Registered number: NI 26041

Northern Ireland Electricity plc
31 March 2007

Annual Report and Accounts

GENERAL INFORMATION

Directors
Patrick Haren (Chairman)
Patrick Bourke
Harry McCracken
Laurence MacKenzie

Company Secretary
Ian Thom

Registered office
120 Malone Road
Belfast
BT9 5HT

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

Principal Bankers
Bank of Ireland
4-8 High Street
Belfast
BT1 2BA

GROUP FINANCIAL HIGHLIGHTS

Underlying Business Results[1]

- Pro-forma operating profit increased 8.3% to £109.4m (2006 - £101.0m).

Statutory Results[2]

- Revenue decreased to £677.8m (2006 - £693.2m).

- Operating profit of £153.2m (2006 - £117.6m).

[1] Based on regulated entitlement
[2] Including the effect of over- or under-recovery by NIE against its regulated entitlement

DIRECTORS' REPORT

The directors of Northern Ireland Electricity plc (NIE 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 Northern Ireland Electricity plc and its subsidiary undertakings and to “Company” denote Northern Ireland Electricity plc, the parent company.

The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986.

Results and Dividends

The results for the year ended 31 March 2007 show a profit after tax of £93.9m (2006 - £68.9m). The Company paid interim ordinary dividends of £36.8m (2006 - £nil) and preference dividends of £3.2m (2006 - £nil). No final ordinary dividend is proposed.

Acquisition of Viridian Group PLC

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

Directors

The present directors of the Company are listed on page 1. All the directors held office throughout the year ended 31 March 2007. All of the directors held office throughout the year ended 31 March 2006 with the exception of Laurence MacKenzie, who was appointed as a director on 27 March 2006.

All the directors at 31 March 2007 are also directors of the immediate parent undertaking Viridian. Their interests in the shares of Viridian are disclosed in the annual report and accounts of that company.

The Group purchased and maintained directors’ and officers’ liability insurance throughout the period.

Research and Development

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

Business Review

The Group consists of four regulated businesses in Northern Ireland: transmission and distribution of electricity through Transmission and Distribution (T&D); power procurement through the Power Procurement Business (PPB); transmission system operation through System Operator Northern Ireland Limited (SONI); and supply of electricity through NIE Supply.

Key Performance Indicators

The directors have determined that the following key performance indicators (KPIs), covering both financial and operational performance, are the most effective measures of progress towards achieving the Group’s objectives.

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

KPIs	**2007**	2006
Pro-forma operating profit (based on regulated entitlement)	**£109.4m**	£101.0m
Interest cover (based on pro-forma operating profit)	**6.3 times**	5.0 times

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

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

Interest cover increased from 5.0 times to 6.3 times. The calculation of interest cover is shown below:

Year to 31 March	**2007**	2006
Group pro-forma operating profit	**£109.4m**	£101.0m
Net finance costs	**£17.4m**	£20.3m
Interest cover	**6.3 times**	5.0 times

Operational KPIs
The operational KPIs are:

- performance against the overall and guaranteed standards set by the Northern Ireland Authority for Utility Regulation (NIAUR);
- the number of complaints which the NI 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 the impact of major storms (CML).

Operational KPIs and commentary thereon are set out in the relevant sections below:

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.

Price control
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 NIE was privatised 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 distribution network operator (DNO) review in GB in respect of the distribution portion of T&D's regulatory asset base (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.

Other – under RP4, NIE is committed to funding a £1m vulnerable customer fund to help alleviate fuel poverty in Northern Ireland and a further £1m to fund research focused on identifying the best long-term options for development of the T&D network to accommodate Government objectives on sustainability. These costs will be funded from NIE's own resources.

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 gains 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 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 oxides of nitrogen (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.

Price control
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 Bulk Supply Tariff (BST). The costs which PPB incurs in the provision of services of a public service nature are recovered on a pass through basis via public service obligation (PSO) charges. SONI's price control principally covers the cost of system support and market operator services as well as its own operating costs.

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 plant. 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 incidents 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).

Price control
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.

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.

Operating 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.

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 the Commission for Energy Regulation (CER) in the Republic of Ireland, 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 is being 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.

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

Financing

Role of Treasury

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

Liquidity and interest rate risk

The Group's policy is to finance its operations through intercompany loan facilities with Viridian, which are repayable on demand, together with bank loans and bonds. The Group's borrowings are denominated in Sterling and bear a mixture of fixed and floating interest rates.

Credit risk

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

At 31 March	2007 £m	2006 £m
Cash and cash equivalents	**23.1**	42.7
Trade and other receivables	**103.1**	94.7
Other financial assets	**0.7**	0.9
	126.9	138.3

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

Regulatory risk
The main regulatory risks faced by the Group relate to the management of a wide range of regulatory matters with NIAUR and the Department of Enterprise, Trade and Investment (DETI), including compliance with its licence, the impact of price control reviews, the development of systems for market opening and the introduction of the SEM.

The Group'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 Group'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.

Business performance risk
Performance risks specific to each business are identified in individual business risk registers and managed at that 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.

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. In general, such risks are managed through: prudent and safe operational processes; a focused capital expenditure programme and sound maintenance practices. 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. 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 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; 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), membership of which includes employees of the Group, was closed to new entrants in 1998. Specialist actuarial and investment advice is taken with respect to management of VGPS's assets and liabilities.

Social, ethical and environmental risk
The Group has in place measures to protect against financial and reputational risk arising from any failure to manage social, ethical and environmental (SEE) risks. In general, SEE risks are managed through embedding Corporate Social Responsibility (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.

Employees

Equal Opportunities
The Group has been pro-active in implementing human resources 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.

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.

Charitable and Political Donations
Donations to charities in the year were £10,000 (2006 - £19,285). There were no contributions for political purposes.

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.

