AES (NI) Limited

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Annual report
for the year ended 31 December 2007

Pages

AES (NI) Limited

Directors and advisers

Directors

J McLaren
D Paton

Secretary

G McNeilly

Registered office

Kilroot Power Station
Larne Road
Carrickfergus
Co Antrim
BT38 7LX

Solicitors

Carson & McDowell
Murray House
Murray Street
Belfast
BT1 6HS

Bankers

Bank of Ireland
High Street
Belfast
BT1 2BA

Registered Auditors

PricewaterhouseCoopers LLP
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

AES (NI) Limited

Directors' report
for the year ended 31 December 2007

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

Principal activity

The principal activity of the group is that of generating electricity.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Key performance indicators

The directors manage the group's operations on a divisional basis. For this reason, the group's directors believe that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business of the group.

Environment

The group recognises its corporate responsibility to carry out its operations whilst minimising environmental impacts. The directors' continued aim is to comply with all applicable environmental legislation, prevent pollution and reduce waste wherever possible.

Health and safety

The group is committed to achieving the highest practicable standards in health and safety management and strives to make all sites and offices safe environments for employees and customers alike.

Human resources

The group's most important resource is its people; their knowledge and experience is crucial to meeting customer requirements. Retention of key staff is critical and the group has invested increasingly in employment training and development and has introduced appropriate incentive and career progression arrangements.

Financial risk management

AES Kilroot Power Limited is the main trading subsidiary of the group. AES Kilroot Power Limited operates Kilroot Power Station under a long-term Power Purchase Agreement ("PPA") which has an earliest cancellation date of 1 November 2010.

The group has obligations under the PPA to operate and maintain the Generating Units and make available contracted capacity and generate electrical energy in accordance with certain specified characteristics. The group receives two main types of payments under the PPA, availability payments and energy payments.

AES (NI) Limited

Directors' report (continued)

Financial risk management (continued)

Availability payments are calculated by reference to the availability of each Generating Unit and are payable whether or not power is actually dispatched. Energy payments are calculated based on the costs of fuel and specified operating and efficiency characteristics. The PPA also imposes controls on the group for the management of sulphur and nitrogen oxide emissions from the Power Station.

The group's operations expose it to a number of operational risks including reduction in plant availability through forced outages, prolonged plant breakdown or inability to operate within the agreed level of environment emissions.

In addition operating at efficiency levels lower than those specified in the PPA may lead to loss of energy income.

The group has in place a risk management program which seeks to limit the adverse effects of these risks on financial performance.

Availability Risk

The group seeks to limit the risk to availability income through a program of continuous plant monitoring designed to identify possible plant failure in advance.

A set overhaul program has been put in place for each Generating Unit which requires thorough inspection and refurbishment every 3 years.

The group has in place adequate levels of Business Interruption insurance to limit the financial effect of a prolonged period of plant breakdown.

Energy Income Risk

The group seeks to maximise plant efficiency through a process of continuous plant monitoring designed to identify areas where efficiency improvements can be obtained. Once a potential reduction in efficiency has been identified actions are taken to improve performance whenever it is economically viable to do so.

Emissions Risk

The group continuously monitors its environmental emissions to ensure that the plant operates within the agreed limits.

The group keeps up to date with Environmental Legislation and is committed to implementing modifications to the plant when required.

Under the PPA the cost of modifications to the plant which are required by changes in legislation pass through to the contract off taker.

Price Risk

The group is not exposed to significant price risk since the Availability payments received increase by RPI each year and energy payments received are calculated based on the costs of fuel.

Credit Risk

The group is not exposed to significant credit risk due to the high credit rating of the counterparty to the PPA.

AES (NI) Limited

Directors' report (continued)

Financial risk management (continued)

Foreign exchange risk

The group has a policy of hedging certain foreign exchange transactions over a prescribed minimum size. Cover generally takes the form of a forward purchase of foreign currencies.

Liquidity Risk

The group minimises liquidity risk through the weekly preparation of cashflow forecasts and a policy of investing in short term bank deposits held by banks with a minimum credit rating of P1.

