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Premier Transmission Limited

Report and Financial Statements

31 March 2006

Registered No: NI 26421

Directors

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

Secretary

Arthur Cox Northern Ireland

Auditors

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

Bankers

Barclays Bank plc
Imperial House
Donegal Square East
Belfast
BT2 7DT

Solicitors

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

Registered Office

Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Directors' report

The directors are pleased to present their report and financial statements for the period ended 31 March 2006.

Results and dividends

The loss for the period after taxation was £2,064,000 (2005: £284,000). The directors do not recommend the payment of a dividend.

Principal activity and review of the business

The Company's principal activity during the period was the operation of the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipe line. The business of the Company and future developments in relation to it are reviewed in the Chairman's Statement and the Operating and Financial Review contained within the financial statements of its ultimate parent undertaking Northern Ireland Energy Holdings Limited.

Directors and their interests

The present directors of the Company are listed on page 1.

William Adamson, Ross Michie, James Rooney and Harold Nichols resigned as directors of the company on 18 March 2005.

Carol Inmann resigned as company secretary on 18 March 2005 and was replaced by Arthur Cox NI on the same date.

Alasdair Locke, David Montgomery and William Cargo were appointed as directors on 18 March 2005.

Alan Rainey was appointed as a director on 21 March 2005.

Alan McClure, Felicity Houston, Damian McAteer and Nuala Sheeran were appointed as directors on 12 October 2005.

The directors have no beneficial interests in the share capital of the Company, or any other Group Company .

In accordance with Article 22 of the Company's Articles of Association the directors are not required to retire by rotation.

Financial Instruments

The Group's financial risk management objectives and policies are discussed in the Treasury Policies section of the Group Operating and Financial Review of Northern Ireland Energy Holdings Limited.

Political and charitable donations

No charitable or political donations have been made during the year (2005:£nil).

Auditors

Ernst & Young LLP have expressed their willingness to continue in office. A resolution proposing their re-appointment will be submitted at the annual general meeting.

Payment of suppliers

The Company's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The Company recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

Directors' report

The Company had trade payable days of 18 days at 31 March 2006 (2005 – 19 days).

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

To the best of each directors' knowledge and belief there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Arthur Cox Northern Ireland

Secretary

26 September 2006

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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing those financial statements, 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 in IFRSs 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; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in 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 enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Ernst & Young

Independent auditors' report

to the shareholders of Premier Transmission Limited

We have audited the Company's financial statements (the "financial statements") of Premier Transmission Limited for the period ended 31 March 2006 which comprise the Income Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, 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 are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements to be audited have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation and that the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises 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 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.

Independent auditors' report
to the shareholders of Premier Transmission Limited (continued)

Opinion
In our opinion:
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and Article 4 of the IAS Regulation
- The information given in the Directors' Report is consistent with the financials statements.

Registered auditor
Belfast

Ernst & Young LLP
26 September 2006.

Income Statement

for the period ended 31 March 2006

	Notes	*15 months Ended 31 March 2006 £000*	*Year ended 31 December 2004 £000*
Revenue – continuing operations		19,423	19,743
Operating costs	4	(14,489)	(10,343)
Profit on ordinary activities before finance costs and taxation	5	4,934	9,391
Finance revenue	7	998	210
Finance costs	8	(3,284)	(2,629)
Profit before taxation		2,648	6,972
Taxation	9	(584)	(2,188)
Profit for the year after taxation		2,064	4,784
Dividend paid		-	(4,500)
Profit for the year	16	2,064	284

Statement of recognised income and expense

for the period ended 31 March 2006

	15 months to 31 March 2006 £000	*Year to 31 December 2004 £000*
Income and expense recognised directly in equity	-	-
(Loss)/profit for the year	2,064	284
Total recognised income and expense for the year all attributable to the parent company	2,064	284

Balance sheet

At 31 March 2006

	Notes	2006 £000	2004 £000
Assets			
Non current assets			
Property, plant and equipment	10	105,013	108,826
Other receivables	11	-	1,086
		105,013	109,912
Current assets			
Trade and other receivables	11	6,847	6,789
Cash and cash equivalents	21	17,468	3,624
		24,315	10,413
Total assets		129,328	120,325
Equity and liabilities			
Equity			
Equity share capital	16	861	861
Share premium	16	14,012	14,012
Retained earnings	16	6,330	4,266
Total equity		21,203	19,139
Non current liabilities			
Interest bearing loans and borrowings	13	52,101	36,900
Deferred tax liabilities	9	17,264	17,222
Government grants	14	35,584	35,860
		104,949	89,982
Current liabilities			
Trade and other payables	12	2,080	5,128
Interest bearing loans and borrowings	13	-	4,980
Government grants	14	1,096	1,096
		3,176	11,204
Total liabilities		108,125	101,186
Total equity and liabilities		129,328	120,325