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 26041

Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the 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 and Article 4 of the International Accounting Standards (IAS) Regulation. 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 Northern Ireland Electricity plc

We have audited the Group and Company financial statements (the financial statements) of Northern Ireland Electricity 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 28. 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 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 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 and Article 4 of the International Accounting Standards (IAS) Regulation. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

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 Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditors
Belfast
Date:

GROUP INCOME STATEMENT
for the year ended 31 March 2007

	Note	2007 £m	2006 £m
Revenue	3,4	**677.8**	693.2
Operating costs	4	**(524.6)**	(575.6)
OPERATING PROFIT		**153.2**	117.6
Exceptional costs incurred as a result of the acquisition of Viridian	6	**(2.5)**	-
PROFIT FROM OPERATIONS BEFORE FINANCE COSTS		**150.7**	117.6
Interest receivable		**3.3**	0.9
Finance costs		**(22.8)**	(19.1)
Net pension scheme interest		**2.1**	(2.1)
Net finance costs	7	**(17.4)**	(20.3)
PROFIT FROM OPERATIONS BEFORE TAX CHARGE		**133.3**	97.3
Tax charge	8	**(39.4)**	(28.4)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**93.9**	68.9

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

	Note	Group		Company	
		2007 £m	2006 £m	**2007 £m**	2006 £m
Actuarial gain on pension scheme assets and liabilities	22	**13.0**	22.7	**11.1**	19.4
Deferred tax charge on items taken directly to equity		**(3.9)**	(6.8)	**(3.3)**	(5.8)
Net income recognised directly in equity		**9.1**	15.9	**7.8**	13.6
Profit for the financial year		**93.9**	68.9	**89.2**	65.0
Total recognised income and expense for the year attributable to the equity holders of the parent company		**103.0**	84.8	**97.0**	78.6

BALANCE SHEETS
As at 31 March 2007

	Note	Group 2007 £m	Group 2006 restated £m	Company 2007 £m	Company 2006 restated £m
Non-current assets					
Property, plant and equipment	11	**890.2**	837.9	**884.7**	837.1
Investment in subsidiaries	12	**-**	-	**0.5**	0.5
Intangible assets	13	**30.1**	10.9	**30.1**	10.9
Financial assets	14	**0.5**	0.7	**0.5**	0.7
		920.8	849.5	**915.8**	849.2
Current assets					
Inventories	15	**6.0**	4.3	**6.0**	4.3
Trade and other receivables	16	**103.1**	94.7	**104.7**	95.3
Financial assets	14	**0.2**	0.2	**0.2**	0.2
Cash and cash equivalents	17	**23.1**	42.7	**23.1**	42.7
		132.4	141.9	**134.0**	142.5
TOTAL ASSETS		**1,053.2**	991.4	**1,049.8**	991.7
Current liabilities					
Trade and other payables	18	**134.6**	132.9	**135.8**	131.8
Current tax payable		**32.7**	17.2	**31.5**	16.4
Deferred income	19	**6.0**	5.6	**6.0**	5.6
Financial liabilities	20	**33.9**	46.0	**36.8**	50.5
Short-term provisions	21	**9.1**	15.3	**9.1**	15.3
		216.3	217.0	**219.2**	219.6
Non-current liabilities					
Deferred tax liabilities	8	**99.7**	89.5	**103.5**	94.7
Deferred income	19	**179.9**	164.2	**179.8**	164.1
Financial liabilities	20	**309.5**	309.4	**309.5**	309.4
Long-term provisions	21	**13.8**	16.8	**13.8**	16.8
Pension liability	22	**87.0**	114.3	**73.4**	97.2
		689.9	694.2	**680.0**	682.2
TOTAL LIABILITIES		**906.2**	911.2	**899.2**	901.8
NET ASSETS		**147.0**	80.2	**150.6**	89.9
Equity					
Share capital	23	**-**	-	**-**	-
Share premium	24	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	24	**6.1**	6.1	**6.1**	6.1
Accumulated profits	24	**116.5**	49.7	**120.1**	59.4
TOTAL EQUITY		**147.0**	80.2	**150.6**	89.9

The accounts were approved by the Board of directors and authorised for issue on 2 July 2007. They were signed on its behalf by:

Patrick Haren
Chairman

Patrick Bourke
Director

Date:

CASH FLOW STATEMENTS
for the year ended 31 March 2007

	Note	Group		Company	
		2007	2006	**2007**	2006
		£m	£m	**£m**	£m
Cash flows from operating activities					
Operating profit		**153.2**	117.6	**147.0**	112.0
Adjustments for:					
Depreciation of property, plant and equipment		**35.0**	33.5	**35.0**	33.5
Amortisation of customers' contributions and grants		**(6.0)**	(5.7)	**(6.0)**	(5.7)
Amortisation of intangible assets		**1.7**	1.0	**1.7**	1.0
Share-based payments		**0.2**	(0.1)	**0.1**	(0.1)
Defined benefit pension charge less contributions paid		**(12.2)**	(4.3)	**(10.9)**	(3.6)
Net movement in provisions		**(9.9)**	(0.2)	**(9.9)**	(0.2)
Profit on disposal of property, plant & equipment		**(4.7)**	-	**(4.7)**	-
Exceptional costs incurred as a result of acquisition of Viridian		**(1.9)**	-	**(1.8)**	-
Operating cash flows before movement in working capital		**155.4**	141.8	**150.5**	136.9
(Increase)/decrease in working capital		**(11.4)**	7.3	**(9.0)**	6.4
Cash generated from operations		**144.0**	149.1	**141.5**	143.3
Interest received		**3.5**	0.7	**3.5**	0.7
Interest paid		**(17.9)**	(17.4)	**(17.9)**	(17.4)
Preference dividend paid		**(3.2)**	-	**(3.2)**	-
Current taxes paid		**(17.6)**	(22.2)	**(16.9)**	(21.9)
Net cash flows from operating activities		**108.8**	110.2	**107.0**	104.7
Cash flows from investing activities					
Purchase of property, plant and equipment		**(85.7)**	(71.6)	**(82.3)**	(71.0)
Purchase of intangible assets		**(20.9)**	(3.5)	**(20.9)**	(3.5)
Proceeds from disposal of property, plant and equipment		**5.1**	0.2	**5.1**	0.2
Contributions in respect of property, plant and equipment		**22.1**	17.1	**22.1**	17.1
Proceeds from disposal of intangible assets		**-**	0.4	**-**	0.4
Repayment of loans made		-	-	**-**	0.2
Net cash flows used in investing activities		**(79.4)**	(57.4)	**(76.0)**	(56.6)
Cash flows from financing activities					
Repayment of borrowings		**(12.2)**	(10.6)	**(13.8)**	(5.9)
Equity dividends paid		**(36.8)**	-	**(36.8)**	-
Net cash flows used in financing activities		**(49.0)**	(10.6)	**(50.6)**	(5.9)
Net (decrease)/increase in cash and cash equivalents		**(19.6)**	42.2	**(19.6)**	42.2
Cash and cash equivalents at beginning of year		**42.7**	0.5	**42.7**	0.5
Cash and cash equivalents at end of year	17	**23.1**	42.7	**23.1**	42.7