Interest Rate Cashflow Risk

The group minimises Interest Rate Cashflow risk through its policy of investing in only short term bank deposits and continually monitoring the financial markets to identify appropriate longer term instruments including structured investment accounts and interest rate swaps.

Results and dividends

The consolidated profit and loss account for the year is set out on page 9

The directors have paid the following dividends during 2007 and 2006

	2007	2006
	£'000	£'000
Interim dividend paid	**2,098**	3,011

Directors

The directors who served during the year are shown on page 1. There were no changes in directors during the year.

In accordance with the Articles of Association, none of the directors are required to retire by rotation.

There were no contracts of significance subsisting during or at the end of the financial year in which a director of the company was materially interested.

Post balance sheet event

Details of the post balance sheet event are shown in note 32 of the financial statements.

Charitable contributions

The group participates in a give as you earn scheme where it matches the donations of employees. During the year the group made matching donations of £20,186 (2006: £25,047).

Other charitable contributions of £5,642 (2006: £11,570) were made during the year in support of community initiatives and relationships in the UK.

AES (NI) Limited

Directors' report (continued)

Employees

The group's policy is to consult and discuss with employees, through unions and at meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, whenever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

The group is committed to the well-being of its people and recognises its obligations under the Health and Safety at Work Order 1978. In the conduct of its business the group will assess the risk to the health and safety of employees and others who may be affected by its activities and will implement, audit and review such arrangements as appropriate for effective control of risks.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable Northern Ireland law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

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

AES (NI) Limited

Directors' report (continued)

Policy on preservation of amenity and fisheries

The company subscribes to Schedule 9 of the Electricity (Northern Ireland) Order 1992 concerning the preservation of amenity and fisheries. Accordingly, AES (NI) Limited recognises the desirability of preserving natural beauty, of conserving flora, fauna and geographical or physiographical features of special interest and of protecting sites, buildings and objects of architectural, historic or archaeological interest; and shall do what it reasonably can to mitigate any effect which proposals would have on the natural beauty of the countryside or on any such flora, fauna, features, sites, buildings or objects.

Statement of disclosure of information to auditors

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

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

Auditors

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

By order of the Board

G McNeilly
Company Secretary
26 February 2008

AES (NI) Limited

Independent auditors' report to the members of AES (NI) Limited

We have audited the group and parent company financial statements (the "financial statements") of AES (NI) Limited for the year ended 31 December 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Northern Ireland law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

AES (NI) Limited

Independent auditors' report to the members of AES (NI) Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's profit and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Belfast
27 February 2008

AES (NI) Limited

Consolidated profit and loss account
for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Turnover	2	**106,715**	120,395
Operating costs	3	**(66,903)**	(73,834)
Operating profit		**39,812**	46,561
Investment income	6	**5,986**	5,713
Interest payable and similar charges	7	**(21,135)**	(22,476)
Other finance income/ (costs)	20	**298**	(47)
Profit on ordinary activities before taxation	8	**24,961**	29,751
Taxation	9	**(4,433)**	(7,040)
Profit for the financial year	10 & 22	**20,528**	22,711

All amounts above relate to continuing operations of the group.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents.

AES (NI) Limited

Statement of total recognised gains and losses for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Profit for the financial year		**20,528**	22,711
Actuarial (loss)/ gain on pension scheme	20	**(2,855)**	5,155
Movement on deferred tax relating to pension liability		**799**	(1,546)
Total recognised gains and losses relating to the year		**18,472**	26,320

