | 290,152 | 629.5 |
| **Exercisable at 31 March 2007** | **2,046** | **694.0** | **-** | **-** |

## 31. Share-Based Payments (continued)

### (ii) Share option schemes (continued)

The weighted average share price at the exercise date for options exercised during the year under the Sharesave Scheme was 1,180.3p (2006 - 922.0p) and for options exercised under the ESOS was 1,273.0p (2006 - 802.5p). The number of options outstanding, the weighted average remaining contractual life and the weighted average exercise price as at 31 March for the following range of exercise prices were as follows:

| | Options Number | | Weighted average remaining contractual life Years | | Weighted average exercise price Pence | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **Sharesave Scheme** | | | | | | |
| 402.0p | - | 19,270 | - | 0.3 | | 402.0 |
| 694.0p | **2,046** | 741,665 | **0.3** | 3.3 | **694.0** | 694.0 |
| **ESOS** | | | | | | |
| 465.0p - 478.0p | - | 69,945 | - | 5.8 | - | 466.0 |
| 534.5p - 581.0p | - | 488,784 | - | 7.5 | - | 554.6 |
| 638.5p - 656.0p | - | 115,697 | - | 4.4 | - | 644.8 |
| 731.0p - 741.5p | - | 177,202 | - | 6.6 | - | 736.4 |

The fair values of options granted under the Sharesave Scheme and the ESOS were measured at the date of grant using a Black Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The input data was as follows:



| | Sharesave Scheme | | ESOS | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Share price at the date of grant | - | 851.5 | - | 741.0 |
| Exercise price (pence)[1] | - | 694.0 | - | 731.0 |
| Volatility (%)[2] | - | 18.0 | - | 19.0 |
| Expected dividend yield (%)[3] | - | 4.6 | - | 5.3 |
| Expected life of option (years) | - | 3.0 | - | 4.0 |
| Risk free rate of interest (%) | - | 4.2 | - | 4.2 |
| Option fair value (pence) | - | 165.0 | - | 83.0 |

[1] The exercise price of options at the date of grant was set by reference to the market value of a share on the dealing day immediately preceding or, if the Board so determined, the average market value over the three preceding dealing days.

[2] The expected volatility was based on historical data over a period equal to the expected life of the option.

[3] The expected dividend yield was calculated based on actual dividends paid in respect of the year ended 31 March 2005 and the dividend growth rate during that year.

No other features of options granted were incorporated into the measurement of fair value.

### (iii) PSP and CIP

Under the PSP conditional share awards were granted to a maximum value of 100% of basic salary. Up to 2004/05 awards were made to executive directors only. During 2005/06 and 2006/07, in addition to executive directors, awards were made to certain senior managers. The 2004/05 awards were subject to the Company's total shareholder return (TSR) over a three year performance period relative to a group of comparator companies. 50% of the 2005/06 and 2006/07 awards were based on the Company's TSR over a three year period relative to the constituents of the FTSE mid-250 Index (excluding investment trusts). The other 50% of these awards were based on the average return on capital employed (ROCE) achieved by the Group over a three year period. Normally awards would vest following the third anniversary of the grant date.

## 31. Share-Based Payments (continued)

### (iii) PSP and CIP (continued)

During 2005/06, conditional awards were made to executive directors and certain senior managers under the CIP. Participants could invest in the Company's shares up to the value of 20% of gross annual salary or 100% of gross performance bonus (whichever was higher). Matching shares were awarded after three years, at a minimum level of 50% of shares invested, up to a maximum level of 150% dependent on the achievement of the same performance conditions as those applying to the PSP. Normally matching award shares would vest following the third anniversary of the grant date. No conditional awards were granted during 2006/07.

On the Scheme of Arrangement in December 2006 the conditional share awards vested as appropriate under their terms. The extent to which the conditional share awards granted in the years ended 31 March 2006 and 31 March 2007 vested was pro-rated to reflect the performance period elapsed.

The fair value of awards granted was based on the market value of the shares at the date of grant less expected dividends over the three year vesting period. The fair value of awards based on relative TSR performance assumed that there was equal probability of achieving any TSR ranking. The fair value of awards based on ROCE assumed that the performance condition was met in full.

The assumptions used to value the conditional share awards granted under the PSP during the year were as follows:

| | PSP | | CIP | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Number of conditional share awards granted | **175,949** | 173,594 | **-** | 81,196 |
| Share price at the date of grant (pence) | **929.5** | 801.0 | **-** | 801.0 |
| Expected dividends per share (pence) | **121.9**[1] | 115.3 | **-** | 115.3 |
| Element of awards based on TSR performance: | | | | |
| - Expected value (%) | **40.6** | 40.6 | **-** | 58.3 |
| - Fair value (pence) | **327.9** | 278.4 | **-** | 400.0 |
| Element of awards based on ROCE performance: | | | | |
| - Fair value (pence) | **807.6** | 685.7 | **-** | 685.7 |

[1] Expected dividends per share were calculated based on actual dividends paid in respect of the year ended 31 March 2006 and the dividend growth rate during that year.



### (iv) SIP

The all-employee SIP enabled eligible UK based employees to buy shares in the Company from pre-tax salary subject to a limit of £125 per month. The Company awarded one free share for every share purchased up to a limit of £50 per month; the fair value of these awards was the cost of purchasing the shares. During 2006/07, 27,685 shares (2006 - 52,863) were purchased by the trustees of the SIP on behalf of 787 employees at a total cost of £288,000 (2006 - £433,000). Under the Scheme of Arrangement, participants received £13.25 per share held under the SIP or opted for loan notes issued by ElectricInvest Acquisitions.

### (v) Share Participation Scheme (SPS)

The all-employee SPS, introduced during 2006/07, was a Revenue Commissioner approved employee share scheme which enabled eligible RoI based employees to buy shares in the Company from pre-tax bonus and salary up to certain annual limits. The Company made a contribution of €1 for each €1 of bonus invested up to €900 per annum; the fair value of these awards was the Company contribution. During 2006/07 3,030 shares (2006 - nil) were purchased by the trustees of the SPS on behalf of 46 employees at a total cost of £28,000 (2006 - £nil). Under the Scheme of Arrangement participants received £13.25 per share held under the SPS.

## 32. Pension Commitments

Most employees of the Group are members of VGPS. This has two sections: "Options" which is a money purchase arrangement whereby the Group generally matches members' contributions up to a maximum of 6% of salary and "Focus" which provides benefits based on pensionable salary at retirement or earlier exit from service. There is a money purchase arrangement for employees in the RoI known as Choices; its benefits mirror those of the Options section of VGPS. In addition the CPP provides benefits for salary above HM Revenue & Customs' earnings cap to certain executive directors. The assets of the schemes are held under trust and invested by the trustees on the advice of professional investment managers.

Hewitt, the actuaries to VGPS, have provided a valuation of Focus and the CPP under IAS 19 at 31 March 2007 based on the following assumptions (in nominal terms) and using the projected unit method.

| | **2007** | 2006 |
|---|---|---|
| Rate of increase in pensionable salaries | **4.1% per annum** | 3.9% per annum |
| Rate of increase in pensions in payment | **3.1% per annum** | 2.9% per annum |
| Discount rate | **5.5% per annum** | 5.0% per annum |
| Inflation assumption | **3.1% per annum** | 2.9% per annum |
| Life expectancy: | | |
| Current pensioners (at age 60) - males | **23.1 years** | 23.1 years |
| Current pensioners (at age 60) - females | **25.9 years** | 25.9 years |
| Future pensioners (at age 60) - males | **23.9 years** | 23.9 years |
| Future pensioners (at age 60) - females | **26.6 years** | 26.6 years |

The life expectancy assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.



The valuation under IAS 19 at 31 March 2007 shows a net pension liability (before deferred tax) of £28.0m (2006 - £102.9m). A 0.1% increase/decrease in the assumed discount rate would decrease/increase the net pension liability by £13m. A 0.1% increase/decrease in the assumed inflation rate would increase/decrease the net pension liability by £11m.

**Assets and Liabilities**

The assets and liabilities of Focus and the CPP and the expected rates of return are:

| | **Value at 31 March 2007 £m** | **Expected rate of return %** | Value at 31 March 2006 £m | Expected rate of return % |
|---|---|---|---|---|
| Equities | **393.3** | **7.9** | 455.7 | 7.5 |
| Bonds | **482.1** | **5.1** | 378.6 | 4.7 |
| Other | **6.7** | **4.7** | 3.7 | 4.3 |
| Total market value of assets | **882.1** | | 838.0 | |
| Actuarial value of liabilities | **(910.1)** | | (940.9) | |
| Net pension liability | **(28.0)** | | (102.9) | |

The expected rate of return on equities is based on the expected median return over the long-term. The expected rate of return on bonds is measured directly from actual market yields for UK gilts and corporate bonds. Other assets include cash balances and other investments. The expected rate of return on these assets is measured directly from short-term market interest rates.

## 32. Pension Commitments (continued)

**Changes in the market value of assets**

| | 2007 £m | 2006 £m |
|---|---|---|
| Market value of assets at 1 April | **838.0** | 703.7 |
| Expected return | **50.7** | 43.6 |
| Contributions from employer | **67.3** | 38.1 |
| Contributions from scheme members | **1.7** | 1.7 |
| Benefits paid | **(47.2)** | (43.7) |
| Actuarial (loss)/gain | **(28.4)** | 108.7 |
| Disposal of subsidiary | **-** | (14.1) |
| Market value of assets at 31 March | **882.1** | 838.0 |

The Group's contributions to Focus during the year included a special contribution of £50m (2006 - £25m). The Group expects to make total contributions of £13m to Focus and the CPP in 2007/08.

**Changes in the actuarial value of liabilities**

| | 2007 £m | 2006 £m |
|---|---|---|
| Actuarial value of liabilities at 1 April | **940.9** | 872.3 |
| Interest cost | **46.3** | 45.3 |
| Current service cost | **8.4** | 7.1 |
| Curtailment loss | **2.7** | 1.9 |
| Contributions from scheme members | **1.7** | 1.7 |
| Benefits paid | **(47.2)** | (43.7) |
| Actuarial (gain)/loss | **(42.7)** | 77.2 |
| Disposal of subsidiary | **-** | (20.9) |
| Actuarial value of liabilities at 31 March | **910.1** | 940.9 |



| | 2007 £m | 2006 £m |
|---|---|---|
| **Analysis of the amount charged to operating costs (before capitalisation)** | | |
| Current service cost - continuing operations | **(8.4)** | (7.1) |
| - discontinued operations | **-** | (0.1) |
| Curtailment loss | **(2.7)** | (1.9) |
| Total operating charge | **(11.1)** | (9.1) |

Focus is closed to new members and therefore under the projected unit method the current service cost for members of this section as a percentage of salary will increase as they approach retirement age.

| | 2007 £m | 2006 £m |
|---|---|---|
| **Analysis of the amount credited/(charged) to net pension scheme interest** | | |
| Expected return on assets | **50.7** | 43.6 |
| Interest on liabilities | **(46.3)** | (45.3) |
| Net pension scheme interest | **4.4** | (1.7) |

The actual return on Focus and CPP assets was £22.3m (2006 - £152.3m).

## 32. Pension Commitments (continued)

| | **2007** | 2006 |
|---|---|---|
| | **£m** | £m |
| **Analysis of amount recognised in the Group Statement of Recognised Income and Expense** | | |
| Actuarial (loss)/gain on assets | **(28.4)** | 108.7 |
| Actuarial gain/(loss) on liabilities | **42.7** | (77.2) |
| Net actuarial gain | **14.3** | 31.5 |

The cumulative actuarial gain recognised in the Group Statement of Recognised Income and Expense since 1 April 2004 is £44.8m (2006 - actuarial gain of £30.5m). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity of £168.6m is attributable to actuarial gains and losses since the inception of Focus and the CPP. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Recognised Income and Expense shown before 1 April 2004. The market value of assets at 1 April 2004 was £670.0m. The market value of liabilities at 1 April 2004 was £838.6m.