NOTES TO THE ACCOUNTS (continued)

1. General Information

Northern Ireland Electricity 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 Northern Ireland Electricity 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.

Foreign currency translation
The functional and presentation currency of the Company and its subsidiaries is Sterling (£).

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.

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:

2. Accounting Policies (continued)

Property, plant and equipment (continued)

Infrastructure assets - up to 40 years
Non-operational buildings - freehold and long leasehold - up to 50 years
Fixtures and equipment - up to 25 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.

Software costs
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.

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.

2. Accounting Policies (continued)

Financial instruments (continued)

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.

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.

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.

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.

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.

Pensions and other post-retirement benefits
Employees of the Group are entitled to membership of VGPS, which 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.

2. Accounting Policies (continued)

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 the acquisition of Viridian, most employees of the Group were entitled to participate in Viridian share schemes. 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 and 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 the Directors' Report. Inter-segment pricing is determined on an arm's length basis.

(i) Revenue and profit

	2007 External £m	**2007 Internal £m**	**2007 Total £m**	2006 External £m	2006 Internal £m	2006 Total £m
Revenue						
Power Procurement/SONI	**152.3**	**327.7**	**480.0**	207.2	290.9	498.1
Transmission and Distribution	**51.4**	**113.7**	**165.1**	49.4	113.7	163.1
NIE Supply	**473.1**	**7.1**	**480.2**	436.6	1.5	438.1
Other	**1.0**	**1.0**	**2.0**	-	0.1	0.1
	677.8	**449.5**	**1,127.3**	693.2	406.2	1,099.4
Inter-group elimination			**(449.5)**			(406.2)
			677.8			693.2
Operating profit						
Power Procurement/SONI			**48.0**			22.7
Transmission and Distribution			**87.7**			82.4
NIE Supply			**17.3**			13.0
Other			**0.2**			(0.5)
Group operating profit			**153.2**			117.6
Exceptional costs incurred as a result of acquisition of Viridian						
Power Procurement/SONI			**(0.2)**			-
Transmission and Distribution			**(0.6)**			-
NIE Supply			**(0.1)**			-
Other			**(1.6)**			-
			(2.5)			-
Profit from operations before finance costs			**150.7**			117.6
Interest receivable			**3.3**			0.9
Finance costs			**(22.8)**			(19.1)
Net pension scheme interest			**2.1**			(2.1)
Net finance costs			**(17.4)**			(20.3)
Profit from operations before tax charge			**133.3**			97.3
Tax charge			**(39.4)**			(28.4)
Profit for the year			**93.9**			68.9

In addition to the disclosures given above, the directors believe the following breakdown of the Group'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 the Group over-recovered against its regulated entitlement.

3. Business and Geographical Information (continued)

(ii) Balance sheet

Operating assets and liabilities are analysed as follows:

	Group 2007 £m	2006 £m
Operating assets		
Power Procurement/SONI	**60.3**	54.6
Transmission and Distribution	**931.2**	858.7
NIE Supply	**98.0**	77.9
Other	**3.2**	2.7
	1,092.7	993.9
Inter-business assets	**(63.3)**	(46.1)
	1,029.4	947.8
Unallocated assets	**23.8**	43.6
Total assets	**1,053.2**	991.4

	2007 £m	2006 £m
Operating liabilities		
Power Procurement/SONI	**68.6**	77.4
Transmission and Distribution	**245.2**	210.0
NIE Supply	**68.1**	62.5
Other	**24.8**	31.0
	406.7	380.9
Inter-business liabilities	**(63.3)**	(46.1)
	343.4	334.8
Unallocated liabilities	**562.8**	576.4
Total liabilities	**906.2**	911.2
Net assets	**147.0**	80.2

Unallocated assets include cash and cash equivalents and financial assets.

Unallocated liabilities include deferred tax liabilities, current tax payable, financial liabilities and pension liability.

(iii) Other information

	2007 £m	2006 £m
Capital additions		
Power Procurement/SONI	**4.7**	0.8
Transmission and Distribution	**102.0**	73.5
NIE Supply	**1.8**	1.7
Other	**0.2**	-
	108.7	76.0
Depreciation and amortisation		
Power Procurement/SONI	**1.0**	1.0
Transmission and Distribution	**34.7**	32.5
NIE Supply	**1.0**	1.0
	36.7	34.5
Increase in provisions		
Transmission and Distribution	**0.1**	1.6
NIE Supply	**-**	0.7
Other	**1.7**	0.7
	1.8	3.0

3. Business and Geographical Information (continued)

(iv) Geographical information

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

	UK 2007 £m	**RoI 2007 £m**	**Total 2007 £m**	UK 2006 £m	RoI 2006 £m	Total 2006 £m
Revenue						
Power Procurement/SONI	**149.0**	**3.3**	**152.3**	193.4	13.8	207.2
Transmission and Distribution	**28.0**	**23.4**	**51.4**	24.1	25.3	49.4
NIE Supply	**473.1**	**-**	**473.1**	436.6	-	436.6
Other	**1.0**	**-**	**1.0**	-	-	-
	651.1	**26.7**	**677.8**	654.1	39.1	693.2

All assets are located within the UK.