AES (NI) Limited

Balance sheets
at 31 December 2007

	Notes	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Fixed assets					
Intangible assets	12	**23,026**	24,425	-	-
Tangible assets	13	**180,889**	146,741	-	-
Investments	14	-	-	**234,971**	234,971
		203,915	171,166	**234,971**	234,971
Current assets					
Stocks	15	**12,419**	10,222	-	-
Debtors: amounts falling due after one year	16	-	-	**32,000**	32,000
Debtors: amounts falling due within one year	16	**24,097**	18,925	**54,301**	28,680
Cash at bank and in hand		**94,183**	129,701	**402**	101
		130,699	158,848	**86,703**	60,781
Creditors: amounts falling due within one year	17	**(118,655)**	(112,389)	**(6,356)**	(2,847)
Net current assets		**12,044**	46,459	**80,347**	57,934
Total assets less current liabilities		**215,959**	217,625	**315,318**	292,905
Creditors: amounts falling due after more than one year:					
Borrowings and other creditors	18	**(150,506)**	(163,355)	**(252,323)**	(230,923)
Convertible debt	18	-	(6,268)	-	(6,268)
Provisions for liabilities	19	**(33,349)**	(39,391)	-	-
Net assets excluding pension liability		**32,104**	8,611	**62,995**	55,714
Pension liability	20	**(6,846)**	(6,112)	-	-
Net assets including pension liability		**25,258**	2,499	**62,995**	55,714
Capital and reserves					
Called up share capital	21	**13,117**	6,849	**13,117**	6,849
Share premium account	22	**3,729**	3,729	**3,729**	3,729
Profit and loss account	22	**7,832**	(8,542)	**46,149**	45,136
Other reserves	23	**580**	463	-	-
Equity shareholders' funds/(deficit)	24	**25,258**	2,499	**62,995**	55,714

The financial statements on pages 9 to 33 were approved by the board of directors on 26 February 2008 signed on its behalf by:

D Paton

D Paton
Director

AES (NI) Limited

Consolidated cash flow statement for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	25	**54,201**	56,118
Returns on investments and servicing of finance			
Interest received		**6,529**	4,900
Interest paid		**(27,195)**	(22,060)
		(20,666)	(17,160)
Taxation paid		**(9,571)**	(10,014)
Capital expenditure and financial investment			
Purchase of investments		**-**	(2)
Purchase of tangible fixed assets		**(46,038)**	(11,932)
Sale of fixed assets		**51**	5
		(45,987)	(11,929)
Equity dividends paid		**(2,098)**	(3,011)
Net cash inflow before management of liquid resources and financing		**(24,121)**	14,004
Management of liquid resources			
Increase in short term deposits with banks		**61,900**	(16,489)
Financing			
Repayment of loan capital		**(79,400)**	(6,130)
Transferable loan stock issued during year		**21,400**	23,300
(Decrease)/increase in cash in the year	26 & 27	**(20,221)**	14,685

AES (NI) Limited

Notes to the financial statements for the year ended 31 December 2007

1 Accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention, and in accordance with the Companies (Northern Ireland) Order 1986 and applicable accounting standards. The principal group accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of the acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated fully on consolidation.

Turnover

Turnover represents the invoiced value of generating services based on customer usage net of value added tax.

Goodwill

Goodwill represents the excess of the value of the consideration given over the fair value of the identifiable net assets acquired. Purchased goodwill is amortised through the profit and loss account over the estimated economic life of the generating agreement.

Goodwill will be subject to an annual impairment review in accordance with FRS 11. The directors continue to be of the opinion that the appropriate period for writing off goodwill is over the total contract period of 32 years rather than 20 years as presumed by FRS 10.

Strategic spares

Emergency and rotable spare parts are included within generating plant and buildings and are depreciated over the life of the related generating plant and buildings.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal periods used for this purpose are:

Asset	Life in years
Long leasehold land	32
Long leasehold generating plant and buildings on hand in 1992 year	25 & 32
Additions to generating plant and buildings in year	4 – 20
Motor vehicles	4
Fixtures and fittings	4
Computer equipment	4
Maintenance assets	See policy below

AES (NI) Limited

2 Analysis of Turnover

The group operates principally in the electricity generation industry within Northern Ireland. Turnover and profit relate primarily to a single class of business and geographical area.

3 Operating costs

	2007 £'000	2006 £'000
Cost of sales	47,531	56,568
Administrative expenses	19,372	17,266
	66,903	73,834

4 Employee information

The average monthly number of persons employed by the group during the year was:

	2007 Number	2006 Number
By activity		
Production	97	94
Administration	10	9
	107	103

The company had no employees during 2007 and 2006.

