AES (NI) Limited
Annual Report
for the year ended 31 December 2006

Registered no : NI 26332

AES (NI) Limited

Annual report
for the year ended 31 December 2006

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AES (NI) Limited

Directors and advisers

Directors

J McLaren
D Paton

Registered Auditors

PricewaterhouseCoopers LLP
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Secretary and registered office

G McNeilly
Kilroot Power Station
Larne Road
Carrickfergus
Co Antrim
BT38 7LX

Solicitors

Carson & McDowell
Murray House
Murray Street
Belfast
BT1 6HS

Bankers

Bank of Ireland Limited
47 Donegall Place
Belfast
BT1 5BX

AES (NI) Limited

Directors' report
for the year ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006.

Principal activities

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.

AES (NI) Limited

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.

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.

AES (NI) Limited

Financial risk management (continued)

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.

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 10.
The directors have paid the following dividends during the year ended 31 December 2006:

	£'000
Interim dividend paid	3,011
	3,011

AES (NI) Limited

Directors

The directors who served during the year are shown on page 1. The following changes occurred during the year:

Mr S Lynch resigned as director on 6 March 2006.
Mr D Paton was appointed director on 6 March 2006.

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.

Directors' interests

None of the directors had any interest in the shares of the company at the end of the year. No directors have been granted or exercised share options in the shares of the company or other group companies and no share options remain outstanding at 31 December 2006. No directors were interested at any time in the year in the share capital or loan stock of the company or other group companies.

There has been no change in the interests set out above between 31 December 2006 and 2 February 2007.

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 £25,047 (2005: £18,328).

Other charitable contributions amounted to £11,570 (2005: £2,165). The following donations were more than £200;

Wildlife Trust	£370
Action MS	£1,200
Business in the community	£10,000

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 company's performance.

AES (NI) Limited

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing the financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, 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 judgements and estimates that are reasonable and prudent;
- state whether applicable 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 company and the group will continue in business.

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

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 is 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
20 February 2007

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

We have audited the financial statements of AES (NI) Limited for the year ended 31 December 2006, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement 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 the 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. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. 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 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.

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

Basis of audit opinion (continued)

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 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
26 February 2007

AES (NI) Limited

Consolidated profit and loss account for the year ended 31 December 2006

	Notes	2006 £'000	As restated 2005 £'000
Turnover	2	**120,395**	114,238
Operating costs	3	**(73,834)**	(70,490)
Operating profit		**46,561**	43,748
Investment income	5	**5,613**	5,115
Interest payable and similar charges	6	**(22,376)**	(21,974)
Other finance costs	19	**(47)**	(307)
Profit on ordinary activities before taxation	7	**29,751**	26,582
Taxation	8	**(7,040)**	(7,001)
Profit for the financial year	9 & 21	**22,711**	19,581

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 retained profit for the year stated above, and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2006

	Notes	2006 £'000	As restated 2005 £'000
Profit for the financial year		**22,711**	19,581
Actuarial gain on pension scheme	19	**5,155**	768
Taxation relating to actuarial gain		**(1,546)**	(231)
Total recognised gains and losses relating to the year		**26,320**	20,118

AES (NI) Limited

Balance sheets
at 31 December 2006

	Notes	Group 2006 £'000	Group As restated 2005 £'000	Company 2006 £'000	Company 2005 £'000
Fixed assets					
Intangible assets	11	**24,425**	25,824	-	-
Tangible assets	12	**146,741**	144,905	-	-
Investments	13	-	-	**234,971**	234,971
		171,166	170,729	**234,971**	234,971
Current assets					
Stocks	14	**10,222**	9,205	-	-
Debtors: amounts falling due within one year	15	**18,925**	18,894	**28,680**	5,060
Debtors: amounts falling due after one year	15	-	-	**32,000**	32,000
Cash at bank and in hand		**129,701**	98,459	**101**	3,712
		158,848	126,558	**60,781**	40,772
Creditors: amounts falling due within one year	16	**(112,389)**	(76,448)	**(2,845)**	(8,511)
Net current assets		**46,459**	50,110	**57,936**	32,261
Total assets less current liabilities		**217,625**	220,839	**292,907**	267,232
Creditors: amounts falling due after more than one year:					
Borrowings and other creditors	17	**163,355**	182,916	**230,923**	207,623
Convertible debt	17	**6,268**	6,268	**6,268**	6,268
Provisions for liabilities	18	**39,391**	41,602	-	-
Pension liability	19	**6,112**	10,914	-	-
Capital and reserves					
Called up share capital	20	**6,849**	6,849	**6,849**	6,849
Share premium account	21	**3,729**	3,729	**3,729**	3,729
Other reserves	23	**463**	410	-	-
Profit and loss account	21	**(8,542)**	(31,849)	**45,138**	42,763
Equity shareholders' funds/(deficit)	22	**2,499**	(20,861)	**55,716**	53,341
		217,625	220,839	**292,907**	267,232