4. Revenue and Operating Costs

An analysis of external revenue is as follows:

	2007 £m	2006 £m
Regulated energy business revenue	**677.8**	693.2
Interest receivable	**3.3**	0.9
	681.1	694.1

Operating costs are analysed as follows:

	2007 £m	2006 £m
Energy costs	**409.0**	453.1
Employee costs (note 5)	**17.4**	16.0
Depreciation and amortisation	**30.7**	28.8
Other operating charges	**67.5**	77.7
	524.6	575.6

4. Revenue and Operating Costs (continued)

Operating costs include:

	2007 £m	2006 £m
Depreciation charge on property, plant and equipment	**35.0**	33.5
Associated release of customers' contributions and grants	**(6.0)**	(5.7)
	29.0	27.8
Amortisation of intangible assets	**1.7**	1.0
Cost of inventories recognised as an expense	**1.7**	1.4
Minimum lease payments due under operating leases:		
- Land and buildings	**0.3**	0.3
- PPAs	**144.8**	129.5
Profit on disposal of property, plant and equipment	**4.7**	-

Auditors' remuneration

	2007 £m	2006 £m
Auditors' remuneration in respect of services to the Group and Company:		
Audit of the financial statements	**0.2**	0.1
IFRS transition	**-**	0.1

5. Employees

Employee costs

	2007 £m	2006 £m
Salaries	**15.5**	14.6
Social security costs	**1.5**	1.6
Pension costs		
- defined contribution plans	**0.3**	0.2
- defined benefit plans	**5.3**	4.2
Share-based payments - equity settled	**0.6**	0.6
	23.2	21.2
Less: charged to the balance sheet	**(5.8)**	(5.2)
Charged to the income statement	**17.4**	16.0

Employee numbers

	Average during the year		Actual headcount at 31 March	
	Number 2007	Number 2006	**Number 2007**	Number 2006
Power Procurement/SONI	**55**	45	**56**	50
Transmission and Distribution	**215**	221	**214**	225
NIE Supply	**42**	41	**43**	42
Other	**38**	44	**36**	45
	350	351	**349**	362

5. Employees (continued)

Director's emoluments

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

	2007 £'000	2006 £'000
Emoluments in respect of qualifying services	**2,010**	1,284
Aggregate contributions to defined contribution pension schemes	**444**	469

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 £692,000 (2006 - £368,000) was paid to the Group's directors by other Viridian undertakings. The directors do not believe that it is practical to apportion the emoluments between their services as directors of the Group and their services as directors of other Viridian undertakings.

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 Viridian Sharesave Scheme during the year and also received shares under Viridian'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 Viridian:			
Accelerated share-based payment charges	(i)	**0.3**	-
Employee share scheme compensation payments	(ii)	**2.2**	-
		2.5	-

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

7. Net Finance Costs

	2007 £m	2006 £m
Interest receivable:		
Bank interest	**3.3**	0.9
Interest payable:		
Bank loans and overdrafts	**(5.0)**	(4.8)
Amounts owed to fellow Viridian undertakings	**(1.6)**	(0.7)
Eurobond	**(12.1)**	(12.1)
	(18.7)	(17.6)
Less: charged to balance sheet	**0.5**	0.2
Total interest charged to the Group Income Statement	**(18.2)**	(17.4)
Other finance costs:		
Preference dividends	**(3.2)**	-
Other finance charges	**(1.4)**	(1.7)
Total other finance costs	**(4.6)**	(1.7)
Total finance costs	**(22.8)**	(19.1)
Net pension scheme interest:		
Expected return on pension scheme assets	**40.9**	35.3
Interest on pension scheme liabilities	**(38.8)**	(37.4)
	2.1	(2.1)
Net finance costs	**(17.4)**	(20.3)

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%)	**33.1**	30.1
Deferred tax charge/(credit)		
Origination and reversal of temporary differences in current year	**6.4**	(1.0)
Origination and reversal of temporary differences relating to prior years	**(0.1)**	(0.7)
Total deferred tax charge	**6.3**	(1.7)
Tax charge reported in the Group Income Statement	**39.4**	28.4
Tax relating to items charged to equity		
Deferred tax		
Actuarial gains on pension liability	**3.9**	6.8

8. Tax Charge (continued)

(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
Accounting profit before tax charge	**133.3**	97.3
Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2006 - 30%)	**40.0**	29.2
Tax overprovided in previous years	**(0.1)**	(0.7)
Other permanent differences	**(0.5)**	(0.1)
Tax charge for the year	**39.4**	28.4

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

(iii) Deferred tax

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

	2007 £m	2006 £m
Deferred tax assets		
Pension liability	**26.1**	34.3
Provisions	**7.4**	10.0
	33.5	44.3
Deferred tax liabilities		
Accelerated capital allowances	**131.8**	133.8
Held-over gains on property disposals	**1.4**	-
	133.2	133.8
Net deferred tax liability	**99.7**	89.5

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

	2007 £m	2006 £m
Accelerated capital allowances	**(2.0)**	(2.1)
Temporary differences in respect of provisions	**2.6**	(0.3)
Temporary differences in respect of pensions	**4.3**	0.7
Held-over gains on property disposals	**1.4**	-
Deferred tax charge/(credit)	**6.3**	(1.7)

8. Tax Charge (continued)

(iii) Deferred tax (continued)

Company

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

	2007 £m	2006 £m
Deferred tax assets		
Pension liability	**22.0**	29.2
Provisions	**7.4**	9.9
	29.4	39.1
Deferred tax liabilities		
Accelerated capital allowances	**131.5**	133.8
Held-over gains on property disposals	**1.4**	-
	132.9	133.8
Net deferred tax liability	**103.5**	94.7

9. Profit for the Financial Year

The profit dealt with in the accounts of the Company is £89.2m (2006 - £65.0m).