	2007 £'000	2006 £'000
Staff costs (for the above persons)		
Wages and salaries	4,186	3,582
Social security costs	379	360
Other pension costs (see note 20)	443	439
Cost of employee share schemes (see note 23)	117	53
	5,125	4,434

AES (NI) Limited

15 Stocks

	Group	
	2007	2006
	£'000	£'000
Engineering stock	**9,282**	2,960
Fuel stock	**3,137**	7,262
	12,419	10,222
Replacement cost	**15,930**	10,680

16 Debtors

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Debtors: amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	-	-	**32,000**	32,000

The loan to parent company is unsecured. The interest rate levied is 7% per annum.

	Group		Company	
	2007	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000
Debtors: amounts falling due within one year				
Trade debtors	**17,495**	16,485	-	-
Group relief receivable	-	-	**2,256**	2,344
Amounts owed by subsidiary undertakings	-	-	**51,775**	26,024
Amounts owed by parent company and fellow subsidiary undertakings	**12**	18	**5**	4
Corporation tax	**4,442**	-	-	-
Other debtors	**1,431**	1,650	**258**	307
Prepayments and accrued income	**717**	772	**7**	1
	24,097	18,925	**54,301**	28,680

AES (NI) Limited

18 Creditors: amounts falling due after more than one year (continued)

Debenture Stock

Group

On 26 July 1994, Kilroot Electric Limited, a wholly owned subsidiary of AES Kilroot Power Limited issued £198,500,000 9.5% secured debenture stock (2006 - 2010) at 99.896 per cent in order to meet long term financing requirements of the AES (NI) Group. The debenture is unconditionally and irrevocably guaranteed by AES Kilroot Power Limited.

The carrying value of the debenture stock included above and in note 17 amounted to £118,574,845 (2006: £197,799,793) after adjustment for original issue costs of £2,873,757, which are amortised over the life of the bond.

The entire loan is repayable in less than three years.

Loan from subsidiary undertaking

Company

The loan of £195,123,000 from the subsidiary undertaking is unsecured.

The interest rate levied is 7% per annum.

Floating rate subordinated loan stock

Group and company

	2007	2006
	£'000	£'000
Authorised		
Floating rate subordinated loan stock	**57,200**	35,800
Issued		
Floating rate subordinated loan stock at 1 January 2007		35,800
Issued during the year		21,400
Floating rate subordinated loan stock at 31 December 2007		**57,200**

AES (NI) Limited

18 Creditors: amounts falling due after more than one year (continued)

Floating rate subordinated convertible debt

Group and company

	2007 £'000	2006 £'000
Authorised		
Floating rate subordinated convertible deferred loan stock	**17,500**	17,500

Issued

Floating rate subordinated convertible deferred loan stock at 1 January 2007	6,268
Converted to share capital during the year	(6,268)
Floating rate subordinated convertible deferred loan stock at 31 December 2007	-

The convertible loan stock was owned 50% by AES Electric Limited and 50% by AES Horizons Investments Limited. Each holder of the convertible loan stock has the right to convert such loan stock into ordinary shares of the company, credited as fully paid, at any time up to the close of business on 31 March 2008.

The number of ordinary shares issued on exercise of a conversion right shall be determined by dividing the principal amount of the relevant Loan Stock being converted by the conversion price in effect on the conversion date. The conversion price is 25p per ordinary share subject to any alteration to the nominal value of the ordinary share as a result of consolidation or subdivision.

During the year the convertible loan stock held by AES Electric Limited and AES Horizons Investments Limited was converted into 25,072,000 ordinary shares in AES(NI) Limited.

AES (NI) Limited

18 Creditors: amounts falling due after more than one year (continued)

Deferred income

Group

	Contributions towards fixed assets £'000	Other £'000	Total £'000
At 1 January 2007	-	12,488	12,488
Additions in the year	10,782	-	10,782
Credited to the profit and loss account	-	(3,336)	(3,336)
At 31 December 2007	**10,782**	**9,152**	**19,934**

The deferred income in relation to contributions towards the cost of tangible fixed assets will be released to the profit and loss account over the useful estimated life of the asset and the other deferred income is being released over a period of 9 years from 2001 to 2010.

19 Provisions for liabilities

The company has no provision for liabilities.