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **£m** | £m | £m |
| **History of experience gains and losses** | | | |
| Actuarial (loss)/gain on assets | **(28.4)** | 108.7 | 18.7 |
| Actuarial gain/(loss) on liabilities | **42.7** | (77.2) | (19.7) |
| Total actuarial gain/(loss) recognised in the Group Statement of Recognised Income and Expense | **14.3** | 31.5 | (1.0) |

| **At 31 March** | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **£m** | £m | £m |
| Market value of assets | **882.1** | 838.0 | 703.7 |
| Market value of liabilities | **(910.1)** | (940.9) | (872.3) |
| Net pension liability | **(28.0)** | (102.9) | (168.6) |

## 33. Related Party Disclosures

**Remuneration of key management personnel**

Key management personnel comprise members of the Board and the Executive Committee. The compensation paid to those personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures:

| | 2007 £m | 2006 £m |
|---|---|---|
| Salaries and short-term employee benefits | **3.1** | 1.8 |
| Post employment benefits | | |
| - defined benefit scheme | **0.3** | 0.2 |
| - defined contribution scheme | **0.4** | 0.5 |
| - other | **-** | 0.4 |
| Other long-term benefits | **0.1** | 0.7 |
| Share-based payments | **0.6** | 0.1 |
| | **4.5** | 3.7 |

**Other related parties**

During the year the Group contributed £68.3m (2006 - £38.9m) to VGPS and the CPP. The Group also received £0.3m (2006 - £0.3m) in respect of administrative services provided to VGPS.

Transactions between the Company and its subsidiaries (all owned 100%) have been eliminated on consolidation in the Group accounts. Details of the Company's subsidiaries at 31 March 2007 are listed in note 14. Transactions between the Company and its subsidiaries and the balances outstanding are disclosed below:

| | Ordinary dividends received £m | Preference dividend received £m | Interest received £m | Interest paid £m | Amounts owed by subsidiaries at 31 March £m | Amounts owed to subsidiaries at 31 March £m |
|---|---|---|---|---|---|---|
| **Year to 31 March 2007** | **36.8** | **3.2** | **6.0** | **6.3** | **233.9** | **147.7** |
| Year to 31 March 2006 | 164.6 | - | 3.2 | 8.8 | 86.1 | 149.4 |

Interest received from and paid to subsidiaries carries floating interest rates based on LIBOR and EURIBOR. Outstanding balances with subsidiaries are unsecured. Intra-group loan balances relate to intra-group funding requirements. Details of the intra-group loan facility with the parent company are given in note 20.

**Group**

The immediate parent undertaking of the Company and the parent of the smallest group of which the Company is a member and for which group accounts are prepared is ElectricInvest Acquisitions Limited, a company incorporated in Great Britain. The parent undertaking of the largest group of which the Company is a member and for which group accounts are prepared is EI Ventures Limited, a company incorporated in Great Britain. Copies of the consolidated group accounts of ElectricInvest Acquisitions Limited and EI Ventures Limited, which include the Company, are available from 120 Malone Road, Belfast, BT9 5HT. The ultimate parent undertaking and controlling party of the Group is Arcapita Bank B.S.C.(c), a company incorporated in the Kingdom of Bahrain.

Transactions between the Company and its parent undertakings and the balances outstanding were as follows:

| | Capital contribution received £m | Ordinary dividends received £m | Interest received £m | Interest paid £m | Amounts owed by parent undertakings at 31 March £m | Amounts owed to parent undertakings at 31 March £m |
|---|---|---|---|---|---|---|
| **Year to 31 March 2007** | **36.5** | **75.0** | **-** | **2.1** | **-** | **210.7** |
| Year to 31 March 2006 | - | - | - | - | - | - |

# GLOSSARY OF TERMS

| | |
|---|---|
| **1992 Order** | Electricity (Northern Ireland) Order 1992 |
| **1999 Act** | Electricity Regulation Act 1999 |
| **2002 Act** | Gas (Interim) (Regulation) Act 2002 |
| **2003 Electricity Directive** | Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 |
| **2003 Order** | Energy (Northern Ireland) Order 2003 |
| **AGM** | Annual General Meeting |
| **Arcapita** | Arcapita Bank B.S.C.(c) |
| **BGE** | Bord Gáis Éireann |
| **BST** | Bulk Supply Tariff |
| **CBO** | contract buy-out |
| **CCGT** | combined-cycle gas turbine |
| **CER** | Commission for Energy Regulation |
| **CHP** | combined heat and power |
| **CIP** | Co-investment Plan |
| **CML** | average number of minutes lost per customer per annum through distribution interruptions, excluding major storms |
| **$CO_2$** | carbon dioxide |
| **Company** | Viridian Group PLC |
| **CPP** | Complementary Pension Plan |
| **CSR** | Corporate Social Responsibility |
| **DCMNR** | Department of Communications, Marine and Natural Resources in the RoI |
| **DETI** | Department of Enterprise, Trade and Investment in Northern Ireland |
| **DNO** | distribution network operator |
| **EIB** | European Investment Bank |
| **Eirgrid** | ESB National Grid |
| **Electricity Infrastructure** | T&D and Powerteam |
| **ElectricInvest Acquisitions** | ElectricInvest Acquisitions Limited |
| **ENA** | Energy Networks Association |
| **ESB** | Electricity Supply Board |
| **ESCo** | Energy Services Company |
| **ESOS** | Executive Share Option Scheme |
| **ETS** | EU Emissions Trading Scheme |
| **FGD** | flue gas desulphurisation |
| **Focus** | defined benefit section of VGPS |
| **GAAP** | Generally Accepted Accounting Principles |
| **Group** | Viridian Group PLC and its subsidiary undertakings |
| **GWh** | gigawatt hour |
| **HFO** | heavy fuel oil |
| **HSENI** | Health & Safety Executive for Northern Ireland |
| **Huntstown 1** | Phase one of Huntstown Power Station - 343MW CCGT |
| **Huntstown 2** | Phase two of Huntstown Power Station - 412MW CCGT |
| **IAS** | International Accounting Standard |
| **IFRIC** | International Financial Reporting Interpretations Committee |
| **IFRS** | International Financial Reporting Standards |
| **IIP** | Investors in People |
| **IPC** | Integrated Pollution Control |
| **IPPC Directive** | Integrated Pollution Prevention and Control Directive (96/61/EC) |
| **KPI** | key performance indicator |
| **LCP** | Large Combustion Plant |
| **Licence** | NIE's Transmission and Public Electricity Supply licence |
| **LTIR** | lost time incident rate |
| **Minister** | Minister for Communications, Marine and Natural Resources in the RoI |
| **Moyle Interconnector** | electricity interconnector between Northern Ireland and Scotland |
| **MW** | megawatt |
| **NFFO** | Non-Fossil Fuel Obligation |
| **NIAUR** | Northern Ireland Authority for Utility Regulation |
| **NIE** | Northern Ireland Electricity plc |
| **$NO_x$** | oxides of nitrogen |
| **Options** | defined contribution section of VGPS |
| **Orders** | Electricity (Northern Ireland) Order 1992 as amended by the Energy (Northern Ireland) Order 2003 |
| **PES** | public electricity supply |
| **PPA** | power purchase agreement |
| **PPB** | Power Procurement business |
| **PPR** | performance planning and review |
| **PSO** | public service obligation |
| **PSP** | Performance Share Plan |
| **RAB** | T&D regulatory asset base |
| **RoI** | Republic of Ireland |
| **RoSPA** | Royal Society for the Prevention of Accidents |
| **RPI** | Retail Price Index |
| **RP3** | T&D price control period April 2002 to March 2007 |
| **RP4** | T&D price control period April 2007 to March 2012 |
| **SCC** | Supply Competition Code |
| **Scheme of Arrangement** | Scheme of Arrangement under Article 418 of The Companies (Northern Ireland) Order 1986 |
| **SEE** | social, ethical and environmental |
| **SEM** | Single Electricity Market |
| **Sharesave Scheme** | savings related share option scheme |
| **SIP** | Share Incentive Plan |
| **SMART** | Sustainable Management of Assets and Renewable Technologies |
| **SME** | small to medium-sized enterprise |
| **SMP** | system marginal price |
| **$SO_2$** | sulphur dioxide |
| **SONI** | System Operator Northern Ireland Limited |
| **SPS** | Share Participation Scheme in the RoI |
| **SSS** | system support services |
| **Sx3** | Service and Systems Solutions Limited |
| **T&D** | transmission and distribution |
| **TWh** | terawatt hour |
| **VGPS** | Viridian Group Pension Scheme |
| **Viridian** | Viridian Group PLC |
| **VP&E** | Viridian Power & Energy |

Viridian Group PLC Annual Report and Accounts 2006 - 2007



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# VIRIDIAN POWER AND ENERGY LIMITED

## Report and Accounts

**31 March 2007**

# Viridian Power and Energy Limited

## GENERAL INFORMATION

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Ian Thom

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# Viridian Power and Energy Limited

## DIRECTORS' REPORT

The directors of Viridian Power and Energy Limited (VP&E or the Company) present their report and the Group accounts for the year ended 31 March 2007. All references in this report and accounts to "Group" denote Viridian Power and Energy Limited and its subsidiary undertakings and to "Company" denote Viridian Power and Energy Limited, the parent company.

**Results and Dividends**
The results for the year ended 31 March 2007 show a profit after tax of £14.5m (2006 - £11.5m). The directors do not recommend payment of a dividend (2006 – £nil).

**Acquisition**
The Group's ultimate parent company, Viridian Group PLC (Viridian), was acquired by ElectricInvest Acquisitions Limited (ElectricInvest Acquisitions) on 8 December 2006.

**Business Review**
Background information
VP&E operates as an integrated energy business comprising competitive supply, through Energia, in both Northern Ireland and the RoI, backed by its Huntstown generation assets in the RoI and wholesale contracts.

In November 2002, VP&E commissioned Huntstown 1, a 343MW CCGT plant on the Huntstown site north of Dublin. In July 2005, VP&E started construction of Huntstown 2, a 412MW CCGT plant, adjacent to Huntstown 1. The construction programme for Huntstown 2 is on track for commissioning in autumn 2007 with capital expenditure of €109m as at 31 March 2007.

Operational performance
The directors have determined that the following key performance indicators (KPIs) are the most effective measures of progress towards achieving the Group's objectives:

- Operating profit
- Generation plant availability (the percentage of time generation plant is available to produce full output); and
- The volume of electricity sales (TWh) in Northern Ireland and the RoI.



| KPIs | | 2007 | 2006 |
|---|---|---|---|
| Operating profit (£000's) | | **27,640** | 24,114 |
| Generation plant availability (%) | | **87.2** | 93.9 |
| Volume of electricity sales | Northern Ireland (TWh) | **1.7** | 1.6 |
| | RoI (TWh) | **4.1** | 3.9 |

Operating profit increased to £27.6m (2006 - £24.1m) reflecting volume growth and profit from the sale of renewable obligation certificates.

Huntstown 1 availability (after both planned and unplanned outages) reduced to 87.2% (2006 – 93.9%) primarily due to the impact of two unplanned outages. In April 2006, a failed heat shield in the gas turbine caused an unplanned outage lasting 19 days, and in May 2006, the replacement of a control valve in the steam turbine restricted the station's operation to open cycle mode for 18 days.

In Northern Ireland, Energia's sales increased from 1.6TWh to 1.7TWh, with customer sites increasing to 4,100 (2006 - 3,800). In the RoI, Energia increased its sales from 3.9TWh to 4.1TWh, with customer sites increasing to 27,700 (2006 – 18,600), primarily among SMEs.

*Renewable energy*
The Group currently has 34MW of windfarm capacity under contract, with a further 11MW due to be commissioned in 2007. During the year, Energia entered into offtake contracts in Northern Ireland (NI) for 208MW of wind generation capacity in respect of projects which are in the process of obtaining planning permission. In the RoI, Energia entered into offtake contracts for 165MW of wind generation capacity to be built in the next two years. The Group is aiming to negotiate further contracts with windfarm developers.

## DIRECTORS' REPORT (continued)

**Business Review** (continued)

*Gas supply*
Energia currently also supplies gas to a number of industrial and commercial customer sites in the RoI and Northern Ireland with an annualised demand of c46m therms.