10. Dividends Paid

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year:		
Equity dividends on ordinary shares:		
Interim dividend of £368,000 per share for the year ended 31 March 2007 (2006 - £nil per share)	**36.8**	-

11. Property, Plant and Equipment

Group	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Total £m
Cost:				
At 1 April 2005	1,188.1	3.2	43.3	1,234.6
Additions	68.9	0.5	3.1	72.5
Disposals	(0.5)	-	-	(0.5)
At 31 March 2006	1,256.5	3.7	46.4	1,306.6
Additions	80.1	0.7	7.0	87.8
Disposals	(0.9)	-	-	(0.9)
At 31 March 2007	**1,335.7**	**4.4**	**53.4**	**1,393.5**
Depreciation:				
At 1 April 2005	404.4	0.8	30.4	435.6
Charge for the year	29.9	-	3.6	33.5
Disposals	(0.4)	-	-	(0.4)
At 31 March 2006	433.9	0.8	34.0	468.7
Charge for the year	31.5	0.1	3.4	35.0
Disposals	(0.4)	-	-	(0.4)
At 31 March 2007	**465.0**	**0.9**	**37.4**	**503.3**
Net book value:				
At 31 March 2005	783.7	2.4	12.9	799.0
At 31 March 2006	822.6	2.9	12.4	837.9
At 31 March 2007	**870.7**	**3.5**	**16.0**	**890.2**

Included in infrastructure assets are amounts in respect of assets under construction amounting to £42.3m (2006 - £36.6m) and capitalised interest of £4.5m (2006 - £4.4m).

11. Property, Plant and Equipment (continued)

Company

	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Total £m
Cost:				
At 1 April 2005	1,187.7	3.2	43.3	1,234.2
Additions	68.9	0.5	2.5	71.9
Disposals	(0.5)	-	-	(0.5)
At 31 March 2006	1,256.1	3.7	45.8	1,305.6
Additions	80.1	0.7	2.3	83.1
Disposals	(0.9)	-	-	(0.9)
At 31 March 2007	**1,335.3**	**4.4**	**48.1**	**1,387.8**
Depreciation:				
At 1 April 2005	404.2	0.8	30.4	435.4
Charge for the year	29.9	-	3.6	33.5
Disposals	(0.4)	-	-	(0.4)
At 31 March 2006	433.7	0.8	34.0	468.5
Charge for the year	31.5	0.1	3.4	35.0
Disposals	(0.4)	-	-	(0.4)
At 31 March 2007	**464.8**	**0.9**	**37.4**	**503.1**
Net book value:				
At 31 March 2005	783.5	2.4	12.9	798.8
At 31 March 2006	822.4	2.9	11.8	837.1
At 31 March 2007	**870.5**	**3.5**	**10.7**	**884.7**

Included in infrastructure assets are amounts in respect of assets under construction amounting to £42.3m (2006 - £36.6m) and capitalised interest of £4.4m (2006 - £4.4m).

12. Investments

Company - Investment in subsidiaries

	£m
Cost:	
At 1 April 2006 and 31 March 2007	**0.5**

Details of the principal investments in which the Group or Company 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 Generation Limited	Ordinary shares	100%	Rathlin Island energy generation
SONI Limited	Ordinary shares	100%	Transmission system operator

Both of the above companies are incorporated in Northern Ireland.

13. Intangible Assets

Group and Company – Computer software	**2007 £m**
Cost:	
At 1 April 2005	**15.2**
Additions acquired externally	**3.5**
Disposals	**(0.4)**
At 31 March 2006	**18.3**
Additions acquired externally	**20.9**
At 31 March 2007	**39.2**
Amortisation/impairment:	
At 1 April 2005	**6.4**
Amortisation charge for the year	**1.0**
At 31 March 2006	**7.4**
Amortisation charge for the year	**1.7**
At 31 March 2007	**9.1**
Net book value:	
At 31 March 2005	**8.8**
At 31 March 2006	**10.9**
At 31 March 2007	**30.1**

Included in computer software are amounts in respect of assets under construction amounting to £15.9m (2006 - £8.4m) and capitalised interest of £0.3m (2006 - £nil).

14. Financial Assets

Group and Company	**2007 £m**	2006 £m
Non-current		
Other loans	**0.5**	0.7
Current		
Other loans	**0.2**	0.2

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

15. Inventories

Group and Company	**2007 £m**	2006 £m
Materials and consumables	**3.1**	2.3
Work-in-progress	**2.9**	2.0
	6.0	4.3

16. Trade and Other Receivables

	Group		**Company**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Trade receivables (including unbilled consumption)	**80.0**	76.2	**78.9**	75.7
Other receivables	**7.7**	4.0	**7.2**	3.5
Amounts owed by fellow Viridian undertakings	**14.9**	13.8	**18.3**	15.4
Prepayments and accrued income	**0.5**	0.7	**0.3**	0.7
	103.1	94.7	**104.7**	95.3

Trade receivables are stated net of a provision of £5.0m (2006 - £5.1m) for estimated irrecoverable amounts based on past default experience:

Group and Company	**2007 £m**	2006 £m
At 1 April	**5.1**	5.5
Increase in provision	**2.0**	1.9
Bad debts written off	**(2.1)**	(2.3)
At 31 March	**5.0**	5.1

The above provision includes £4.8m (2006 - £4.6m) in respect of individual balances impaired based on the age of debt and past default experience.

16. Trade and Other Receivables (continued)

The following shows an aged analysis of trade receivables:

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Within credit terms:				
Current	**72.3**	70.5	**71.2**	70.0
Past due:				
30 – 60 days	**2.5**	0.8	**2.5**	0.8
60 – 90 days	**1.7**	0.3	**1.7**	0.3
+ 90 days	**3.5**	4.6	**3.5**	4.6
	80.0	76.2	**78.9**	75.7

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

17. Cash and Cash Equivalents

Group and Company	**2007**	2006
	£m	£m
Cash at bank and in hand	**1.1**	0.7
Short-term bank deposits	**22.0**	42.0
	23.1	42.7

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 short-term deposit rates. The directors consider that the carrying amount of cash and cash equivalents equate to fair value.

For the purposes of the Cash Flow Statements, cash and cash equivalents comprise the above categories.