Directors:

26 September 2006.

Cash flow

For the year period 31 March 2006

	Notes	15 months ended 31 March 2006 £000	Year ended 31 December 2004 £000
Operating activities			
Profit on ordinary activities before finance costs and taxation		4,934	9,391
Adjustments to reconcile profit on ordinary activities before finance costs and taxation to cash generated from operations			
Depreciation of property, plant and equipment		3,958	3,128
Amortisation of government grant		(1,370)	(1,094)
Decrease in trade and other receivables		(58)	576
Increase/(decrease) in trade and other payables		(3,048)	242
Cash generated from operations		4,416	12,243
Net cash flow from operating activities		4,416	12,369
Investing activities			
Interest received		998	210
Purchase of property, plant and equipment		(145)	-
Net cash flow from investing activities		853	210
Financing activities			
Interest paid		(3,284)	(2,845)
Dividends paid		-	(4,500)
Repayment of borrowings		-	(4,620)
Proceeds from borrowings		11,859	-
Net cash flow from financing activities		8,575	(11,965)
Increase in cash and cash equivalents		13,844	614
Cash and cash equivalents at the beginning of the year		3,624	3,010
Cash and cash equivalents at the year end	21	17,468	3,624

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Notes to the financial statements

at 31 March 2006

1. Authorisation of financial statements and statement of compliance with IFRSs

The Company's financial statements of Premier Transmission Limited for the period ended 31 March 2006 were authorised for issue by the board of the directors on 26 September 2006 and the balance sheet was signed on the board's behalf by Alasdair Locke and Felicity Houston.

The Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as they apply to the financial statements of the Company for the period ended 31 March 2006 applied in accordance with the provisions of the Companies (Northern Ireland) Order 1986. The Company financial statements are also consistent with International Financial Reporting Standards as issued by the IASB.

2. Accounting policies

Basis of preparation

This is the first year in which the Company has prepared its financial statements under IFRSs and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRSs. The reconciliations to IFRSs from the previously published UK GAAP financial statements are summarised in note 19.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 March 2006.

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

Property Plant and Equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline	40 years
Computer equipment	3 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.

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

The Company's investments in subsidiaries

In its financial statements, the Company recognises its investment in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post acquisitions profits. Distributions received in excess of post acquisitions profits are deducted from the costs of investment.

Notes to the financial statements

at 31 March 2006

2. Accounting policies (continued)

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle obligation, using estimated cash flows based on current prices. The unwinding of decommissioning provision is included within the income statement. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate for new circumstances or changes in law or technology. The costs have been capitalised within property, plant and equipment and depreciated in line with Company policy.

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

Notes to the financial statements

at 31 March 2006

2. Accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

Notes to the financial statements

at 31 March 2006

2. Accounting policies (continued)

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised:

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charge to equity. Otherwise income tax is recognised in the income statement.

Notes to the financial statements

at 31 March 2006

2. Accounting policies (continued)

Government grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by instalments over the expected useful lives of the related assets, in line with the depreciation policy. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Operating lease commitments

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions and other post-retirement benefits

The Company operates a defined contribution pension plan. Contributions are recognised in the income statement in the period in which they become payable.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Interest income is recognised as revenue as interest accrues using the effective interest method.

Borrowing costs

Interest on funding directly attributable to the construction of property, plant and equipment is capitalised during the period of construction and is written off as part of the total cost over the operational life of the asset. All other finance income and costs are reflected in the income statement as they arise.

Notes to the financial statements

at 31 March 2006

2. Accounting policies (continued)

New standards and interpretations not applied

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

International Accounting Standards (IAS / IFRSs)		***Effective date***
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	The Fair Value Option	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Net investment in a foreign operation	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Financial instruments, disclosures IAS 1 amendments	1 March 2006
IFRIC 8*	Scope of IFRS 2	1 May 2006
IFRIC 9*	Reassessment of embedded derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Company will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Company will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

* These standards have not yet been adopted by the European Union.

3. Revenue

Revenue, which is stated net of rebates and value added tax, is generated from the sale of capacity on the Scotland Northern Ireland pipeline for the transmission of gas between Scotland and Northern Ireland. All revenue is generated within the United Kingdom.