*Single Electricity Market*
The Single Electricity Market (SEM) is scheduled to commence on 1 November 2007 and will replace the existing bilateral markets which currently operate in both Northern Ireland and the RoI. The SEM will be regulated by a committee composed of representatives from the Northern Ireland Authority for Utility Regulation (NIAUR) and the Commission for Energy Regulation (CER), together with an independent member whose vote may resolve matters which cannot be agreed between NIAUR and CER.

The SEM will be based on a gross mandatory pool through which all electricity (with limited exceptions) will be bought and sold across the island. Generators will make offers to sell their electricity into the pool and will be despatched centrally on the basis of their bids. Suppliers will purchase all of their wholesale requirements from the pool.

There will be a single system marginal price (SMP) for the whole island that will be set for every half hour. The amounts paid to generators and the amounts charged to suppliers will be a function of the SMP, together with a range of other components including: capacity payments (payments to generators for making their capacity available); constraint payments (payments to generators when they are constrained on or off for reasons relating to operation of the transmission system); and ancillary service payments (payments to generators for services they provide to maintain the stable operation of the transmission system and to restore the power system in an emergency).

**Financing**

*Role of Treasury*
The Group's liquidity, funding, investment and financial risk, including risk from volatility in currency, interest rates, commodity prices and counterparty credit risk are managed by Viridian's centralised treasury function. The treasury function's objective is to manage risk at optimum cost. The treasury function employs a continuous forecasting and monitoring process to manage risk and ensure that banking and other financial covenants are complied with.



*Liquidity and interest rate risk*
Since Viridian was acquired, the Group's policy has been to finance its operations through intercompany loan facilities with Viridian which are repayable on demand. During the year the Group repaid the Huntstown bank loan facility.

The borrowings of the Group are denominated in Sterling and Euro and bear a mixture of fixed and floating interest rates. Interest rate exposure on borrowings is also managed through the use of derivative financial instruments.

*Foreign currency risk*
The Group's treasury policy is to identify foreign exchange exposures with a value equivalent to or greater than £0.5m with the percentage level of hedging dependent on the specific project. The Group receives income and incurs expenditure in both Sterling and Euro. Exchange rate exposures are identified, monitored and hedged through the use of financial instruments (mainly forward currency contracts and swap arrangements) in accordance with the Group's treasury policy.

Euro-denominated property, plant and equipment on the Group's balance sheet relating to Huntstown 1 and Huntstown 2 is broadly matched by Euro-denominated borrowings.

# Viridian Power and Energy Limited

## DIRECTORS' REPORT (continued)

**Financing** (continued)

*Commodity risk*
The Group's policy is to hedge the level of commodity risk exposure deemed appropriate on a project specific basis. The Group is exposed to changes in the price of gas purchased for the operation of Huntstown 1 and, to a lesser extent, the price of $CO_2$ emission credits with Huntstown 1 receiving a 74% allocation in respect of the first phase of the EU Emissions Trading Scheme (ETS). During the year the Group employed financial commodity swaps to hedge gas price exposures identified.

*Credit risk*
The Group's principal financial assets are cash and cash equivalents, trade and other receivables, derivative financial assets and other financial assets as outlined in the table below:

| | **2007** **£'000** | 2006 £'000 |
|---|---|---|
| Cash and cash equivalents | **19,548** | 12,979 |
| Trade and other receivables | **66,141** | 68,365 |
| Derivative financial assets | **2,024** | 10,970 |
| Other financial assets | **51,511** | 29,729 |
| | **139,224** | 122,043 |

The Group's credit risk is primarily attributable to its trade receivables. Provisions are made based on previous experience and identifiable events which indicate a reduction in the recoverability of cash flows. The Group considers that it is not exposed to major concentrations of credit risk in respect of its trade receivables, with exposure spread over a large number of customers. The Group has taken out credit insurance in respect of certain trade receivables.

The Group may be exposed to credit-related loss in the event of non-performance by counterparties in respect of cash and cash equivalents and derivative financial instruments. The Group does not anticipate any non-performance given the high credit ratings of the established financial institutions that comprise these counterparties. The Group transacts only with bank counterparties rated investment grade and above.

Further information on financial instruments is set out in the notes to the accounts in compliance with IFRS 7 Financial Instruments: Disclosures.

**Risk Management**

The Group's strategy is to follow an appropriate risk policy, which effectively manages exposures related to the achievement of business objectives.

*Regulatory risk*
In Northern Ireland and the RoI, the Group is exposed to the impact of regulatory decisions as well as changes in legislation and/or regulation which impact its generation or supply activities, including the introduction of the SEM.

Through senior management and its regulatory team, the Group maintains regular interaction with both the CER and Department of Communications, Marine and Natural Resources (DCMNR) at a number of levels. A pro-active approach is taken to consultations by CER and DCMNR on matters such as the structure and rules of the SEM, renewable energy support and tariff setting.

*Business performance risk*

Business performance risk is the risk that one or more of the Group's businesses may not perform as expected either due to internal factors or due to competitive pressures in the markets in which it operates. Performance risks specific to each business are identified in individual business risk registers and managed at that level. At the Group level, business performance risk is managed through a number of measures: ensuring the appropriate management team is in place for each business; rigorous budget and business planning; monthly reporting and variance analysis; financial controls; key performance indicators; and regular forecasting. Investment decisions are accompanied by detailed analysis, both short and long-term, of the markets in which the Group operates.

*Business continuity risk*

The Group has in place measures to manage the risk that one or more of its businesses sustains a greater than necessary financial impact through inability to carry on its operations either for a short or prolonged period. These include managing the risk of interruptions to Huntstown 1's availability. In addition each business maintains a business continuity plan and there is an IT disaster recovery plan. These plans are reviewed and tested annually.

*Health and safety risk*

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 employees and third parties to the risk of injury, potential liability and/or loss of reputation. 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 the Group's health, safety and risk business plan.

*Management development*

Long-term competitiveness and viability of the business depends on the Group's ability to attract and retain personnel of high quality. This risk is managed through development plans which are regularly reviewed and updated. These are accompanied by specific policies in areas such as training, management development and performance management.



*Financial and business control*

Strong financial and business controls are necessary to ensure the integrity and reliability of financial and other information on which the Group relies for day-to-day operations, external reporting and for longer term planning. The Group exercises financial and business control through a combination of: qualified and experienced personnel; detailed performance analysis; established policies in areas such as treasury and commodity hedging; budgeting and cash flow forecasting; a fully integrated accounting system; and clearly defined approval limits. The internal auditors test the effectiveness of financial and business controls. The external auditors provide advice on specific accounting and tax issues as they arise.

*Social, ethical and environmental risk*

The Group has in place measures to protect against financial and reputational risk from any failure to manage social, ethical and environmental (SEE) risks. In general, SEE risks are managed through embedding Corporate Social Responsibility into the Group's management processes and core business activities. SEE risks are incorporated into each risk register. Environmental risk, in particular, is managed through: a detailed environmental risk register; an environmental action plan; a certified environmental management system; and identification of potential environmental exposures. These matters are monitored by nominated environmental compliance officers in key parts of the business.

**Directors and Directors' Interests**

The present directors of the Company are listed on page 1. All the directors held office throughout the period.

The directors and secretary (including their families) had no interests in the share capital of the Company at the end of the current or prior financial year.

# Viridian Power and Energy Limited

## DIRECTORS' REPORT (continued)

As a result of the acquisition of Viridian, all the directors' interests in ordinary shares of Viridian, including interests under the Share Incentive Plan (SIP), Sharesave Scheme, Executive Share Option Scheme (ESOS), Performance Share Plan (PSP) and Co-investment Plan (CIP) were sold, exercised, vested or lapsed. Therefore no directors had any interests as at 31 March 2007. Some of the directors' interests have been rolled over into loan notes issued by ElectricInvest Acquisitions.

The directors' beneficial interests in ordinary shares of Viridian (which include those of their families and those held by the trustees of the SIP), together with details in respect of share awards under the PSP, CIP and options to acquire ordinary shares under the Sharesave Scheme and ESOS, as at 31 March 2006, were as follows:

| | Ordinary Shares Number | Sharesave Scheme Number | ESOS Number | CIP Number | PSP Number |
|---|---|---|---|---|---|
| P Baillie | 1,330 | 1,347 | 18,540 | 189 | 4,122 |
| D de Casseres | - | 1,347 | 23,651 | - | - |
| S Bailey | 2,362 | 1,347 | 7,198 | 1,516 | 2,621 |

During the year options and contingent share awards granted, exercised, vested or lapsed were as follows:

| | Granted | Exercised/Vested | | | | Lapsed | | |
|---|---|---|---|---|---|---|---|---|
| | PSP Number | Sharesave Scheme Number | ESOS Number | CIP Number | PSP Number | Sharesave Scheme Number | CIP Number | PSP Number |
| P Baillie | 3,659 | - | 18,540 | 106 | 3,146 | 1,347 | 83 | 4,635 |
| D de Casseres | - | 396 | 23,651 | - | - | 951 | - | - |
| S Bailey | 3,442 | - | 7,198 | 850 | 2,255 | 1,347 | 666 | 3,808 |

On the acquisition of Viridian, participants were able to exercise options granted under the Sharesave Scheme to the extent of their savings at that time. Alternatively, employees could choose to continue to save under their contracts until February 2009 and receive for their lapsed share options the amount which would have been payable for shares under the terms of the acquisition. Harry McCracken, Patrick Bourke, Peter Baillie and Siobhan Bailey chose to continue to save under these savings contracts.

Harry McCracken and Patrick Bourke are also directors of Viridian; their interests in its shares are disclosed in the consolidated accounts of that company.

The Company purchased and maintained directors' and officers' liability insurance throughout the year.

### Charitable and Political Donations

Apart from sponsorship, donations to charities in the year were £1k (2006 - £nil). There were no contributions for political purposes.

### Payment of Suppliers

The Group's procurement policy is to source equipment, goods and services from a wide range of suppliers throughout the EU and beyond 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.

## Viridian Power and Energy Limited

### DIRECTORS' REPORT (continued)

**Auditors**
The Company has opted under an elective regime to dispense with the obligation to appoint auditors annually, and therefore Ernst & Young LLP's appointment is expected to continue next year.

By order of the Board

18/7/07

Siobhan Bailey
Director
Registered Office
120 Malone Road
Belfast BT9 5HT
Registered Number: NI32563

18 July 2007

# Viridian Power and Energy Limited

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the report and accounts in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

- select suitable accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance of the Company and the Group, and disclose and explain any departure from IFRS where, in their view, compliance would be so misleading as to conflict with a fair presentation;
- state that (except for any such departure) the accounts have been prepared in accordance with IFRS adopted by the EU; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## INDEPENDENT AUDITORS' REPORT
## To the members of Viridian Power and Energy Limited

We have audited the Group and parent company financial statements (the "financial statements") of Viridian Power and Energy Limited for the year ended 31 March 2007 which comprise the Group Income Statement, the Group and Parent Company Statement of Recognised Income and Expenses, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) 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).

We report to you our opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986. 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.