18. Trade and Other Payables

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Trade payables	**70.2**	76.6	**69.5**	73.3
Other payables	**4.6**	4.0	**4.6**	4.0
Payments received on account	**30.1**	23.5	**30.1**	23.5
Amounts owed to fellow Viridian undertakings	**8.7**	8.1	**12.8**	11.6
Tax and social security	**2.0**	2.2	**2.0**	2.2
Accruals	**19.0**	18.5	**16.8**	17.2
	134.6	132.9	**135.8**	131.8

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

19. Deferred Income

Group	**Grants**	**Customers' contributions**	**Total**
	£m	**£m**	**£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	21.9	22.1
Released to income statement	(0.5)	(5.5)	(6.0)
Current	0.5	5.5	6.0
Non-current	10.1	169.8	179.9
Total at 31 March 2007	**10.6**	**175.3**	**185.9**

A separate deferred income schedule for the Company has not been prepared as the only difference between the Group and the Company relates to NIE Generation Limited's deferred income, comprising grants received, which has a net book value of £0.1m (2006 - £0.1m).

20. Financial Liabilities

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Current				
Interest payable on Eurobond	**6.4**	6.4	**6.4**	6.4
Interest payable on EIB loan	**0.4**	0.3	**0.4**	0.3
Amounts owed to fellow Viridian undertakings	**27.1**	39.3	**30.0**	43.8
	33.9	46.0	**36.8**	50.5
Non-current				
Eurobond	**173.1**	173.0	**173.1**	173.0
EIB loan	**100.0**	100.0	**100.0**	100.0
Preference shares	**36.4**	36.4	**36.4**	36.4
	309.5	309.4	**309.5**	309.4

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	**33.9**	46.0	**36.8**	50.5
In more than one year but not more than two years	**-**	-	**-**	-
In more than two years but not more than five years	**100.0**	100.0	**100.0**	100.0
In more than five years	**209.5**	209.4	**209.5**	209.4
	343.4	355.4	**346.3**	359.9

The Group's objectives, policies and strategies in respect of financial liabilities are disclosed in the Directors' Report.

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

- the Eurobond is repayable in 2018 and carries a fixed rate of interest 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%).

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 preference shares comprise 145,566,331 shares of 25p each, and are held by Viridian. The preference shares were issued at par and are redeemable on 14 February 2028 at par. They carry a dividend of 1.475 pence per share per annum, payable half yearly in arrears on 1 October and 1 April. The preference shares have no voting rights. On winding-up of the Company, the preference shareholders have a right to receive, in preference to any payments to the ordinary shareholders, 25p per share plus any accrued dividend.

21. Provisions

Group and Company	Reorganisation and restructuring £m	Liability and damage claims £m	Environment £m	Total £m
Current	3.2	0.3	11.8	15.3
Non-current	-	3.7	13.1	16.8
Total at 1 April 2006	**3.2**	**4.0**	**24.9**	**32.1**
Applied in the year	(2.7)	(0.1)	(8.6)	(11.4)
Increase in provisions	-	0.1	1.7	1.8
Release to income statement	(0.3)	-	-	(0.3)
Unwinding of discount	-	-	0.7	0.7
Current	0.2	0.3	8.6	9.1
Non-current	-	3.7	10.1	13.8
Total at 31 March 2007	**0.2**	**4.0**	**18.7**	**22.9**

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.

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

22. 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 the 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. In addition the Complementary Pension Plan (CPP) provides benefits for salary above the 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 as 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 Group net pension liability (before deferred tax) of £87.0m (2006 - £114.3m). A 0.1% increase/decrease in the assumed discount rate would decrease/increase the net pension liability by £11.0m. A 0.1% increase/decrease in the assumed inflation rate would increase/decrease the net pension liability by £9.0m.

Assets and Liabilities

The Group's share of 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	**300.2**	**7.9**	367.7	7.5
Bonds	**367.3**	**5.1**	305.3	4.7
Other	**5.1**	**4.7**	3.0	4.3
Total market value of assets	**672.6**		676.0	
Actuarial value of liabilities	**(759.6)**		(790.3)	
Net pension liability	**(87.0)**		(114.3)	

22. Pension Commitments (continued)

The Company's share of 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	**256.5**	**7.9**	313.6	7.5
Bonds	**313.5**	**5.1**	260.3	4.7
Other	**4.4**	**4.7**	2.6	4.3
Total market value of assets	**574.4**		576.5	
Actuarial value of liabilities	**(647.8)**		(673.7)	
Net pension liability	**(73.4)**		(97.2)	

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.

Changes in the market value of assets

	Group		**Company**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Market value of assets at 1 April	**676.0**	581.2	**576.5**	495.3
Expected return	**40.9**	35.3	**34.9**	30.1
Contributions from employer	**17.5**	8.5	**15.7**	7.4
Contributions from scheme members	**0.6**	0.6	**0.5**	0.5
Benefits paid	**(39.6)**	(36.1)	**(33.7)**	(30.8)
Actuarial (loss)/gain	**(22.8)**	86.5	**(19.5)**	74.0
Market value of assets at 31 March	**672.6**	676.0	**574.4**	576.5

The Group expects to make total contributions of £13.0m to Focus and the CPP in 2007/08 (Company - expected contribution £12.5m).

Changes in the actuarial value of liabilities

	Group		**Company**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Actuarial value of liabilities at 1 April	**790.3**	720.4	**673.7**	613.7
Interest cost	**38.8**	37.4	**33.1**	31.9
Current service cost	**3.1**	2.6	**2.6**	2.2
Curtailment loss	**2.2**	1.6	**2.2**	1.6
Contributions from scheme members	**0.6**	0.6	**0.5**	0.5
Benefits paid	**(39.6)**	(36.1)	**(33.7)**	(30.8)
Actuarial (gain)/loss	**(35.8)**	63.8	**(30.6)**	54.6
Actuarial value of liabilities at 31 March	**759.6**	790.3	**647.8**	673.7

22. Pension Commitments (continued)

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Analysis of the amount charged to operating costs (before capitalisation)				
Current service cost	**(3.1)**	(2.6)	**(2.6)**	(2.2)
Curtailment loss	**(2.2)**	(1.6)	**(2.2)**	(1.6)
Total operating charge	**(5.3)**	(4.2)	**(4.8)**	(3.8)

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.