Group	**Deferred tax £'000**	**Other (see below) £'000**	**Total £'000**
At 1 January 2007	**38,492**	**899**	**39,391**
Profit and loss account	**(6,167)**	**179**	**(5,990)**
Payments in the year	**-**	**(52)**	**(52)**
At 31 December 2007	**32,325**	**1,026**	**33,349**

Deferred taxation

An analysis of the full potential liability, all of which has been provided, is as follows:

	Group	
	2007 £'000	2006 £'000
Tax effect of timing difference because of:		
Excess of capital allowances over depreciation	**32,327**	38,408
Provisions	**(92)**	(65)
Other timing differences	**90**	149
Deferred tax excluding that relating to pension liability	**32,325**	38,492
Deferred tax on pension liability (note 20)	**(2,662)**	(2,620)
Total provision for deferred tax	**29,663**	35,872

AES (NI) Limited

19 Provisions for liabilities (continued)

Other provisions

Other provisions relate to industrial disease liabilities which the company recognises when claims are received. Loss adjusters estimate the total liability against each claim. These estimates are adjusted as and when cases are settled. Due to the nature of these claims some liabilities will take many years to be fully resolved.

20 Pension and similar obligations

The group pension scheme provides pension benefit and death in retirement benefits for eligible employees on a defined benefit basis, the benefits being funded by assets held in a separate fund administered by Trustees. Contributions are based on independent biennial valuations by professionally qualified actuaries.

Under the terms of the Electricity (Protected Persons) Pensions Regulations (Northern Ireland) 1992, assets were sufficient to cover 65.8% of the liabilities. A full valuation of the scheme was carried out at 31 March 2007 by a qualified independent actuary. The company intends to fund the scheme on a basis consistent with the Regulations. The next full valuation of the scheme will be carried out at 31 March 2009.

During the accounting period, the company paid regular contributions at the rate of £2,224,000 (2006: £2,190,000).

An actuarial valuation of the scheme using the projected unit basis was carried out at 31 December 2007. The main financial assumptions used by the actuary for the purpose of calculating pension cost were:

	31 December 2007	31 December 2006	31 December 2005
Valuation method	**Projected unit**	Projected unit	Projected unit
Scheme asset valuation	**Market value**	Market value	Market value
Rate of increase in salaries	**3.9%**	3.60%	3.40%
Rate of increase in pensions in payment and deferred benefits during deferment	**3.4%**	3.10%	2.90%
Discount rate	**5.8%**	5.10%	4.70%
Inflation assumption	**3.4%**	3.10%	2.90%

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31.12.07	**Value at 31.12.07**	Long-term rate of Return Expected at 31.12.06	Value at 31.12.06	Long-term rate of return expected at 31.12.05	Value at 31.12.05
	%	**£'000**	%	£'000	%	£'000
Equities	**7.10**	**39,863**	6.70	45,819	6.70	42,429
Bonds	**4.50**	**48,715**	4.10	36,549	4.10	34,129
Cash	**5.50**	**23**	4.50	43	4.50	(31)
Market value of assets	**5.50**	**88,601**	5.50	82,411	5.50	76,527

AES (NI) Limited

20 Pension and similar obligations (continued)

	2007 £'000	2006 £'000	2005 £'000
Total market value of assets	**88,600**	82,411	76,527
Present value of scheme liabilities	**(98,108)**	(91,143)	(92,118)
Deficit in the scheme	**(9,508)**	(8,732)	(15,591)
Net pension liability	**(9,508)**	(8,732)	(15,591)
Related deferred tax asset	**2,662**	2,620	4,677
Net pension liability	**(6,846)**	(6,112)	(10,914)

The following amounts have been recognised in the performance statements in the year to 31 December 2007 under the requirements of FRS 17.