**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 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 IFRS as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 March 2007, and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Belfast
Date 18th July 2007

Viridian Power and Energy Limited

## GROUP INCOME STATEMENT
## for the year ended 31 March 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Revenue | | **451,142** | 381,123 |
| Operating costs | 3 | **(423,502)** | (357,009) |
| **OPERATING PROFIT** | | **27,640** | 24,114 |
| Exceptional items | | **(967)** | - |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE FINANCE COSTS** | | **26,673** | 24,114 |
| Interest receivable | 6 | **5,064** | 2,646 |
| Finance costs | 6 | **(13,771)** | (12,642) |
| Net finance costs | 6 | **(8,707)** | (9,996) |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE TAX CHARGE** | | **17,966** | 14,118 |
| Tax charge | 7 | **(3,480)** | (2,604) |
| **PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | | **14,486** | 11,514 |



## STATEMENTS OF RECOGNISED INCOME AND EXPENSE
## for the year ended 31 March 2007

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Exchange difference on retranslation of foreign subsidiaries | **(548)** | 470 | - | - |
| (Losses)/gains on cash flow hedges | **(40,941)** | 23,267 | - | - |
| Actuarial gain on pension schemes assets and liabilities | **38** | 532 | **1** | 598 |
| Deferred tax credit/(charge) on items taken directly to equity | **5,113** | (3,067) | - | (179) |
| **Net (expense)/income recognised directly in equity** | **(36,338)** | 21,202 | **1** | 419 |
| **Transfers** | | | | |
| Transferred losses/(gains) from equity to income statement on cash flow hedges | **20,618** | (14,626) | - | - |
| Deferred tax (credit)/charge on items transferred from equity | **(2,577)** | 1,828 | - | - |
| **Profit for the financial year** | **14,486** | 11,514 | **556** | (1,509) |
| **Total recognised income and expense for the year attributable to the equity holders of the Parent Company** | **(3,811)** | 19,918 | **557** | (1,090) |

# Viridian Power and Energy Limited

## BALANCE SHEETS
## As at 31 March 2007

| | Note | Group 2007 £'000 | Group 2006 (restated) £'000 | Company 2007 £'000 | Company 2006 (restated) £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 9 | **217,538** | 173,539 | **-** | - |
| Intangible assets | 10 | **6,093** | 3,760 | **-** | - |
| Investment in subsidiaries | 11 | **-** | - | **1,107** | 1,107 |
| Financial assets: | | | | | |
| Derivative financial assets | 18 | **483** | - | **-** | - |
| Pension asset | 26 | **2,390** | 627 | **1,386** | 680 |
| | | **226,504** | 177,926 | **2,493** | 1,787 |
| **Current assets** | | | | | |
| Inventories | 13 | **2,634** | 2,605 | **-** | - |
| Trade and other receivables | 14 | **66,141** | 68,365 | **166** | 23 |
| Financial assets: | | | | | |
| Derivative financial assets | 18 | **2,024** | 10,970 | **-** | - |
| Other financial assets | 12 | **51,511** | 29,729 | **51,264** | 56,446 |
| Corporation tax recoverable | | **-** | - | **572** | - |
| Cash and cash equivalents | 15 | **19,548** | 12,979 | **-** | - |
| | | **141,858** | 124,648 | **52,002** | 58,256 |
| **TOTAL ASSETS** | | **368,362** | 302,574 | **54,495** | 58,390 |
| **Current liabilities** | | | | | |
| Trade and other payables | 16 | **81,971** | 60,633 | **332** | 309 |
| Current tax payable | | **1,205** | 142 | **-** | 157 |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 18 | **18,348** | 3,409 | **-** | - |
| Other financial liabilities | 17 | **222,172** | 11,020 | **42,498** | 47,151 |
| | | **323,696** | 75,204 | **42,830** | 47,617 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 7 | **3,780** | 4,214 | **354** | 70 |
| Trade and other payables | 16 | **-** | 682 | **-** | - |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 18 | **6,025** | 8,873 | **-** | - |
| Other financial liabilities | 17 | **-** | 175,268 | **-** | - |
| Long-term provisions | 20 | **2,296** | 2,261 | **-** | - |
| | | **12,101** | 191,298 | **354** | 70 |
| **TOTAL LIABILITIES** | | **335,797** | 266,502 | **43,184** | 47,687 |
| **NET ASSETS** | | **32,565** | 36,072 | **11,311** | 10,569 |
| **Equity** | | | | | |
| Share capital | 23 | **-** | - | **-** | - |
| Hedge reserve | 24 | **(19,081)** | (1,305) | **-** | - |
| Foreign currency translation reserve | 24 | **275** | 823 | **-** | - |
| Accumulated profits | 24 | **51,371** | 36,554 | **11,311** | 10,569 |
| **TOTAL EQUITY** | 24 | **32,565** | 36,072 | **11,311** | 10,569 |

The financial statements were approved by the Board of directors and authorised for issue on 18 July 2007. They were signed on its behalf by:

Siobhan Bailey
Director

18/7/07

## Viridian Power and Energy Limited

### CASH FLOW STATEMENTS
### For the year ended 31 March 2007

| | Note | Group 2007 £'000 | Group 2006 £'000 | Company 2007 £'000 | Company 2006 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Operating profit | | **27,640** | 24,114 | **305** | (1,876) |
| Adjustments for: | | | | | |
| Depreciation of property plant and equipment | | **11,677** | 9,327 | **-** | - |
| Share-based payments | | **(722)** | (50) | **185** | (108) |
| Amortisation of intangible assets | | **649** | 519 | **-** | - |
| Defined benefit pension charge less contributions paid | | **(1,650)** | (714) | **(706)** | (326) |
| Increase in provisions | | **-** | 5 | **-** | - |
| Write off of intra-group loan | | **-** | - | **-** | 1,927 |
| Equity dividends received | | **-** | - | **(565)** | - |
| Exceptional items | | **(967)** | - | **(607)** | - |
| Operating cash flows before movement in working capital | | **36,627** | 32,201 | **(1,388)** | (383) |
| Decrease/(increase) in working capital | | **12,120** | (70) | **164** | 91 |
| **Cash generated from operations** | | **48,747** | 33,131 | **(1,224)** | (292) |
| Interest received | | **5,055** | 2,646 | **3,495** | 3,892 |
| Interest paid | | **(14,956)** | (12,971) | **(2,962)** | (3,380) |
| Current taxes paid | | **(169)** | (562) | **(404)** | (213) |
| **Net cash flows from/(used in) operating activities** | | **38,677** | 22,244 | **(1,095)** | 7 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(47,613)** | (18,444) | **-** | - |
| Purchase of intangible assets | | **(2,934)** | (1,117) | **-** | - |
| Equity dividends received | | **-** | - | **565** | - |
| (Payment)/re-payment of intra-group loans | | **(21,782)** | 349 | **5,182** | 5,654 |
| **Net cash flows (used in)/from investing activities** | | **(72,329)** | (19,212) | **5,747** | 5,654 |
| **Cash flows from financing activities** | | | | | |
| Repayment of Huntstown loan facility | | **(116,568)** | (12,640) | **-** | - |
| Proceeds/(repayment) of intra-group loans | | **155,409** | 10,714 | **(4,652)** | (5,661) |
| **Net cash flows used in financing activities** | | **38,841** | (1,926) | **(4,652)** | (5,661) |
| Net increase in cash and cash equivalents | | **5,189** | 1,106 | **-** | - |
| Cash and cash equivalents at beginning of year | | **12,979** | 12,418 | **-** | - |
| Effects of foreign exchange | | **1,380** | (545) | **-** | - |
| **Cash and cash equivalents at end of year** | 15 | **19,548** | 12,979 | **-** | - |

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 1. General Information

VP&E is a limited company incorporated and domiciled in Northern Ireland. The accounts have been prepared in accordance with IFRS as adopted by the EU and applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The accounts are presented in Sterling (£) with all values rounded to the nearest £1,000 except where otherwise indicated.

At the date of authorisation of these accounts, the following standards, which have not been applied in these accounts, were in issue but not yet effective:

IAS 1 Amendment - Presentation of Financial Statements: Capital Disclosures (effective for accounting periods beginning on or after 1 January 2007)

IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009)

The directors do not anticipate that the adoption of these standards will have a material impact on the Group's accounts in the period of initial application.

Following a reassessment of the offset requirements of IAS 12 Income Taxes, the directors have restated the presentation of the comparative amounts of deferred tax assets and deferred tax liabilities on the face of the Group and Company balance sheets to show a net deferred tax liability at 31 March 2006.



### 2. Accounting Policies

The principal accounting policies are set out below:

**Basis of consolidation**
The Group accounts consolidate the accounts of the Company and entities controlled by the Company (its subsidiaries). Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Goodwill**
Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the identifiable net assets of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised immediately in the income statement and is not subsequently reversed. Goodwill is stated at cost less any impairment in value.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

The Group has adopted the exemption allowed in IFRS 1 from restating business combinations which occurred before the transition date (1 April 2004). Goodwill in respect of acquisitions prior to the transition date has been retained at the previous UK GAAP balance subject to being tested for impairment at that date.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 2. Accounting Policies (continued)

**Foreign currency translation**
The functional and presentation currency of the Company is pounds sterling (£). The functional currency of foreign subsidiaries is the Euro (€).

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates prevailing at the balance sheet date are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's foreign subsidiaries are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average rates of exchange for the period. Exchange differences arising are classified as equity and transferred to the Group's foreign currency translation reserve. When a foreign entity is sold, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are recorded at the closing rate of exchange at each balance sheet date.

**Property, plant and equipment**
Property, plant and equipment are included in the balance sheet at cost, less accumulated depreciation and any recognised impairment loss. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of overheads. Interest on funding attributable to significant capital projects is capitalised during the period of construction and written off as part of the total cost over the estimated useful economic life of the asset.



Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis so as to write off the cost, less estimated residual values, over their estimated useful economic lives as follows:

Generation assets – up to 40 years
Non-operational buildings – freehold and long leasehold – up to 50 years
Fixtures and equipment – up to 25 years
Vehicles and mobile plant – up to 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. Where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Interest on funding attributable to significant capital projects is capitalised during the period of construction and written off as part of the total cost of the asset.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net selling price and the carrying amount of the asset.

## NOTES TO THE ACCOUNTS

## 2. Accounting Policies (continued)

**Intangible assets**
Computer software
The cost of acquiring computer software is capitalised and amortised on a straight-line basis over its estimated useful economic life which is five years. Costs include direct labour relating to software development and an appropriate proportion of directly attributable overheads.

The carrying value of computer software is reviewed for impairment annually when the asset is not yet in use and subsequently when events or circumstances indicate that the carrying value may not be recoverable.

*Other*
Other intangible assets comprise Renewable Obligation Certificates (ROCs) which are capitalised at cost when purchased. ROCs are not amortised. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net selling price and the carrying amount of the asset.

**Inventories**
Inventories are stated at the lower of average purchase price and net realisable value.

**Financial instruments**
*Cash and cash equivalents*
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of three months or less.



*Interest bearing loans and overdrafts*
Interest bearing loans and overdrafts are initially recorded at fair value, being the proceeds received net of direct issue costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method. Except for interest capitalised in relation to significant capital projects interest payable is reflected in the income statement as it arises.

*Trade and other receivables*
Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the asset is impaired. Balances are written off when the probability of recovery is assessed as being remote.

*Trade payables*
Trade payables are not interest bearing and are stated at their nominal value.

*Derivative financial instruments and hedge accounting*
The Group uses foreign exchange contracts, interest rate swap contracts and commodity contracts to hedge the risks of changes in foreign currency exchange rates, interest rates and commodity prices. Such derivative financial instruments are stated at fair value.

Changes in the fair value of derivative financial instruments which are designated as effective hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income or expense.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. The Group has adopted IFRS 7 Financial Instruments: Disclosures in these accounts.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 2. Accounting Policies (continued)

**Share-based payments**

Prior to the acquisition of Viridian, certain employees of the Group participated in Viridian share schemes. These comprised a number of employee and discretionary employee share schemes under which Viridian made equity-settled share-based payments to eligible employees. Equity settled share-based payments were measured at fair value at the date of grant using pricing models appropriate for each award. Up to the date of acquisition the fair value of each award was expensed on a straight-line basis over the vesting period, based on the number of shares that would ultimately vest. On the date of acquisition, any expense in respect of options which became exercisable or conditional share awards which vested and which had not been charged to the income statement, was recognised as an exceptional charge.

As allowed under its transitional provisions, IFRS 2 Share-based Payment has been applied only to equity-settled awards granted after 7 November 2002 which were unvested on 1 January 2005.

**Operating lease contracts**
Leases are classified as operating lease contracts whenever the terms of the lease do not transfer substantially all the risks and benefits of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

**Revenue**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, exclusive of value added tax and other sales related taxes.



The following specific recognition criteria must also be met before revenue is recognised:

*Energy supply*
Revenue is recognised on the basis of energy supplied during the period. Revenue for energy supply includes an assessment of energy supplied to customers between the date of the last meter reading and the balance sheet date, estimated using historical consumption patterns.

*Interest receivable*
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Tax**
The tax charge represents the sum of tax currently payable and deferred tax. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes both items of income or expense that are taxable or deductible in other years as well as items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 2. Accounting Policies (continued)

**Tax** (continued)
Deferred tax is the tax payable or recoverable on differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is not recognised on temporary differences where they arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.