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Analysis of the amount credited/(charged) to net pension scheme interest				
Expected return on assets	**40.9**	35.3	**34.9**	30.1
Interest on liabilities	**(38.8)**	(37.4)	**(33.1)**	(31.9)
Net pension scheme interest	**2.1**	(2.1)	**1.8**	(1.8)

The actual return on Group Focus and CPP assets was £18.1m (2006 - £121.8m). The actual return on Company Focus and CPP assets was £15.4m (2006 - £104.1m).

	Group		Company	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Analysis of amount recognised in the Statement of Recognised Income and Expense				
Actuarial (loss)/gain on assets	**(22.8)**	86.5	**(19.5)**	74.0
Actuarial gain/(loss) on liabilities	**35.8**	(63.8)	**30.6**	(54.6)
Net actuarial gain	**13.0**	22.7	**11.1**	19.4

The cumulative actuarial gains recognised in the Group and Company Statements of Recognised Income and Expense since 1 April 2004 are £34.8m and £29.9m respectively (2006 - actuarial gains of £21.8m and £18.8m). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity 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 and Company Statements of Recognised Income and Expense shown before 1 April 2004.

	Group			Company		
	2007	2006	2005	**2007**	2006	2005
	£m	£m	£m	**£m**	£m	£m
History of experience gains and losses						
Actuarial (loss)/gain on assets	**(22.8)**	86.5	15.7	**(19.5)**	74.0	13.5
Actuarial gain/(loss) on liabilities	**35.8**	(63.8)	(16.6)	**30.6**	(54.6)	(14.1)
Total actuarial gain/(loss) recognised in the Statement of Recognised Income and Expense	**13.0**	22.7	(0.9)	**11.1**	19.4	(0.6)

22. Pension Commitments (continued)

At 31 March	Group 2007 £m	Group 2006 £m	Group 2005 £m	Company 2007 £m	Company 2006 £m	Company 2005 £m
Market value of assets	**672.6**	676.0	581.2	**574.4**	576.5	495.3
Actuarial value of liabilities	**(759.6)**	(790.3)	(720.4)	**(647.8)**	(673.7)	(613.7)
Net pension liability	**(87.0)**	(114.3)	(139.2)	**(73.4)**	(97.2)	(118.4)

23. Share Capital

Authorised	**2007 £**	2006 £
70,433,673 ordinary shares of 25p each	**17,608,418**	17,608,418
Allotted and fully paid	**£**	£
At 31 March 2007 and 31 March 2006 - 100 ordinary shares of 25p each	**25**	25

24. Reconciliation of Movements in Equity

Group

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 April 2005	**-**	**24.4**	**6.1**	**(35.0)**	**(4.5)**
Total recognised income and expense for the year	-	-	-	84.8	84.8
Share-based payments	-	-	-	0.4	0.4
Other items charged to reserves	-	-	-	(0.5)	(0.5)
At 1 April 2006	**-**	**24.4**	**6.1**	**49.7**	**80.2**
Total recognised income and expense for the year	-	-	-	103.0	103.0
Share-based payments	-	-	-	0.6	0.6
Equity dividends	-	-	-	(36.8)	(36.8)
At 31 March 2007	**-**	**24.4**	**6.1**	**116.5**	**147.0**

Company

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 April 2005	**-**	**24.4**	**6.1**	**(19.1)**	**11.4**
Total recognised income and expense for the year	-	-	-	78.6	78.6
Share-based payments	-	-	-	0.4	0.4
Other items charged to reserves	-	-	-	(0.5)	(0.5)
At 1 April 2006	**-**	**24.4**	**6.1**	**59.4**	**89.9**
Total recognised income and expense for the year	-	-	-	97.0	97.0
Share-based payments	-	-	-	0.5	0.5
Equity dividends	-	-	-	(36.8)	(36.8)
At 31 March 2007	**-**	**24.4**	**6.1**	**120.1**	**150.6**

The balance classified as share capital comprises the nominal value of the Company's equity share capital.

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 on 2 August 1995.

25. 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	**0.3**	0.3
After one year but not more than five years	**1.2**	1.1
More than five years	**2.2**	2.4
	3.7	3.8

PPAs
The Group 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 the Group 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.

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 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.

26. 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 £9.1m (2006 - £10.0m).

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. The Group 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 the Group 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

The Group leases sites to power stations in Northern Ireland. Under the terms of the lease agreements the Group 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. The Group 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, the Group must either provide such finance or pay the costs incurred by the generator in carrying out such modifications. The costs incurred by the Group in meeting these obligations are recoverable under the Group's licence, but will require to be financed by the Group until such recovery is achieved. The Group does not anticipate any liability for modifications which require financing and no provision has been made.

27. Share-Based Payments

Prior to the acquisition of Viridian in December 2006, a number of equity-settled employee share schemes were operated. 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 £0.9m (2006 - £0.6m) of which £0.3m (2006 - £nil) was recognised as an exceptional charge. The exceptional charge is in respect of accelerated charges as options became exercisable and conditional share awards vested on the acquisition of Viridian.

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 134,859 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 Viridian shares. The exercise price represented 80% of the market price of Viridian shares 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 date, options that had accrued by that date became exercisable. As an alternative to the exercise of the options all 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 on the acquisition date.