The financial statements on pages 10 to 36 were approved by the board of directors on 20 February 2007 and were signed on its behalf by:

DPaton

D Paton
Director

AES (NI) Limited

Consolidated cash flow statement for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	24	**56,118**	49,890
Returns on investments and servicing of finance			
Interest received		**4,900**	5,093
Interest paid		**(22,060)**	(12,364)
		(17,160)	(7,271)
Taxation paid		**(10,014)**	(8,445)
Capital expenditure and financial investment			
Purchase of investments		**(2)**	(2)
Purchase of tangible fixed assets		**(11,932)**	(3,926)
Sale of fixed assets		**5**	16
		(11,929)	(3,912)
Equity dividends paid		**(3,011)**	(1,164)
Net cash inflow before management of liquid resources and financing		**14,004**	29,098
Management of liquid resources			
Increase in short term deposits with banks		**(16,489)**	(10,642)
Financing			
Repayment of loan capital		**(6,130)**	(5,870).
Transferable loan stock issued during year		**23,300**	-
Increase in cash in the year	25&26	**14,685**	12,586

AES (NI) Limited

Notes to the financial statements for the year ended 31 December 2006

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.

Changes in accounting policies

The effect of the change in accounting policy to adopt FRS 20 "Share-based payments" was to recognise the liability relating to Long Term Compensation for employees through Restricted Stock Units and Non Qualified Stock Options at 31 December 2006. The current year expense amounted to £53,349 (2005: £145,767), the total liability at the year end amounted to £463,501 (2005: £410,151).

Basis of consolidation

The consolidated financial statements include the company and its subsidiary undertakings except where standard accounting practice requires that a subsidiary should be excluded from consolidation. 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.

The directors have carried out an impairment review of goodwill 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 FRS10.

AES (NI) Limited

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 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	4.25 & 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

The group is not depreciating project development costs until the related asset is completed and ready for use.

Overhaul of generating plant

In accordance with FRS 15 the relevant component of the generating plant that will be overhauled is depreciated over the period until the expenditure is needed. That period is usually between three and nine years. When the overhaul expenditure takes place it is capitalised as part of the cost of the asset since it restores or replaces the previously depreciated component.

Foreign exchange

Assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Exchange differences are included in the profit and loss account.

Fuel stocks and stores

Fuel stocks and general and engineering stores are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete stocks.

AES (NI) Limited

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Pension

The principal trading subsidiaries within the group participate in a defined benefit pension scheme, which is valued every two years by an independent actuary.
Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method. Changes in these valuations from year to year are reflected in the profit and loss account and statement of total recognised gains and losses as appropriate.

2 Analysis of Turnover and Profit by class of business and by geographical area

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

	2006	2005
	£'000	£'000
Cost of sales	**56,568**	52,869
Administrative expenses	**17,266**	17,621
	73,834	70,490

AES (NI) Limited

4 Employee information

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

	2006 Number	2005 Number
By activity		
Production	94	87
Administration	9	7
	103	94

The company had no employees during the year.

	2006 £'000	As restated 2005 £'000
Staff costs (for the above persons)		
Wages and salaries	3,635	3,796
Social security costs	360	445
Other pension costs (see note 19)	439	392
	4,434	4,633

5 Investment income

	2006 £'000	2005 £'000
Other interest receivable	5,613	5,115

AES (NI) Limited

6 Interest payable and similar charges

	2006 £'000	2005 £'000
On debentures and other loans	**18,857**	18,857
Amounts payable to parent companies	**3,450**	2,052
On bank loans and overdrafts	**169**	706
Other interest payable	**(100)**	359
	22,376	21,974

7 Profit on ordinary activities before taxation

	2006 £'000	As restated 2005 £'000
Profit on ordinary activities before taxation is stated after charging:		
Staff costs (see note 4)	**4,434**	4,633
Goodwill amortisation	**1,399**	1,399
Depreciation charge for the year on tangible owned fixed assets	**10,046**	10,350
Loss / (profit) on sale of fixed assets	**45**	(2)
Auditors' remuneration - for audit (company £2,870 (2005: £2,730))	**28**	27
- for other services	**169**	178