**Dividends**
Dividends are recorded in the Group's accounts in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are paid.

**Provisions**
Provisions are recognised when (i) the Group has a present obligation (legal or constructive) as a result of a past event (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included within finance costs.

**Emission allowances**
The Group recognises liabilities in respect of its obligations to deliver emission allowances to the extent that the allowances to be delivered exceed the free allocation from government or a similar body. Any liabilities recognised are measured based on the current estimates of the amounts that will be required to satisfy the obligation.

**Decommissioning**
Provision is made for estimated decommissioning costs at the end of the estimated useful economic lives of the Group's generation assets on a discounted basis based on price levels and technology at the balance sheet date. Changes in these estimates and changes to the discount rates are dealt with prospectively. Capitalised decommissioning costs are depreciated over the estimated useful economic lives of the related assets. The unwinding of the discount is included within finance costs.

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 2. Accounting Policies (continued)

**Pensions and other post-retirement benefits**
UK employees of the Group are entitled to membership of the Viridian Group Pension Scheme (VGPS) which has both defined benefit and defined contribution pension arrangements. RoI employees are entitled to membership of Choices, a defined contribution scheme. The amount recognised in the balance sheet in respect of defined benefit liabilities represents the present value of the obligations offset by the fair value of scheme assets.

Pension scheme assets are measured at fair value and liabilities are measured using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur and are recognised outside the income statement and presented in the statement of recognised income and expense.

Pension costs in respect of defined contribution arrangements are charged to the income statement as they become payable.

The expected return on pension scheme assets and the interest on pension scheme liabilities are included within finance costs.

The Group has adopted the exemption allowed in IFRS 1 to recognise all cumulative actuarial gains and losses at the transition date in reserves. The Group has also adopted IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures.



**Company's investments in subsidiaries**
The Company recognises its investments in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of investment.

**Exceptional items**
The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 3. Operating Costs

Operating costs are analysed as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Energy costs | **388,406** | 330,453 |
| Employee costs (note 5) | **6,704** | 5,500 |
| Depreciation and amortisation | **12,326** | 9,846 |
| Other operating charges | **16,066** | 11,210 |
| | **423,502** | 357,009 |

Operating costs include:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Depreciation charge on property, plant and equipment | **11,677** | 9,327 |
| Amortisation of intangibles | **649** | 519 |
| Net foreign currency difference | **228** | 2,364 |
| Minimum lease payments due under operating leases: | | |
| - Land and buildings | **118** | 157 |
| Auditors' remuneration in respect of services to the Group | | |
| - Audit services – statutory audit | **92** | 66 |
| - Non-audit services - taxation advice | **58** | 11 |

Auditors' remuneration in respect of audit services to the Company amounted to £1k (2006 - £1k).



### 4. Exceptional Items

Recognised after arriving at operating profit:

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Costs incurred as a result of the acquisition of Viridian: | | | |
| Accelerated share-based payment charges | (i) | **108** | - |
| Employee share scheme compensation payments | (ii) | **859** | - |
| | | **967** | - |

(i) Accelerated share-based payment charges relate to the early exercise of options and vesting of awards under the employee share schemes on the acquisition of Viridian by ElectricInvest Acquisitions.

(ii) Employee share scheme compensation payments relate to arrangements under the terms of Viridian's acquisition by ElectricInvest Acquisitions whereby employee share scheme participants were compensated for awards or options withheld or reduced.

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 5. Employees

**Employee costs**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Salaries | 6,796 | 5,310 |
| Social security costs | 763 | 600 |
| Pension costs | | |
| - defined contribution | 254 | 202 |
| - defined benefit | 338 | 220 |
| Share-based payments – equity-settled | 215 | 169 |
| | 8,366 | 6,501 |
| Less: charged to the balance sheet | (1,662) | (1,001) |
| Charged to the Group Income Statement | 6,704 | 5,500 |

The monthly average number of employees during the year was 134 (2006 – 104).

**Directors**
The remuneration of the directors paid by the Group was as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Emoluments | 1,132 | 631 |
| Aggregate contributions to defined benefit contribution schemes | 91 | 106 |

Emoluments include compensation payments in respect of the cessation of employee share schemes. No other amounts were paid to the directors in respect of long-term incentive plans.

In addition to the amounts above, directors' remuneration of £548k (2006 - £509k) was paid to the Group's directors by other Viridian undertakings. The directors do not believe that it is practical to apportion this remuneration between their services as directors of the Group and their services as directors of other Viridian undertakings.

| | 2007 Number | 2006 Number |
|---|---|---|
| Number of directors who exercised share options | 5 | 5 |
| Number of directors who received shares under long-term incentive schemes | 4 | 4 |
| Members of the defined contribution pension scheme | 2 | 2 |
| Members of the defined benefit pension scheme | 3 | 3 |

The remuneration in respect of the highest paid director was as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Emoluments | 375 | 368 |
| Increase in accrued pension (including inflation) during the year (per annum) | 14 | 13 |
| Total accrued pension at 31 March (per annum) | 167 | 153 |

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 6. Net Finance Costs

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Interest receivable:** | | |
| Bank interest | **372** | 300 |
| Interest on loans due from Viridian Group undertakings | **4,692** | 2,346 |
| | **5,064** | 2,646 |
| **Interest payable:** | | |
| Bank loans and overdrafts | **(24)** | (4,066) |
| Interest rate swaps | **(2,502)** | (3,994) |
| Interest on loans due to Viridian Group undertakings | **(12,802)** | (4,796) |
| | **(15,328)** | (12,856) |
| Less: charged to balance sheet | **1,579** | 295 |
| Total interest charged to the Group Income Statement | **(13,749)** | (12,561) |
| **Other finance costs:** | | |
| Expected return on pension scheme assets | **302** | 231 |
| Interest on pension scheme liabilities | **(227)** | (203) |
| Net pension scheme interest | **75** | 28 |
| Unwinding of discount on decommissioning provision | **(97)** | (109) |
| Total other finance costs | **(23)** | (81) |
| **Total finance costs** | **(13,771)** | (12,642) |
| **Net finance costs** | **(8,707)** | (9,996) |

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 7. Tax Charge

**(i) Analysis of charge in the year**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Group Income Statement** | | |
| ***Current tax charge*** | | |
| UK corporation tax at 30% (2006 - 30%) | **1,232** | 497 |
| Corporation tax underprovided in previous years | **-** | 169 |
| ***Total current tax charge*** | **1,232** | 666 |
| ***Deferred tax charge*** | | |
| Origination and reversal of temporary differences in current year | **2,264** | 1,938 |
| Origination and reversal of temporary differences relating to prior years | **(16)** | - |
| Total deferred tax charge | **2,248** | 1,938 |
| Tax charge reported in the Group Income Statement | **3,480** | 2,604 |
| *Tax relating to items (credited)/charged to equity* | | |
| *Deferred tax* | | |
| Actuarial gains on pension scheme | **11** | 160 |
| Revaluation of cash flow hedges | **(2,547)** | 1,079 |
| Tax charge in the Group Statement of Recognised Income and Expense | **(2,536)** | 1,239 |



**(ii) Reconciliation of total tax charge**

The tax charge in the Group Income Statement for the year is lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%). The differences are reconciled below:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Accounting profit before tax charge | **17,966** | 14,118 |
| Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2006 - 30%) | **5,390** | 4,235 |
| Lower taxes on overseas earnings | **(1,798)** | (1,975) |
| Tax (over)/underprovided in previous years | **(16)** | 169 |
| Other permanent differences | **(96)** | 175 |
| Tax charge for the year | **3,480** | 2,604 |

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 7. Tax Charge (continued)

**(iii) Deferred tax**

The deferred tax included in the Group Balance Sheet is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| *Deferred tax assets* | | |
| Special pension contribution | **102** | 153 |
| Provisions | **151** | 192 |
| Revaluations of derivative financial instruments | **2,734** | 185 |
| Tax losses carried forward | **8,504** | 7,823 |
| Other | **-** | 103 |
| Deferred tax assets | **11,491** | 8,456 |
| *Deferred tax liabilities* | | |
| Accelerated capital allowances | **14,552** | 12,438 |
| Pension asset | **719** | 188 |
| Other | **-** | 44 |
| Deferred tax liabilities | **15,271** | 12,670 |
| Net deferred tax liability | **3,780** | 4,214 |

The deferred tax included in the Group Income Statement is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Accelerated capital allowances | **2,524** | 2,211 |
| Temporary differences in respect of provisions | **41** | 112 |
| Temporary differences in respect of pensions | **561** | 69 |
| Tax losses carried forward | **(937)** | (432) |
| Other | **59** | (22) |
| Deferred tax charge | **2,248** | 1,938 |

**Company**

The deferred tax included in the Company Balance Sheet is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred tax assets | | |
| Special pension contribution | **42** | 63 |
| Provisions | **20** | 71 |
| Deferred tax assets | **62** | 134 |
| Deferred tax liability | | |
| Pension asset | **416** | 204 |
| Net deferred tax liability | **354** | 70 |

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 8. Profit for the Financial Year

The profit dealt with in the accounts of the Company is £556k (2006 – loss £1,509k).

### 9. Property, Plant and Equipment

| Group | Generation assets £'000 | Non-operational land and buildings £'000 | Fixtures and equipment £'000 | Vehicles and mobile plant £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 April 2005 | 174,114 | 10,479 | 949 | 4,219 | 189,761 |
| Reclassification | 81 | - | (81) | - | - |
| Exchange adjustment | 2,516 | 151 | 7 | - | 2,674 |
| Additions | 16,459 | - | 64 | - | 16,523 |
| At 31 March 2006 | 193,170 | 10,630 | 939 | 4,219 | 208,958 |
| Exchange adjustment | (5,271) | (289) | (11) | - | (5,571) |
| Additions | 60,157 | - | 250 | - | 60,407 |
| **At 31 March 2007** | **248,056** | **10,341** | **1,178** | **4,219** | **263,794** |
| **Depreciation:** | | | | | |
| At 1 April 2005 | 20,590 | - | 769 | 4,212 | 25,571 |
| Reclassification | 28 | - | (28) | - | - |
| Exchange adjustment | 515 | - | 3 | 3 | 521 |
| Charge for the year | 9,263 | - | 61 | 3 | 9,327 |
| At 31 March 2006 | 30,396 | - | 805 | 4,218 | 35,419 |
| Exchange adjustment | (832) | - | (8) | - | (840) |
| Charge for the year | 11,547 | - | 129 | 1 | 11,677 |
| **At 31 March 2006** | **41,111** | **-** | **926** | **4,219** | **46,256** |
| **Net book value:** | | | | | |
| At 31 March 2005 | 153,524 | 10,479 | 180 | 7 | 164,190 |
| At 31 March 2006 | 162,774 | 10,630 | 134 | 1 | 173,539 |
| **At 31 March 2007** | **206,945** | **10,341** | **252** | **-** | **217,538** |

Included in generation assets are amounts in respect of assets under construction amounting to £74,213k (2006 - £18,841k) and capitalised interest of £11,274k (2006 - £9,695k).

## 10. Intangible Assets

| Group | Software £'000 | Goodwill £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 April 2005 | 1,785 | 2,036 | - | 3,821 |
| Exchange adjustment | - | 29 | - | 29 |
| Additions acquired externally | 1,117 | - | 543 | 1,660 |
| Disposals | - | - | (235) | (235) |
| At 31 March 2006 | 2,902 | 2,065 | 308 | 5,275 |
| Exchange adjustment | - | (56) | - | (56) |
| Additions acquired externally | 2,934 | - | 639 | 3,573 |
| Disposals | - | - | (546) | (546) |
| **At 31 March 2007** | **5,836** | **2,009** | **401** | **8,246** |
| **Amortisation/impairment:** | | | | |
| At 1 April 2005 | 584 | 406 | - | 990 |
| Exchange adjustment | - | 6 | - | 6 |
| Amortisation charge for the year | 519 | - | - | 519 |
| At 31 March 2006 | 1,103 | 412 | - | 1,515 |
| Exchange adjustment | - | (11) | | (11) |
| Amortisation charge for the year | 649 | - | - | 649 |
| **At 31 March 2007** | **1,752** | **401** | **-** | **2,153** |
| **Net book value:** | | | | |
| At 31 March 2005 | 1,201 | 1,630 | - | 2,831 |
| At 31 March 2006 | 1,799 | 1,653 | 308 | 3,760 |
| **At 31 March 2007** | **4,084** | **1,608** | **401** | **6,093** |

Included in software costs are amounts in respect of assets under construction amounting to £329k (2006 - £546k).