Under the discretionary Executive Share Option Scheme (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 acquisition date, 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	423,404	402.0	710,820	560.2
Granted	242,010	694.0	32,888	731.0
Exercised	(415,452)	402.0	(285,667)	532.0
Forfeited	(667)	402.0	(600)	534.5
Expired	-	-	(22,973)	584.3
Outstanding at 31 March 2006	249,295	685.5	434,468	587.7
Granted	-	-	-	-
Exercised	(9,615)	558.4	(431,746)	586.8
Forfeited	(235,352)	694.0	(2,722)	722.1
Expired	(2,820)	402.0	-	-
Outstanding at 31 March 2007	**1,508**	**694.0**	**-**	**-**
Exercisable at 31 March 2006	6,752	460.3	134,859	620.8
Exercisable at 31 March 2007	**1,508**	**694.0**	**-**	**-**

27. 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 1,140.4p (2006 – 957.2p) and for options exercised under the ESOS was 1,273.7p (2006 - 808.2p). 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	**-**	7,285	**-**	0.3	**-**	402.0
694.0p	**1,508**	242,010	**0.2**	3.3	**694.0**	694.0
ESOS						
465.0p – 478.0p	**-**	38,685	**-**	6.2	**-**	465.0
534.5p – 581.0p	**-**	273,031	**-**	7.5	**-**	553.9
638.5p – 656.0p	**-**	47,572	**-**	4.4	**-**	645.3
731.0p – 741.5p	**-**	75,180	**-**	6.4	**-**	736.9

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		Executive Share Option Scheme	
	2007	2006	**2007**	2006
Share price at the date of grant (pence)	**-**	851.5	**-**	741.0
Exercise price (pence)[1]	**-**	694.0	**-**	731.0
Expected volatility (%)[2]	**-**	18.0	**-**	19.0
Expected dividend yield (%)[3]	**-**	4.6	**-**	5.3
Expected life of options (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 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.

27. Share-Based Payments (continued)

(iii) PSP and CIP

Under the Performance Share Plan (PSP) conditional share awards were granted to a maximum value of 100% of basic salary. Up to 2004/05 awards were made to Viridian executive directors only. During 2005/06 and 2006/07, in addition to Viridian executive directors, 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 matching awards would vest following the third anniversary of the grant date.

During 2005/06, conditional awards were made to Viridian executive directors and certain senior managers under the Co-investment Plan (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 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 acquisition date, the conditional share awards vested as appropriate under the 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	**123,741**	123,288	**-**	56,160
Share price at the date of grant (pence)	**929.5**	801.0	**-**	801.0
Expected dividends per shares (pence)	**121.9**	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] The 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 Share Incentive Plan (SIP) enabled 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 9,207 shares (2006 - 17,136) were purchased by the trustees of the SIP on behalf of 258 (2006 - 259) employees at a total cost of £96,000 (2006 - £140,000). Under the terms of the acquisition, participants received £13.25 per share held under the SIP or opted for loan notes issued by ElectricInvest Acquisitions.

28. Related Party Disclosures

Remuneration of key management personnel
Key management personnel of the Group comprise the directors and the Company Secretary. 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	**2.2**	1.2
Post employment benefits		
- defined benefit scheme	**0.2**	0.2
- defined contribution scheme	**0.4**	0.5
- other	**-**	0.4
Other long-term benefits	**0.1**	0.5
Share-based payments	**0.5**	0.1
	3.4	2.9

Other related parties
During the year the Group contributed £17.8m (2006 - £8.7m) to VGPS and the CPP; the Company contributed £15.9m (2006 - £7.6m). The Group and Company also received £0.1m (2006 - £0.1m) in respect of administrative services provided to VGPS.

Group
The immediate parent undertaking of the Group and the parent of the smallest group of which the Company is a member and for which group accounts are prepared is Viridian Group PLC. 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 group accounts of Viridian Group PLC 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.

Subsidiaries of EI Ventures Limited are related parties of the Group and are listed below:

Name of company
ElectricInvest Acquisitions Limited
ElectricInvest Holding Company Limited
Viridian Group PLC
NIE Powerteam Ltd
Powerteam Electrical Services Ltd
Powerteam Electrical Services (UK) Ltd
Viridian Power and Energy Ltd
Huntstown Power Company Ltd
GenSys Power Ltd
Viridian Power Ltd
Viridian Energy Supply Ltd (trading as Energia)
Viridian Energy Ltd (trading as Energia)
Viridian Capital Ltd
Viridian Enterprises Ltd
Viridian Properties Ltd
Viridian Insurance Ltd

Related parties of the Company also include the subsidiaries listed in note 12.

28. Related Party Disclosures (continued)

Transactions between the Group and the related parties above and the balances outstanding are disclosed below:

	Ordinary dividends paid £m	Preference dividend paid £m	Interest paid £m	Revenue from related party £m	Charges from related party £m	Amounts owed by related party at 31 March £m	Amounts owed to related party at 31 March £m
Year to 31 March 2007							
Viridian	**36.8**	**3.2**	**0.9**	**-**	**-**	**0.2**	**11.9**
Viridian subsidiaries	**-**	**-**	**0.7**	**129.4**	**46.9**	**14.7**	**23.9**
	36.8	**3.2**	**1.6**	**129.4**	**46.9**	**14.9**	**35.8**
Year to 31 March 2006							
Viridian	-	-	-	-	-	0.3	18.8
Viridian subsidiaries	-	-	0.7	123.7	45.5	13.5	28.6
	-	-	0.7	123.7	45.5	13.8	47.4

Transactions between the Company and the related parties above and the balances outstanding are disclosed below:

	Ordinary dividends paid £m	Preference dividend paid £m	Interest paid £m	Revenue from related party £m	Charges from related party £m	Amounts owed by related party at 31 March £m	Amounts owed to related party at 31 March £m
Year to 31 March 2007							
NIE subsidiaries	**-**	**-**	**-**	**29.5**	**36.5**	**3.8**	**7.5**
Viridian	**36.8**	**3.2**	**1.2**	**-**	**-**	**0.2**	**11.9**
Viridian subsidiaries	**-**	**-**	**0.6**	**125.7**	**47.0**	**14.3**	**23.4**
	36.8	**3.2**	**1.8**	**155.2**	**83.5**	**18.3**	**42.8**
Year to 31 March 2006							
NIE subsidiaries	-	-	-	30.6	36.6	2.0	9.2
Viridian	-	-	-	-	-	0.3	18.0
Viridian subsidiaries	-	-	1.0	120.2	45.5	13.1	28.2
	-	-	1.0	150.8	82.1	15.4	55.4

Interest received from and paid to fellow Viridian undertakings carries floating interest rates based on LIBOR. Outstanding balances with subsidiaries are unsecured. Intra-group loan balances are repayable on demand while current account balances are settled on a monthly basis. Current account balances primarily arise from transactions relating to energy sales to Viridian subsidiaries and utility contracting services purchased from Viridian subsidiaries.