AES (NI) Limited

8 Taxation

	2006 £'000	2005 £'000
Current tax:		
UK corporation tax at 30%	**9,942**	9,465
Adjustment in respect of previous periods	**(1,212)**	(302)
Total current tax	**8,730**	9,163
Deferred tax:		
Accelerated capital allowances and other timing differences	**(2,201)**	(2,578)
Pension contribution relief in excess of pension cost charge	**511**	416
Total deferred tax	**(1,690)**	(2,162)
Tax on profit on ordinary activities	**7,040**	7,001

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	**29,751**	26,582
Profit on ordinary activities multiplied by standard rate in the UK 30% (2005: 30%)	**8,925**	7,975
Effects of:		
Expenses not deductible for tax purposes	**527**	408
Accelerated capital allowances and other timing differences	**2,201**	2,578
Pension contribution relief in excess of pension cost charge	**(511)**	(416)
Group relief not paid	**(1,200)**	(1,200)
Adjustment in respect of previous periods	**(1,212)**	(302)
Other	**-**	120
Current tax charge for the year	**8,730**	9,163

AES (NI) Limited

9 Profit for the financial year

As permitted by Article 238 of the Companies (Northern Ireland) Order 1986 the holding company's profit and loss account has not been included in these financial statements. Of the profit for the financial year, a profit of £5,388,000 (2005: £6,768,724) is dealt with in the financial statements of the company.

10 Dividends

	2006	2005
	£'000	£'000
Ordinary dividend paid	**3,011**	1,164
	3,011	1,164

11 Intangible fixed assets

The company has no intangible fixed assets. Details of those relating to the group are as follows:

	Goodwill
	£'000
Cost	
At 1 January 2006 and **31 December 2006**	**44,829**
Amortisation	
At 1 January 2006	19,005
Charge for year	1,399
At 31 December 2006	**20,404**
Net book value	
At 31 December 2006	**24,425**
Net book value	
At 31 December 2005	25,824

AES (NI) Limited

12 Tangible fixed assets

The company has no tangible fixed assets. Details of those relating to the group are as follows:

	Long leasehold land £'000	Long leasehold generating plant and buildings £'000	Maintenance assets £'000	Motor vehicles £'000	Fixtures and fittings £'000	Computer equipment £'000	Project development costs £'000	Total £'000
Cost or valuation								
At 1 January 2006	929	256,422	8,172	458	43	180	1,910	268,114
Additions	-	292	1,070	4	39	-	10,527	11,932
Disposals	-	(89)	-	-	-	-	-	(89)
At 31 December 2006	**929**	**256,625**	**9,242**	**462**	**82**	**180**	**12,437**	**279,957**
Depreciation								
At 1 January 2006	399	115,723	6,433	440	43	171	-	123,209
Charge for year	29	8,379	1,616	9	10	3	-	10,046
Eliminated in respect of disposals	-	(39)	-	-	-	-	-	(39)
At 31 December 2006	**428**	**124,063**	**8,049**	**449**	**53**	**174**	**-**	**133,216**
Net book value								
At 31 December 2006	**501**	**132,562**	**1,193**	**13**	**29**	**6**	**12,437**	**146,741**
Net book value								
At 31 December 2005	530	140,699	1,739	18	-	9	1,910	144,905

AES (NI) Limited

13 Fixed asset investments

Company

	Interests in group undertakings £'000
Cost	
At 1 January 2006	234,971
Additions	-
At 31 December 2006	**234,971**
Amounts Written Off	
At 1 January 2006 and **31 December 2006**	-
Net Book Value	
At 31 December 2006	**234,971**
At 31 December 2005	234,971

Interests in principal group undertakings:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by Group %	Company %
AES Kilroot Power Limited	N. Ireland	Ordinary £1 shares	-	100
AES Belfast West Power Limited	N. Ireland	Ordinary £1 shares	-	100
Kilroot Electric Limited	Cayman Islands	Ordinary US $1 shares	100	-

The above companies operated principally in their country of incorporation with the exception of Kilroot Electric Limited which operated in Northern Ireland.

The principal business activities of these subsidiary undertakings are:

(I) AES Kilroot Power Limited - generation of electricity.
(II) Kilroot Electric Limited - investment company.