**Impairment testing**

Goodwill arising on acquisitions has been capitalised and is reviewed for impairment annually. For the purposes of impairment testing the carrying value of the Group's goodwill relates to one cash generating unit (Huntstown 1).

The recoverable amount in respect of Huntstown 1 goodwill is based on its value-in-use, which has been determined using discounted future cash flows. The cash flow projections cover a 26 year period, being the estimated remaining useful life of Huntstown 1. The key assumptions relate to Huntstown 1 plant performance and wholesale electricity prices. The plant performance assumptions regarding availability and efficiency take into account the plant's long-term maintenance plan and normal plant degradation. The wholesale electricity price forecasts are derived from management's expectations regarding the SEM, electricity demand growth, generation plant additions and retirements, fuel and $CO_2$ costs, financing costs and other plant running costs. The projections are based on business plans for a period of 5 years which have been reviewed by the Board and management forecasts thereafter. The assumptions regarding electricity demand growth based on Eirgrid published forecasts. The cash flows were discounted using a pre tax nominal discount rate of 10% (2006 – 10%).

## NOTES TO THE ACCOUNTS

### 11. Investments

| **Company – Investment in subsidiaries** | **£'000** |
|---|---|
| **Cost:** | |
| **At 1 April 2006 and 31 March 2007** | 1,107 |

Details of the principal investments in which the Group or Company holds 20% or more of the nominal value of any class of share capital during the year are as follows:

| **Subsidiary undertakings** | **Holding** | **Proportion held of voting rights and shares** | | **Nature of business** |
|---|---|---|---|---|
| Viridian Power Ltd | Ordinary shares | 100% | * | Generation development |
| Viridian Energy Supply Ltd (trading as Energia) | Ordinary shares | 100% | | Energy supply |
| Viridian Energy Ltd (trading as Energia) | Ordinary shares | 100% | * | Energy supply |
| GenSys Power Ltd | Ordinary shares | 100% | * | Operating and maintenance services |
| Huntstown Power Company Ltd | Ordinary shares | 100% | * | Electricity generation |
| Power & Energy Holdings (RoI) Limited | Ordinary shares | 100% | * | Generation development |

*held by a subsidiary undertaking.

Viridian Energy Supply Ltd is incorporated in Northern Ireland. Huntstown Power Company Ltd, GenSys Power Ltd, Viridian Power Ltd, Power & Energy Holdings (RoI) Limited and Viridian Energy Ltd are incorporated in the RoI.



### 12. Other Financial Assets

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| Intra-group loans | **51,511** | 29,729 | **51,264** | 56,446 |

The directors consider that the carrying amount of financial assets equates to fair value.

### 13. Inventories

| | **Group** | |
|---|---|---|
| | **2007 £'000** | 2006 £'000 |
| Materials and consumables | **2,634** | 2,605 |

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 14. Trade and Other Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade receivables (including unbilled consumption) | **59,604** | 64,400 | **-** | - |
| Other receivables | **89** | 425 | **43** | 23 |
| Intra-group trade receivables | **3,558** | 1,765 | **123** | - |
| Prepayments and accrued income | **2,890** | 1,775 | **-** | - |
| | **66,141** | 68,365 | **166** | 23 |

Trade receivables are stated net of a provision of £3,818k (2006 - £2,236k) for estimated irrecoverable amounts based on past default experience:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£'000** | £'000 |
| At 1 April | **(2,236)** | (1,664) |
| Increase in provision | **(2,020)** | (728) |
| Bad debts written off | **438** | 156 |
| **At 31 March** | **(3,818)** | (2,236) |

The above provision includes £3,401k (2006 - £1,399k) in respect of individual assets impaired based on the age of debt and past default experience.

The following shows an aged analysis of the Group's trade receivables:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£'000** | £'000 |
| **Within credit terms:** | | |
| Current | **53,157** | 54,725 |
| **Past due:** | | |
| 30 – 60 days | **3,909** | 4,502 |
| 60 – 90 days | **1,018** | 1,718 |
| + 90 days | **1,520** | 3,455 |
| **At 31 March** | **59,604** | 64,400 |

The directors consider that the carrying amount of trade and other receivables approximates to fair value.

## NOTES TO THE ACCOUNTS

### 15. Cash and Cash Equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| Cash at bank and in hand | **2,928** | 2,095 | **-** | - |
| Short-term bank deposits | **16,620** | 10,884 | **-** | - |
| | **19,548** | 12,979 | **-** | - |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are invested for periods of between one day and three months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates. The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

Euro-dominated balances within cash and cash equivalents amount to £19,542k (2006 - £12,932k); the remainder is denominated in Sterling.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the same elements as noted above.

### 16. Trade and Other Payables



| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| **Current** | | | | |
| Trade payables | **39,130** | 35,120 | **1** | 1 |
| Other payables | **9,185** | 2,156 | **-** | - |
| Intra-group trade payables | **14,656** | 13,501 | **2** | 121 |
| Taxation and social security | **8,189** | 7,035 | **25** | 42 |
| Accruals | **10,814** | 2,821 | **304** | 145 |
| | **81,974** | 60,633 | **332** | 309 |
| **Non-current** | | | | |
| Accruals | **-** | 682 | **-** | - |

The directors consider that the carrying amount of trade and other payables equates to fair value.

## NOTES TO THE ACCOUNTS

### 17. Other Financial Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Current** | | | | |
| Huntstown bank loan facility | **-** | 5,943 | **-** | - |
| Intra-group loan amounts | **222,172** | 5,077 | **42,498** | 47,151 |
| | **222,172** | 11,020 | **42,498** | 47151 |
| **Non-current** | | | | |
| Huntstown bank loan facility | **-** | 113,894 | **-** | - |
| Intra-group loan amounts | **-** | 61,374 | **-** | - |
| | **-** | 175,268 | **-** | - |

Loans and other borrowings outstanding are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Huntstown bank loan facility:** | | | | |
| In one year or less or on demand | **-** | 5,943 | **-** | - |
| In more than one year but not more than two years | **-** | 6,514 | **-** | - |
| In more than two years but not more than five years | **-** | 22,897 | **-** | - |
| In more than five years | **-** | 84,483 | **-** | - |
| | **-** | 119,837 | **-** | - |
| **Intra-group loan amounts:** | | | | |
| In one year or less or on demand | **222,172** | 5,077 | **42,498** | 47,151 |
| In more than one year | **-** | 61,374 | **-** | - |
| | **222,172** | 66,451 | **42,498** | 47,151 |
| | **222,172** | 186,288 | **42,498** | 47,151 |



The directors consider that the carrying amount of loans and other borrowings equates to fair value.

The principal and accrued interest in respect of the Huntstown bank loan, which was secured over the assets of Huntstown 1, was repaid on 22 December 2006.

## 18. Derivative Financial Instruments

| Group | Foreign exchange contracts £'000 | Commodity swaps £'000 | Interest rate swaps £'000 | Total £'000 |
|---|---|---|---|---|
| **2007** | | | | |
| Non-current assets | **-** | **483** | **-** | **483** |
| Current assets | **54** | **1,970** | **-** | **2,024** |
| Current liabilities | **(176)** | **(16,785)** | **(1,387)** | **(18,348)** |
| Non-current liabilities | **-** | **(123)** | **(5,902)** | **(6,025)** |
| **At 31 March 2007** | **(122)** | **(14,455)** | **(7,289)** | **(21,866)** |
| **2006** | | | | |
| Current assets | 1,517 | 9,453 | - | 10,970 |
| Current liabilities | (281) | (545) | (2,583) | (3,409) |
| Non-current liabilities | - | - | (8,873) | (8,873) |
| At 31 March 2006 | 1,236 | 8,908 | (11,456) | (1,312) |

The Group's objectives, policies and strategies in respect of derivative financial instruments are described in the Directors' report.



**Foreign exchange contracts - cash flow hedges**
The Group has entered into foreign exchange contracts in respect of forecast Sterling costs of its Euro-denominated RoI subsidiaries for the year ending 31 March 2008. The timing and amount of these foreign exchange contracts match the forecast requirements and the contracts are considered effective hedges. At 31 March 2007 the fair value of foreign exchange contracts was a liability of £122k (2006 – asset of £1,236k). At 31 March 2007 an unrealised gain of £43k (2006 - £917k), net of deferred tax of £165k (2006 - £131k), relating to foreign exchange contracts is included in equity. During the year, realised gains of £3,412k (2006 - £2,491k) were removed from equity and are primarily included within energy costs in the income statement in respect of completed hedges.

During the year no gains or losses (2006 - £189k) were realised in respect of foreign exchange contracts for which hedge accounting was discontinued due to the hedge designation being revoked. Losses of £217k (2006 – £189k) were realised in respect of foreign exchange contracts that did not qualify for hedge accounting.

The fair value of foreign exchange contracts has been calculated by applying the forward price derived from third party market price quotations.

**Commodity swaps - cash flow hedges**
The Group has entered into commodity swap contracts in respect of forecast gas purchases for the year ending 31 March 2007. The timing and amount of the swap contracts match the forecast requirements and the contracts are considered effective hedges. At 31 March 2007 the fair value of commodity swap contracts was a liability of £14,455k (2006 – asset of £8,908k). At 31 March 2007 an unrealised loss of £12,120k (2006 – gain of £7,803k), net of deferred tax of £2,336k (2006 - £1,110k), relating to swap contracts is included in equity. During the year, realised losses of £2,555k (2006 - £16,289k gain) were removed from equity and are included within energy costs in the income statement in respect of completed hedges.

During the year profits of £217k (2006 - £1,825k) were realised in respect of commodity swaps for which hedge accounting was discontinued due to the hedge designation being revoked. Losses of £217k (2006 - £1,825k gain) were made in respect of commodity swaps that did not qualify for hedge accounting.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 18. Derivative Financial Instruments (continued)

**Commodity swaps – cash flow hedges** (continued)
The fair value of commodity contracts has been calculated by applying the forward price derived from third party market price quotations.

**Interest rate swaps - cash flow hedges**
The Group has entered into interest rate swap contracts whereby it pays a fixed rate of interest and receives a variable rate of interest on the outstanding principal of certain Euro-denominated borrowings. The terms of the swap contracts match the loan profile and the contracts are considered effective hedges. At 31 March 2007 the fair value of interest rate swaps was a liability of £7,289k (2006 - £11,456k). At 31 March 2007 an unrealised loss of £6,378k (2006 - £10,024k), net of deferred tax of £991k (2006 - £1,432k), relating to swap contracts is included in equity. During the year, realised losses of £2,502k (2006 - £4,152k) were removed from equity and are included within finance costs in the income statement in respect of completed hedges.

The fair value of interest rate swaps has been valued by calculating the present value of future cash flows, estimated using forward rates from third party market price quotations.

## 19. Sensitivity Analysis – Financial Instruments

At 31 March 2007, the Group is exposed to future changes in the fair value of unsettled derivative financial instruments. The sensitivity analysis for each type of market risk showing the impact on equity is set out below. These sensitivities are based on an assessment of market rate movements during the year and each is considered to be a reasonably possible range. There is no impact on the income statement.

The impact on the fair value of foreign exchange contracts is calculated by increasing/decreasing by 2% the effective Sterling:Euro exchange rates of third party price quotations.

The impact on the fair value of commodity swaps is calculated by increasing/decreasing by 10p per therm the effective commodity prices of third party gas price quotations.