	2007 £'000	2006 £'000
Analysis of the amount charged to operating profit		
Current service cost	**443**	439
Curtailment cost	-	-
Total operating charge	**443**	439
Analysis of the amount credited to financing of provisions		
Expected return on pension scheme assets	**4,870**	4,213
Interest on pension scheme liabilities	**(4,572)**	(4,260)
Net return	**298**	(47)

	2007 £'000	2006 £'000
Amount recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	**2,535**	2,919
Experience gains and losses arising on the scheme liabilities	**(2,157)**	(998)
Changes in assumptions underlying the present value of the scheme liabilities	**7,367**	3,234
Change in demographic assumptions	**(10,600)**	-
Actuarial (loss)/gain	**(2,855)**	5,155
Movement in deficit during the year		
Deficit in scheme at beginning of the year	**(8,732)**	(15,591)
Movement in year:		
Current service cost	**(443)**	(439)
Contributions	**2,224**	2,190
Other finance costs	**298**	(47)
Actuarial (loss)/gain	**(2,855)**	5,155
Deficit on scheme at end of the year	**(9,508)**	(8,732)

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20 Pension and similar obligations (continued)

	2007 **£'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Details of experience gains and loss for the year to 31 December 2007					
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	**2,535**	2,919	7,215	3,009	5,077
Percentage of scheme assets	**3%**	4%	9%	5%	8%
Experience gains and losses on scheme liabilities:					
Amount (£'000)	**(2,157)**	(998)	267	167	(237)
Percentage of the present value of the scheme liabilities	**(2%)**	(1%)	0%	0%	0%
Total recognised in statement of total recognised gains and losses:					
Amount (£'000)	**(2,855)**	5,155	768	(1,088)	968
Percentage of the present value of the scheme liabilities	**3%**	6%	1%	(1%)	(1%)

21 Called up share capital

	2007 **£'000**	2006 £'000
Authorised		
160,000,000 ordinary shares of 25p each	**40,000**	40,000
Allotted and fully paid		
27,393,999 ordinary shares of 25p each	**13,117**	6,849

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22 Share premium account and reserves

Group	Share premium account £'000	Profit and loss account £'000
At 1 January 2007	3,729	(8,542)
Profit for the financial year	-	20,528
Actuarial gain on pension scheme	-	(2,855)
Movement on deferred tax relating to pension liability	-	799
Interim dividend paid	-	(2,098)
At 31 December 2007	3,729	7,832

Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2007	3,729	45,136
Retained profit for the year	-	3,111
Interim dividend paid	-	(2,098)
At 31 December 2007	3,729	46,149

23 Other reserves

	2007 £'000
Balance at 1 January 2007	463
Adjustment in respect of employee share schemes	117
Balance at 31 December 2007	580

Other reserves above relate to Long Term Compensation paid to employees through Restricted Stock Units and Non Qualified Stock Options in the parent company. The total liability at the balance sheet date amounted to £580,085 (2006:£463,050).

The AES Corporation provides Long Term Compensation to selected employees through Performance Units and Restricted Stock Units and Non Qualified Stock Options.

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23 Other reserves (continued)

Performance Units

Payment of Performance Units are made at the end of a three year performance cycle and vary with performance during that cycle. The Performance Units vest one third each year and the cost of these units is charged to the profit and loss accounts evenly over the three year vesting period.

Restricted Stock Units

Awards of Restricted Stock Units are denominated in units of AES stock, each representing the right to receive one share of AES Common stock for each vested unit on the fifth anniversary of the grant date. Restricted stock units are granted at the market value of AES stock at the date of grant and vest one third each year. The cost of providing Restricted Stock Units is recognised in the profit and loss account evenly over the three year vesting period.

Non Qualified Stock Options

Awards of Stock Options give the employees rights to purchase shares of AES stock at a fixed price at the time the option vests. Options are awarded based on the Black Scholes value at time of grant using a rolling twelve month Black Scholes value. Full vesting occurs on the third anniversary of the grant date. The cost of providing Stock Options is recognised in the profit and loss account evenly over the three year vesting period.

Employee share schemes

The disclosures required for employee share schemes are provided in the consolidated financial statements of AES Corporation.