AES Belfast West Limited did not trade during the year.

AES (NI) Limited

14 Stocks

	Group 2006 £'000	Group 2005 £'000
Engineering stock	**2,960**	2,924
Fuel stock	**7,262**	6,281
	10,222	9,205
Replacement cost	**10,680**	10,804

15 Debtors

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Amounts falling due within one year				
Trade debtors	**16,485**	18,001	**-**	-
Group relief receivable	**-**	-	**2,344**	3,659
Amounts owed by subsidiary undertakings	**-**	-	**26,024**	992
Amounts owed by parent company and fellow subsidiary undertakings	**18**	2	**4**	2
Other debtors	**307**	258	**307**	258
Prepayments and accrued income	**2,115**	633	**1**	149
	18,925	18,894	**28,680**	5,060
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**-**	-	**32,000**	32,000

AES (NI) Limited

16 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
9.5% secured debenture stock	**79,400**	39,700	-	-
Bank overdraft	**92**	24	-	-
Secured term loan	-	6,130	-	6,130
Trade creditors	**6,136**	3,905	-	-
Amounts owed to subsidiary undertakings	-	-	**1,732**	1,727
Amounts owed to parent company and fellow subsidiary undertakings	**1,507**	1,426	**829**	367
Corporation tax	**5,413**	6,697	-	-
Other taxation and social security	**1,599**	708	-	-
Other creditors	**3,945**	3,958	**258**	258
Accruals and deferred income	**4,868**	4,471	**26**	29
Interest payable on debenture stock	**9,429**	9,429	-	-
	112,389	76,448	**2,845**	8,511

Bank overdrafts relating to AES Kilroot Power Limited are secured by fixed and floating charges over the assets of the company, and over the assets of Kilroot Electric Limited and AES Kilroot Power Limited.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
9.5% secured debenture stock (2006 - 2010)	**118,400**	157,925	-	-
Loan from subsidiary undertaking	-	-	**195,123**	195,123
Transferable loan stock	**35,800**	12,500	**35,800**	12,500
Accruals and deferred income	**9,155**	12,491	-	-
	163,355	182,916	**230,923**	207,623
Non transferable loan stock	**6,268**	6,268	**6,268**	6,268

AES (NI) Limited

17 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 16 amounted to £197,799,793 (2005: £197,624,742) 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 four 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.

Transferable loan stock

Group and company

Authorised

	£'000
Floating rate subordinated loan stock 2007	35,800

Issued

	£'000
Floating rate subordinated loan stock 2007 at 1 January 2006	12,500
Issued during year	23,300
Floating rate subordinated loan stock 2007 at 31 December 2006	**35,800**

Interest levied on the loan stock is calculated as the sum of:
(I) the applicable margin; 6%
(II) LIBOR on quotation date

AES (NI) Limited

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

The Floating rate subordinated loan stock is owned 50% by AES Electric Limited and 50% by AES Horizons Investments Limited. Both AES Electric Limited and AES Horizons Investments Limited have agreed to extend the repayment date to 31 March 2015.

Convertible debt

Group and company

Authorised

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

Issued

Floating rate subordinated convertible deferred loan stock 2007	6,268

Interest levied on the loan stock is calculated as the sum of:

(I) the applicable margin; 6%
(II) LIBOR on quotation date

The loan is secured on the assets of the group and by inter-company guarantees.

The convertible loan stock is 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 2007.

The number of ordinary shares to be 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.

AES (NI) Limited

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

Loan
Group and company

On 23 May 2002, AES (NI) Limited obtained a secured term loan of £32,000,000 in order to meet long term financing requirements of the AES (NI) Group.

The interest rate levied is the sum of:

(I) the applicable margin; 4%
(II) LIBOR on quotation date;
(III) the lenders' mandatory cost rate.

The loan is repayable as follows:

	2006	2005
	£'000	£'000
30 April 2006	-	6,130
	-	6,130

The loan was secured by a second charge over the share capital of AES Kilroot Power Ltd. This loan was fully repaid in April 2006.

Accruals and deferred income
Group

Deferred income is being released over a period of 9 years from 2001 to 2010.

18 Provisions for liabilities

The company has no provision for liabilities.