The impact on the fair value of interest rate swaps is calculated by increasing/decreasing by 1% the Euro interest rates of third party price quotations.



| | **2007 credit/(charge) £'000** | 2006 credit/(charge) £'000 |
|---|---|---|
| **Foreign exchange contracts** | | |
| 2% increase in £:€ exchange rate | **847** | 1,217 |
| 2% decrease in £:€ exchange rate | **(882)** | (1,217) |
| **Commodity swaps** | | |
| 10 pence increase in gas price per therm | **18,609** | 10,034 |
| 10 pence decrease in gas price per therm | **(18,609)** | (10,034) |
| **Interest rate swaps** | | |
| 1% increase in Euro interest rates | **5,040** | 6,247 |
| 1% decrease in Euro interest rates | **(5,476)** | (6,833) |

As at 31 March 2007, the Group had net Euro-denominated financial assets of £3,371k (2006 - £6,900k) where the functional currency is Sterling, in respect of which a 2% increase/decrease in the £:€ exchange rate would decrease/increase net Euro-denominated financial assets by £66k (2006 - £137k).

As at 31 March 2006, the Group had Euro-denominated net assets of £12,417k (2006 - £18,127k). A 2% increase/decrease in the £:€ exchange rate would decrease/increase net assets by £366k (2006 - 360k).

## 20. Provisions

| Group | Decommissioning £'000 |
|---|---|
| **At 1 April 2005** | 2,114 |
| Exchange adjustment | 38 |
| Unwinding of discount | 109 |
| **At 31 March 2006** | **2,261** |
| Exchange adjustment | (62) |
| Unwinding of discount | 97 |
| **At 31 March 2007** | **2,296** |

**Decommissioning**
Provision has been made for the decommissioning of Huntstown 1. The provision represents the present value of the current estimated costs of closure of the plant at the end of its useful economic life. The provision has been discounted using a rate of 4.43% (2006 – 4.43%) and is expected to be utilised within a period not exceeding thirty years.



## 21. Lease obligations

The Group has entered into leases on certain items of property, plant and equipment. These leases contain options for renewal before the expiry of the lease term at rentals based on market prices at the time of renewal.

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

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Within one year | **189** | 180 |
| After one year but not more than five years | **625** | 719 |
| More than five years | **1,191** | 1,411 |
| | **2,005** | 2,310 |

## 22. Commitments and contingent liabilities

At 31 March 2007 the Group had £59m contracted future capital expenditure (2006 – £123m).

## NOTES TO THE ACCOUNTS

### 23. Share Capital

| *Authorised* | **2007 £'000** | 2006 £'000 |
|---|---|---|
| 10,000 ordinary shares of £1 each | **10** | 10 |

| *Allotted and fully paid* | **2007 £** | 2006 £ |
|---|---|---|
| 100 ordinary shares of £1 each | **100** | 100 |

### 24. Reconciliation of Movements in Equity

| **Group** | **Share capital £'000** | **Hedge reserve £'000** | **Foreign currency translation reserve £'000** | **Accumulated profits £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **At 1 April 2005** | **-** | **(8,866)** | **353** | **24,717** | **16,204** |
| Total recognised income and expense for the year | - | 7,561 | 470 | 11,887 | 19,918 |
| Share-based payments | - | - | - | 148 | 148 |
| Items charged directly to reserves | - | - | - | (198) | (198) |
| **At 1 April 2006** | **-** | **(1,305)** | **823** | **36,554** | **36,072** |
| Total recognised income and expense for the year | - | (17,776) | (548) | 14,513 | (3,811) |
| Share-based payments | - | - | - | 304 | 304 |
| **At 31 March 2007** | **-** | **(19,081)** | **275** | **51,371** | **32,565** |

| **Company** | **Share capital £'000** | **Accumulated profits £'000** | **Total £'000** |
|---|---|---|---|
| **At 1 April 2005** | **-** | **11,767** | **11,767** |
| Total recognised income and expense for the year | - | (1,090) | (1,090) |
| Share-based payments | - | 90 | 90 |
| Other items charged directly to reserves | - | (198) | (198) |
| **At 1 April 2006** | **-** | **10,569** | **10,569** |
| Total recognised income and expense for the year | - | 557 | 557 |
| Share-based payments | - | 185 | 185 |
| **At 31 March 2007** | **-** | **11,311** | **11,311** |

The balance classified as share capital comprises the nominal value of the Company's share capital, consisting of £1 ordinary shares (2006 - £1 ordinary shares).

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

## 24. Reconciliation of Movements in Equity (continued)

The balance classified as hedge reserve records the gain or loss on cash flow hedges determined to be effective hedges.

The balance classified as foreign currency translation reserve records the exchange difference arising from the retranslation of the accounts of foreign subsidiaries.

## 25. Share-Based Payments

Prior to its acquisition in December 2006, Viridian operated a number of equity-settled employee share schemes. These schemes ceased to operate following the acquisition.

**(i) Share-based payments expense**

The share-based payment expense recognised for share-based payments in respect of employee services received during the year was £323k (2006 – credit £169k) of which £108k (2006 - £nil) was recognised as exceptional. The exceptional charge was in respect of accelerated charges as Viridian options became exercisable and conditional share awards vested on acquisition.

In accordance with the exception permitted under IFRS 2, no expense was recognised in respect of options over nil shares (2006 – 34,705) which were granted before 7 November 2002.

**(ii) Share option schemes**

The all-employee Sharesave Scheme was a savings related scheme whereby employees entered into a three year save-as-you-earn contract with options to acquire shares in Viridian. The exercise price represented 80% of the market price at the time of grant. The options were normally exercisable during the six month period following the three year savings contract, subject to continuous employment.

On the acquisition of Viridian in December 2006, options that had accrued by that date became exercisable. As an alternative to the exercise of the options participants were offered the opportunity to save until the end of the savings contract and receive a compensation payment at the normal maturity date, equal to the gain they would have realised had they been able to exercise their options in full at the acquisition date.

Under the discretionary Executive Share Option Scheme, the exercise price of options granted was the market price at the time of grant. The options were normally exercisable between the third and tenth anniversaries of the date of grant, subject to continuous employment. On the acquisition date, all options granted became exercisable.

## NOTES TO THE ACCOUNTS

### 25. Share-Based Payments (continued)

Details of the number of options and weighted average exercise prices were as follows:

| | Sharesave Scheme | | Executive Share Option Scheme | |
|---|---|---|---|---|
| | Options Number | Weighted average exercise price Pence | Options Number | Weighted average exercise price Pence |
| Outstanding at 31 March 2005 | 50,807 | 402.0 | 215,783 | 556.1 |
| Granted | 56,179 | 694.0 | 35,635 | 731.0 |
| Exercised | (49,806) | 402.0 | (87,603) | 522.8 |
| Forfeited | (61) | 402.0 | - | - |
| Outstanding at 31 March 2006 | 57,119 | 682.6 | 163,815 | 612.0 |
| Exercised | (3,985) | 625.1 | (156,060) | 610.1 |
| Forfeited | (53,134) | 694.0 | (7,755) | 649.9 |
| **Outstanding at 31 March 2007** | - | - | - | - |
| Exercisable at 31 March 2006 | 940 | 402.0 | 34,705 | 617.5 |

The weighted average share price at the exercise date for options exercised during the year under the Sharesave Scheme was 1229.7p (2006 – 959.4) and for options exercised under the Executive Share Option Scheme was 1304.9p (2006 – 799.9p). The number of options outstanding, the weighted average remaining contractual life and the weighted average exercise price as at 31 March for the following range of exercise prices were as follows:

| | Options Number | | Weighted average remaining contractual life Years | | Weighted average exercise price Pence | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **Sharesave Scheme** | | | | | | |
| 402.0p | - | 940 | - | 0.3 | - | 402.0 |
| 694.0p | - | 56,179 | - | 3.3 | - | 694.0 |
| **Executive Share Option Scheme** | | | | | | |
| 465.0p – 478.0p | - | 7,308 | - | 6.2 | - | 465.0 |
| 534.5p – 581.0p | - | 93,475 | - | 7.9 | - | 564.5 |
| 638.5p – 656.0p | - | 22,274 | - | 5.1 | - | 639.0 |
| 731.0p – 741.5p | - | 40,758 | - | 8.5 | - | 732.3 |

## NOTES TO THE ACCOUNTS

### 25. Share-Based Payments (continued)

The fair values of options granted under the Sharesave Scheme and the Executive Share Option Scheme were measured at the date of grant using a Black Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The input data was as follows:

| | Sharesave Scheme | | Executive Share Option Scheme | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Share price at the date of grant (price) | - | 851.5 | - | 741.0 |
| Exercise price (pence)[1] | - | 694.0 | - | 731.0 |
| Volatility (%)[2] | - | 18.0 | - | 19.0 |
| Expected dividend yield (%)[3] | - | 4.6 | - | 5.3 |
| Expected life of option (years) | - | 3 | - | 4 |
| Risk free rate of interest (%) | - | 4.2 | - | 4.2 |
| Option fair value (pence) | - | 165.0 | - | 83.0 |

[1] The exercise price of options at the date of grant was set by reference to the market value of a Viridian share on the dealing day immediately preceding or, if the Viridian Board so determined, the average market value over the three preceding dealing days.

[2] The expected volatility was based on historical data over a period equal to the expected life of the option.

[3] The expected dividend yield was calculated based on actual dividends paid in respect of the year ended 31 March 2005 and the dividend growth rate during that year.

No other features of options granted were incorporated into the measurement of fair value.

**(iii) PSP and CIP**

Under the PSP conditional share awards were granted to a maximum value of 100% of basic salary. Up to 2004/05 awards were made to directors of Viridian only. During 2005/06 and 2006/07, in addition to directors of Viridian, awards were made to certain senior managers. The 2004/05 awards were subject to Viridian's total shareholder return (TSR) over a three year performance period relative to a group of comparator companies. 50% of the 2005/06 and 2006/07 awards were based on Viridian's TSR over a three year period relative to the constituents of the FTSE mid-250 Index (excluding investment trusts). The other 50% of these awards were based on the average Return On Capital Employed (ROCE) achieved by Viridian over a three year period. Normally awards would vest following the third anniversary of the grant date.

During 2005/06, conditional awards were made to directors of Viridian and certain senior managers under the CIP. Participants could invest in Viridian shares up to the value of 20% of gross annual salary or 100% of gross performance bonus (whichever was higher). Matching Viridian shares were awarded after three years, at a minimum level of 50% of shares invested, up to a maximum level of 150% dependent on the achievement of the same performance conditions as those applying to the PSP. Normally matching award shares would vest following the third anniversary of the grant date. No conditional awards were granted during 2006/07.

On the date of acquisition the conditional share awards vested as appropriate under their terms. The extent to which the conditional share awards granted in the years ended 31 March 2006 and 31 March 2007 vested was pro-rated to reflect the extent to which the performance period had elapsed.

The fair value of awards granted was based on the market value of the shares at the date of grant less expected dividends over the three year vesting period. The fair value of awards based on relative Viridian TSR performance assumed that there was equal probability of achieving any TSR ranking. The fair value of awards based on ROCE assumed that the performance condition was met in full.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 25. Share-based payments (continued)

**(iii) PSP and CIP (continued)**
The assumptions used to value the conditional share awards granted under the PSP during the year were as follows:

| | PSP | | CIP | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Number of conditional share awards granted | **44,679** | 41,823 | - | 22,572 |
| Share price at the date of grant (pence) | **929.5** | 801.0 | - | 801.0 |
| Expected dividends per share (pence) | **121.9** | 115.3[1] | - | 115.3[1] |
| Element of awards based on TSR performance: | | | | |
| - Expected value (%) | **40.6** | 40.6 | - | 58.3 |
| - Fair value (pence) | **327.9** | 278.4 | - | 400.0 |
| Element of awards based on ROCE performance: | | | | |
| - Fair value (pence) | **807.6** | 685.7 | - | 685.7 |

[1] The expected dividends per share were calculated based on actual dividends paid in respect of the year ended 31 March 2005 and the dividend growth rate during that year.

**(iv) SIP**
The all-employee SIP enables eligible UK based employees to buy shares in Viridian from pre-tax salary, subject to a limit of £125 per month. Viridian awarded one free share for every share purchased up to a limit of £50 per month; the fair value of these awards was the cost of purchasing the shares. During 2006/07, 1,303 shares (2006 - 2,305) were purchased by the trustees of the SIP on behalf of 38 employees (2006 – 35) at a total cost of £14k (2006 - £19k). Under the terms of the acquisition of Viridian, participants received £13.25 per share held under the SIP or opted for loan notes issued by ElectricInvest Acquisitions.