24 Reconciliation of movements in shareholders' funds

Group	**2007** **£'000**	2006 £'000
Profit for the financial year	**20,528**	22,711
Dividends	**(2,098)**	(3,011)
Additions to shares held by ESOP Trust	**-**	(2)
Adjustment in respect of employee share schemes	**117**	53
Conversion of loan stock into share capital	**6,268**	-
	24,815	19,751
Actuarial (loss)/gain on pension scheme	**(2,855)**	5,155
Movement on deferred tax relating to pension liability	**799**	(1,546)
Net movement during year	**22,759**	23,360
Opening shareholders' funds	**2,499**	(20,861)
Closing shareholders' funds	**25,258**	2,499

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25 Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating profit	**39,811**	46,561
Loss on sale of fixed assets	**63**	45
Amortisation of intangible fixed assets	**1,399**	1,399
Depreciation on tangible fixed assets	**11,776**	10,046
Amortisation of issue costs	**175**	175
Increase in stocks	**(2,198)**	(1,017)
Increase in trade debtors	**(4,764)**	1,516
Decrease/ (increase) in prepayments and accrued income	**71**	(769)
Decrease/ (increase) in amounts owed by parent company and fellow subsidiaries	**6**	(16)
Decrease/ (increase) in other debtors	**219**	(49)
Increase in trade creditors	**2,958**	2,231
(Decrease)/ increase in amounts owed to parent company and fellow subsidiaries	**(57)**	81
(Decrease)/ increase in other taxation and social security	**(1,469)**	891
Increase/ (decrease) in accruals and deferred income	**7,450**	(3,255)
Increase/ (decrease) in other creditors	**300**	(13)
Increase/ (decrease) in provisions	**125**	(10)
Difference between pension charge and cash contributions	**(1,781)**	(1,751)
Adjustment in respect of employee share schemes	**117**	53
Net cash inflow from continuing operating activities	**54,201**	56,118

26 Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
(Decrease)/increase in cash in the year	**(20,221)**	14,685
Movement in deposits	**(61,900)**	16,489
Repayment of loan capital	**79,400**	6,130
Transferable loan stock issued during year	**(21,400)**	(23,300)
Loan stock conversion during the year	**6,268**	-
Change in net debt resulting from cash flows	**(17,853)**	14,004
Amortisation of debt issue costs	**(175)**	(175)
Movement in net debt in the year	**(18,028)**	13,829
Net debt at 1 January 2007	**(110,259)**	(124,088)
Net debt at 31 December 2007	**(128,287)**	(110,259)

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27 Analysis of net debt

	1 January 2007 £'000	Cash flow £'000	Non cash changes £'000	**31 December 2007 £'000**
Cash at bank or in hand	17,601	26,382	-	**43,983**
Overdrafts	(92)	(46,603)	-	**(46,695)**
	17,509	(20,221)	-	**(2,712)**
Liquid resources	112,100	(61,900)	-	**50,200**
	129,609	(82,121)	-	**47,448**
Debt due after 1 year	(160,468)	(21,400)	45,793	**(136,075)**
Debt due within 1 year	(79,400)	79,400	(39,700)	**(39,700)**
	(239,868)	58,000	6,093	**(175,775)**
Net debt	(110,259)	(24,121)	6,093	**(128,287)**

28 Capital commitments

	2007 £'000	2006 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**5,981**	34,030

29 Contingent liabilities

In June 2004 the company did not exercise its option to opt out of the large combustion plant directive. As a result it must fit Flue Gas Desulphurisation equipment in order to operate post January 2008. Under the conditions included in the power purchase agreement this expenditure, estimated to be a minimum of £46 million by the directors, is recoverable from NIE. In August 2006 the Flue Gas Desulphurisation project commenced and the amount included in note 28 above represents purchase orders outstanding at the balance sheet date.

30 Related party transactions

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the AES Corporation group.

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31 Ultimate parent company

The share capital of AES (NI) Limited is owned 47.79% (2006: 45.76%) by AES Electric Limited and 50.86% (2006: 51.65%) by AES Horizons Investments Limited.

The ultimate parent undertaking and controlling party is AES Corporation, a company registered in the United States of America, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of AES Corporation consolidated financial statements can be obtained from the Company Secretary at 4300 Wilson Boulevard, Arlington, Virginia 22203.

32 Post balance sheet events

A number of changes to the UK Corporation Tax system were announced as part of the March 2007 budget statement. Some of these changes were substantively enacted in the 2007 Finance Act on 26 June 2007. The impact of these changes has been recognised in these financial statements.

Some other changes are expected to be enacted in the 2008 Finance Act. The impact of these changes will be recognised in the period in which the 2008 Finance Act becomes substantively enacted, which is expected to be in the year to 31 December 2008.