Group	**Deferred tax (see below)**	**Other (see below)**	**Total**
	£'000	**£'000**	**£'000**
At 1 January 2006	40,693	909	41,602
Profit and loss account	(2,201)	253	(1,948)
Payments in the year	-	(263)	(263)
At 31 December 2006	**38,492**	**899**	**39,391**

AES (NI) Limited

18 Provisions for liabilities and charges (continued)

Deferred taxation

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

	Group	
	2006	2005
	£'000	£'000
Tax effect of timing difference because of:		
Excess of capital allowances over depreciation	**38,408**	40,610
Provisions	**78**	(119)
Other timing differences	**6**	202
Deferred tax excluding that relating to pension liability	**38,492**	40,693
Deferred tax on pension liability (note 19)	**(2,620)**	(4,677)
Total provision for deferred tax	**35,872**	36,016

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.

19 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 2005 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 2007.

During the accounting period, the company paid regular contributions at the rate of £2,194,593 (2005: £2,089,000). With effect from April 2006, the company's ordinary contribution rate increases to £2,224,000 per annum.

AES (NI) Limited

19 Pension and similar obligations (continued)

An actuarial valuation of the scheme using the projected unit basis was carried out at 31 December 2006. The main financial assumptions used by the actuary for the purpose of calculating pension cost were:

	31 December 2006	31 December 2005	31 December 2004
Valuation method	**Projected unit**	Projected unit	Projected unit
Scheme asset valuation	**Market value**	Market value	Market value
Rate of increase in salaries	**3.60%**	3.40%	3.40%
Rate of increase in pensions in payment and deferred benefits during deferment	**3.10%**	2.90%	2.90%
Discount rate	**5.10%**	4.70%	5.20%
Inflation assumption	**3.10%**	2.90%	2.90%

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

	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	Long-term rate of return expected at 31.12.04	Value at 31.12.04
	%	**£'000**	%	£'000	%	£'000
Equities	**7.10**	**45,819**	6.70	42,429	7.20	37,219
Bonds	**4.50**	**36,549**	4.10	34,129	4.60	29,326
Cash	**5.00**	**43**	4.50	(31)	4.75	37
Market value of assets		**82,411**	5.50	76,527	6.10	66,582

	2006 £'000	2005 £'000	2004 £'000
Total market value of assets	**82,411**	76,527	66,582
Present value of scheme liabilities	**(91,143)**	(92,118)	(84,330)
Deficit in the scheme	**(8,732)**	(15,591)	(17,748)
Net pension liability	**(8,732)**	(15,591)	(17,748)
Related deferred tax asset	**2,620**	4,677	5,324
Net pension liability	**(6,112)**	(10,914)	(12,424)

AES (NI) Limited

19 Pension and similar obligations (continued)

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Details of experience gains and loss for the year to 31 December 2006					
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	**2,919**	7,215	3,009	5,077	(17,545)
Percentage of scheme assets	**4%**	9%	5%	8%	(32%)
Experience gains and losses on scheme liabilities:					
Amount (£'000)	**(998)**	267	167	(237)	(149)
Percentage of the present value of the scheme liabilities	**-1%**	0%	0%	0%	0%
Total recognised in statement of total recognised gains and losses:					
Amount (£'000)	**5,155**	768	(1,088)	968	(17,376)
Percentage of the present value of the scheme liabilities	**6%**	1%	(1%)	(1%)	(34%)

20 Called up share capital

	2006 £'000	2005 £'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	**6,849**	6,849

AES (NI) Limited

21 Share premium account and reserves

Group	Share premium account £'000	Profit and loss account £'000
At 1 January 2006 as previously stated	3,729	(31,439)
Prior year adjustment (FRS 20 – see note 1)	-	(410)
At 1 January 2006 as restated	3,729	(31,849)
Profit for the financial year	-	22,711
Actuarial gain on pension scheme	-	5,155
Taxation relating to actuarial gain	-	(1,546)
Interim dividend paid	-	(3,011)
Additions to shares held by ESOP Trust	-	(2)
At 31 December 2006	**3,729**	**(8,542)**

Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2006	3,729	42,763
Retained profit for the year	-	5,388
Interim dividend paid	-	(3,011)
Additions to shares held by ESOP Trust	-	(2)
At 31 December 2006	**3,729**	**45,138**

AES (NI) Limited

22 Reconciliation of movements in shareholders' funds

Group	2006 £'000	2005 £'000
Profit for the financial year	22,711	19,581
Dividends	(3,011)	(1,164)
Additions to shares held by ESOP Trust	(2)	(2)
Adjustment in respect of employee share schemes	53	146
	19,751	18,561
Actuarial gain on pension scheme	5,155	768
Taxation relating to actuarial gain	(1,546)	(231)
Net movement during year	23,360	19,098
Opening shareholders' funds	(20,861)	(39,959)
Closing shareholders' funds	2,499	(20,861)

23 Other reserves

	2006 £'000	2005 £'000
Balance at 1 January 2006 as previously stated	-	-
Prior year adjustment (see note 1)	410	264
Balance at 1 January 2006 as restated	410	264
Adjustment in respect of employee share schemes	53	146
Balance at 31 December 2006	463	410

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 £463,501. The prior year adjustment relates to the liability as at 31 December 2005 which has been included in the current year financial statements after adopting FRS 20.