**(v) Share Participation Scheme (SPS)**
The all-employee SPS, introduced during 2006/07, was a Revenue Commissioner approved employee share scheme which enabled eligible RoI based employees to buy shares in Viridian from pre-tax bonus and salary up to certain annual limits. The Group made a contribution of €1 for each €1 of bonus invested up to €900 per annum; the fair value of these awards was the Group's contribution. During 2006/07 3,030 shares (2006 - nil) were purchased by the trustees of the SPS on behalf of 46 employees at a total cost of £28k (2006 - £nil). Under the terms of the acquisition of Viridian participants received £13.25 per share held under the SPS.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 26. Pension commitments

Most UK employees of the Group are members of VGPS. This has two sections: "Options" which is a defined contribution arrangement whereby the Group generally matches members' contributions up to a maximum of 6% of salary and "Focus" which provides benefits based on pensionable salary at retirement or earlier exit from service. There is a defined contribution arrangement for employees in the RoI known as Choices; its benefits mirror those of the Options section of VGPS. The assets of the schemes are held under trust and invested by the trustees on the advice of professional investment managers.

Hewitt, the actuaries to VGPS, have provided a valuation of Focus under IAS 19 at 31 March 2007 based on the following assumptions (in nominal terms) and using the projected unit method.

| | **2007** | 2006 |
|---|---|---|
| Rate of increase in pensionable salaries | **4.1% per annum** | 3.9% per annum |
| Rate of increase in pensions in payment | **3.1% per annum** | 2.9% per annum |
| Discount rate | **5.5% per annum** | 5.0% per annum |
| Inflation assumption | **3.1% per annum** | 2.9% per annum |
| Life expectancy: | | |
| Current pensioners (at age 60) - males | **23.1 years** | 23.1 years |
| Current pensioners (at age 60) - females | **25.9 years** | 25.9 years |
| Future pensioners (at age 60) - males | **23.9 years** | 23.9 years |
| Future pensioners (at age 60) - females | **26.6 years** | 26.6 years |

The life expectancy assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.



**Group**
The valuation under IAS 19 at 31 March 2007 shows a net pension asset (before deferred tax) of £2,390k (2006 – £627k).

**Company**
The valuation under IAS 19 at 31 March 2007 shows a net pension asset (before deferred tax) of £1,386k (2006 - £680k).

**Assets and Liabilities**
VP&E's share of the assets and liabilities of Focus and the expected rates of return are:

| **Group** | **Value at 31 March 2007 £'000** | **Expected rate of return %** | Value at 31 March 2006 £'000 | Expected rate of return % |
|---|---|---|---|---|
| Equities | **3,160** | **7.9** | 2,801 | 7.5 |
| Bonds | **3,893** | **5.1** | 2,335 | 4.7 |
| Other | **54** | **4.7** | 22 | 4.3 |
| Total market value of assets | **7,107** | | 5,158 | |
| Actuarial value of liabilities | **(4,717)** | | (4,531) | |
| Net pension asset | **2,390** | | 627 | |

## 26. Pension commitments (continued)

**Assets and Liabilities (continued)**

| Company | Value at 31 March 2007 £'000 | Expected rate of return % | Value at 31 March 2006 £'000 | Expected rate of return % |
|---|---|---|---|---|
| Equities | **1,450** | **7.9** | 1,364 | 7.5 |
| Bonds | **1,787** | **5.1** | 1,137 | 4.7 |
| Other | **25** | **4.7** | 10 | 4.3 |
| Total market value of assets | **3,262** | | 2,511 | |
| Actuarial value of liabilities | **(1,876)** | | (1,831) | |
| Net pension asset | **1,386** | | 680 | |

The expected rate of return on equities is based on the expected median return over the long-term. The expected rate of return on bonds is measured directly from actual market yields for UK gilts and corporate bonds. Other assets include cash balances and net current assets. The expected rate of return on these assets is measured directly from short-term market interest rates.



**Changes in the market value of assets**

| | Group 2007 £'000 | Group 2006 £'000 | Company 2007 £'000 | Company 2006 £'000 |
|---|---|---|---|---|
| Market value of assets at 1 April | **5,158** | 3,266 | **2,511** | 1,368 |
| Expected return | **302** | 231 | **149** | 108 |
| Contributions from employer | **1,989** | 934 | **768** | 368 |
| Contributions from scheme members | **56** | 53 | **9** | 10 |
| Benefits paid | **(228)** | (196) | **(92)** | (82) |
| Actuarial (loss)/gain | **(170)** | 870 | **(83)** | 739 |
| Market value of assets at 31 March | **7,107** | 5,158 | **3,262** | 2,511 |

The Group expects to make total contributions of £320k to Focus in 2007/08.

**Changes in the actuarial value of liabilities**

| | Group 2007 £'000 | Group 2006 £'000 | Company 2007 £'000 | Company 2006 £'000 |
|---|---|---|---|---|
| Actuarial value of liabilities at 1 April | **4,531** | 3,913 | **1,831** | 1,635 |
| Interest cost | **227** | 203 | **92** | 85 |
| Current service cost | **339** | 220 | **119** | 42 |
| Contributions from scheme members | **56** | 53 | **9** | 10 |
| Benefits paid | **(228)** | (196) | **(92)** | (82) |
| Actuarial (gain)/loss | **(208)** | 338 | **(84)** | 141 |
| Actuarial value of liabilities at 31 March | **4,717** | 4,531 | **1,875** | 1,831 |

## Viridian Power and Energy Limited

### NOTES TO THE ACCOUNTS

### 26. Pension commitments (continued)

**Analysis of the amount charged to operating costs**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Current service cost | **339** | 220 | **119** | 42 |

Focus is closed to new members and therefore under the projected unit method the current service cost for members of this section as a percentage of salary will increase as they approach retirement age.

**Analysis of the amount charged to net finance costs**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Expected return on assets | **302** | 231 | **149** | 108 |
| Interest on liabilities | **(227)** | (203) | **(92)** | (85) |
| Net credit | **75** | 28 | **57** | 23 |

The actual return on Focus assets for the Group was £132k (2006 - £1,101k), and for the Company was £66k (2006 - £847k).

**Analysis of amount recognised in the Statement of Recognised Income and Expense**



| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Actuarial (loss)/gain on assets | **(170)** | 870 | **(83)** | 739 |
| Actuarial gain/(loss) on liabilities | **208** | (338) | **84** | (141) |
| Net actuarial gain | **38** | 532 | **1** | 598 |

The cumulative actuarial gain recognised in the Group Statement of Recognised Income and Expense since 1 April 2004 is Group £572k (2006 - £534k), Company £599k (2006 - £598k). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity of £727k in the Group, and £311k in the Company, is attributable to actuarial gains and losses since the inception of the scheme. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Recognised Income and Expense shown before 1 April 2004.

## NOTES TO THE ACCOUNTS

### 26. Pension commitments (continued)

| History of experience gains and losses | Group 2007 £'000 | Group 2006 £'000 | Group 2005 £'000 | Company 2007 £'000 | Company 2006 £'000 | Company 2005 £'000 |
|---|---|---|---|---|---|---|
| Actuarial (loss)/gain on assets | **(170)** | 870 | 154 | (83) | 739 | 45 |
| Actuarial gain/(loss) on liabilities | **208** | (338) | (152) | 84 | (141) | (45) |
| Total actuarial gain recognised in the Statement of Recognised Income and Expense | **38** | 532 | 2 | 1 | 598 | - |

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2007 £'000 | 2006 £'000 | 2005 £'000 |
|---|---|---|---|---|---|---|
| Market value of assets | **7,107** | 5,158 | 3,266 | **3,262** | 2,511 | 1,368 |
| Actuarial value of liabilities | **(4,717)** | (4,531) | (3,913) | **(1,876)** | (1,831) | (1,635) |
| Net pension asset/(liability) | **2,390** | 627 | (647) | **1,386** | 680 | (267) |



### 27. Related Party Disclosures

**Remuneration of key management personnel**
Key management personnel comprise the directors of the Company. The compensation paid to those personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Salaries and short-term employee benefits | 1,132 | 631 |
| Post employment benefits | 98 | 106 |
| Share-based payment | 419 | 99 |
| | 1,649 | 836 |

**Other related parties**
During the year the Group contributed £2,243k (2006 - £1,136k) and the Company contributed £778k (2006 - £377k) to VGPS.

Transactions between the Company and its subsidiaries (all 100% owned) have been eliminated on consolidation in the Group accounts. Details of the Company's principal subsidiaries at 31 March 2007 are listed in note 11. The immediate parent and the parent of the smallest group of which the Company is a member and consolidated accounts are prepared is Viridian Group PLC. Copies of the consolidated accounts of Viridian Group PLC are available from 120 Malone Road, Belfast BT9 5HT.

The ultimate parent undertaking in the United Kingdom and the parent of the largest group of which the Company is a member and for which group accounts are prepared is EI Ventures Limited. Copies of the consolidated accounts are available from 120 Malone Road, Belfast, BT9 5HT.

The ultimate controlling party of the Group is Arcapita B.S.C. (c), a company incorporated in the Kingdom of Bahrain.

# Viridian Power and Energy Limited

## NOTES TO THE ACCOUNTS

### 27. Related Party Disclosures (continued)

Subsidiaries of EI Ventures Limited, which are related parties, are listed below:

ElectricInvest Holding Company Limited
ElectricInvest Acquisitions Limited
Viridian Group PLC
Northern Ireland Electricity plc
SONI Limited
NIE Powerteam Limited
Powerteam Electrical Services Limited
Powerteam Electrical Services (UK) Limited
Viridian Capital Limited
Viridian Enterprises Limited
Viridian Properties Limited
Viridian Insurance Limited
Viridian Power and Energy Limited
Viridian Energy Limited
Viridian Energy Supply Limited
Gensys Power Limited
Viridian Power Limited
Power & Energy Holdings (RoI) Limited
Huntstown Power Company Limited
Viridian Power Resources Limited

Transactions between the Group and EI Ventures and/or its subsidiaries and the balances outstanding are disclosed below:

**Group**

| | Revenue and interest received from related party £'000 | Charges and interest paid to related party £'000 | Amounts owed by related party £'000 | Amounts owed to related party £'000 |
|---|---|---|---|---|
| **2007** | | | | |
| EI Ventures | - | - | - | - |
| EI Ventures subsidiaries | **756** | **(134,366)** | **55,069** | **(236,828)** |
| | **756** | **(134,366)** | **55,069** | **(236,828)** |
| 2006 | | | | |
| EI Ventures | - | - | - | - |
| EI Ventures subsidiaries | 900 | (126,992) | 31,494 | (79,952) |
| | 900 | (126,992) | 31,494 | (79,952) |

## NOTES TO THE ACCOUNTS

### 27. Related Party Disclosures (continued)

Transactions between the Company and EI Ventures and/or its subsidiaries and the balances outstanding are disclosed below:

| Company | Ordinary dividends received from/ (paid to) related party £'000 | Revenue and interest received from related party £'000 | Charges and interest paid to related party £'000 | Amounts owed by related party £'000 | Amounts owed to related party £'000 |
|---|---|---|---|---|---|
| **2007** | | | | | |
| VP&E subsidiaries | **565** | **824** | **(475)** | **42,460** | **(864)** |
| EI Ventures | **-** | **-** | **-** | **-** | **-** |
| EI Ventures subsidiaries | **-** | **236** | **-** | **8,927** | **(41,634)** |
| | **565** | **1060** | **(475)** | **51,387** | **(42,500)** |
| 2006 | | | | | |
| VP&E subsidiaries | - | 873 | (512) | 54,510 | (1,101) |
| EI Ventures | - | - | - | - | - |
| EI Ventures subsidiaries | - | 259 | (20) | - | (46,172) |
| | | 1,132 | (532) | 54,510 | (46,273) |

Revenue and interest received from and paid to related parties are based on normal market rates. Outstanding balances with fellow group subsidiaries are unsecured. Intra-group loan balances are repayable on demand while trading current account balances are settled on a monthly basis.