AES (NI) Limited

23 Other reserves (continued)

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

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.

AES (NI) Limited

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

	2006 £'000	2005 £'000
Operating profit	46,561	43,748
Loss/(profit) on sale of fixed assets	45	(2)
Amortisation of intangible fixed assets	1,399	1,399
Depreciation on tangible fixed assets	10,046	10,350
Amortisation of issue costs	175	175
Increase in stocks	(1,017)	(301)
Decrease / (increase) in trade debtors	1,516	(4,626)
(Increase)/decrease in prepayments and accrued income	(769)	381
(Increase)/decrease in amounts owed by parent company and fellow subsidiaries	(16)	10
(Increase)/decrease in other debtors	(49)	-
Increase in trade creditors	2,231	603
Increase in amounts owed to parent company and fellow subsidiaries	81	147
Increase/(decrease) in other taxation and social security	891	(582)
Decrease in accruals and deferred income	(3,255)	(3,323)
(Decrease)/increase in other creditors	(13)	3,386
(Decrease)/increase in provisions	(10)	75
Difference between pension charge and cash contributions	(1,751)	(1,696)
Adjustment in respect of employee share schemes	53	146
Net cash inflow from continuing operating activities	**56,120**	49,890

25 Reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
Increase in cash in the year	14,685	12,586
Movement in deposits	16,489	10,642
Repayment of loan capital	6,130	5,870
Transferable loan stock issued during year	(23,300)	-
Change in net debt resulting from cash flows	14,004	29,098
Amortisation of debt issue costs	(175)	(175)
Movement in net debt in the year	13,829	28,923
Net debt at 1 January 2006	(124,088)	(153,011)
Net debt at 31 December 2006	**(110,259)**	(124,088)

AES (NI) Limited

26 Analysis of net debt

	1 January 2006 £'000	Cash flow £'000	Non cash changes £'000	**31 December 2006 £'000**
Cash at bank or in hand	2,848	14,753	-	**17,601**
Overdrafts	(24)	(68)	-	**(92)**
	2,824	14,685	-	**17,509**
Liquid resources	95,611	16,489	-	**112,100**
	98,435	31,174	-	**129,609**
Debt due after 1 year	(176,693)	(23,300)	39,525	**(160,468)**
Debt due within 1 year	(45,830)	6,130	(39,700)	**(79,400)**
	(222,523)	(17,170)	(175)	**(239,868)**
Net debt	(124,088)	14,004	(175)	**(110,259)**

27 Capital commitments

	2006 £'000	2005 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**34,030**	20

28 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 27 above represents purchase orders outstanding at the balance sheet date.

AES (NI) Limited

29 Ultimate parent company

The directors regard AES Corporation, a company registered in the United States of America as the ultimate parent company. This company has a 97.41% (2005: 97.41%) interest in the equity capital of AES (NI) Limited at 31 December 2006. Copies of AES Corporation consolidated financial statements can be obtained from the Company Secretary at 4300 Wilson Boulevard, Arlington, Virginia 22203.

30 Directors' emoluments

	2006	2005
	£'000	£'000
Aggregate emoluments	**117**	205
Highest paid director		
Aggregate emoluments	-	129
Accrued pension at year end	-	25

One director (2005 – two) has retirement benefits accruing under the company's defined benefit pension scheme.

Performance bonuses for 2005 have been disclosed in 2006 numbers above. The bonuses payable for 2006 performance have not yet been determined and will be disclosed in the 2007 financial statements.

31 Related party transactions

The share capital of AES (NI) Limited, a company registered in Northern Ireland, is owned 45.76% (2005: 45.76%) by AES Electric Limited, a company registered in England and Wales, and 51.65% (2005: 51.65%) by AES Horizons Investments Limited, a company registered in England and Wales. The directors regard AES Corporation, a company registered in the United States of America, as the ultimate parent company.