Notes to the financial statements

at 31 March 2006

4. Operating costs

Operating costs were as follows:

	15 months to 31 March 2006 £'000
Cost of sales	12,742
Administrative expenses	1,747
	14,489

5. Profit on ordinary activities before finance costs and taxation

Profit on ordinary activities before finance costs and taxation is stated after charging:

	15 months to 31 March 2006 £'000	*Year to 31 December 2004 £'000*
Depreciation charge on property, plant and equipment	3,958	3,128
Amortisation of deferred government grants	(1,370)	(1,094)
Auditors' remuneration in respect of services to the Company:		
- Audit services	26	10
- Non-audit services	2	24
Operating lease costs	57	46

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Notes to the financial statements

at 31 March 2006

6. Staff costs and directors' emoluments

(a) Staff costs

	15 months to 31 March 2006 £'000	*Year to 31 December 2004 £'000*
Wages and salaries	356	12
Pension costs	27	1
	383	13

The average monthly number of employees during the period (comprising only directors holding contracts of service with the Company) was 1 (2005 - 1).

(b) Directors' emoluments

	15 months to 31 March 2006 £000	*Year to 31 December 2004 £000*
Emoluments	142	-
Contributions paid to defined contribution pension scheme	27	1
	No.	*No.*
Members of defined contribution pension scheme	1	1

The directors' emoluments figures reflect the remuneration of the Company's executive director, William Cargo. The remaining directors of the Company, who are also directors of Northern Ireland Energy Holdings Limited and received total remuneration for the year of £209,000 (2005 - £61,000), all of which was paid by Moyle Holdings Limited and Northern Ireland Energy Holdings Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Northern Ireland Energy Holdings Limited, Premier Transmission (Financing) Plc, Moyle Holdings Limited and Moyle Interconnector Limited.

7. Finance Revenue

	15 months to 31 March 2006 £000	*Year to 31 December 2004 £000*
Bank interest receivable	998	210

Notes to the financial statements

at 31 March 2006

8. Finance costs

	15 months to 31 March 2006 £000	Year to 31 December 2004 £000
Bank loan	237	2,629
Loan from Holding company	3,047	-
	3,284	2,629

9. Taxation

(a) Tax on profit on ordinary activities

Tax credited in the income statement

	2006 £000	2004 £000
Current income tax:		
Current income tax charge	131	1,837
Amounts underprovided in previous years	411	11
Total current income tax	542	1,848
Deferred tax:		
Deferred tax over provided in prior years	-	79
Origination and reversal of temporary differences	42	261
Total deferred tax	42	340
Tax charge in the income statement	584	2,188

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Notes to the financial statements

at 31 March 2006

9. Taxation (continued)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 – 30%). The differences are reconciled below:

	2006	*2004*
	£000	*£000*
Profit from operations before taxation	2,648	6,972
Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2005 – 30%)	794	2,092
Disallowed expenses	11	6
Group relief surrender of tax losses	(632)	-
Tax overprovided in previous years	411	90
Total tax charge reported in the income statement	584	2,188

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2006	*2004*
	£000	*£000*
Deferred tax liability		
Accelerated capital allowances	17,264	17,222

The deferred tax included in the Company income statement is as follows:

	2006	*2004*
	£000	*£000*
Deferred tax in the income statement		
Accelerated capital allowances	42	340

There are no restrictions or expiration of tax losses carried forward.

Notes to the financial statements

at 31 March 2006

10. Property, Plant and Equipment

	Pipeline *£'000*	*Computer equipment* *£'000*	*Total* *£'000*
Cost			
At 1 January 2004	132,871	-	132,871
Additions	-	-	-
At 1 January 2005	132,871	-	132,871
Additions	-	145	145
At 31 March 2006	132,871	145	133,016
Depreciation			
At 1 January 2004	20,917	-	20,917
Provided during the year	3,128	-	3,128
At 1 January 2005	24,045	-	24,045
Provided during the year	3,910	48	3,958
At 31 March 2006	27,954	48	28,003
Net book value			
At 31 March 2006	104,917	97	105,013
At 1 January 2005	108,826	-	108,826
At 1 January 2004	111,954	-	111,954

All labour and overheads attributable to the construction of the Scotland and Northern Ireland pipeline were capitalised during the period of construction and are written off as part of the total cost over the operational life of the asset.

Notes to the financial statements

at 31 March 2006

11. Trade and other receivables

	2006 £000	2004 £000
Amounts falling due within one year:		
Trade receivables	1,372	1,574
Prepayments	182	-
Other debtors	2,025	2,884
Corporation tax recoverable	20	-
Amounts owed by parent	23	-
Amounts owed by Premier Transmission (Financing) plc	3,225	-
Amounts owed to related companies in respect of taxation	-	2,331
	6,847	6,789
Amounts falling due after one year:		
Amounts owed to related companies in respect of taxation	-	1,086
	-	1,086
	6,847	7,875

12. Trade and other payables

	2006 £000	2004 £000
Trade payables	566	542
Accruals and deferred income	1,171	3,269
Amounts owed to other group companies	14	-
Other tax and social security	312	-
Corporation tax	-	893
Other creditors	17	424
Short term element of long term loans	-	4,980
	2,080	10,108

13. Financial Liabilities

	2006 £'000	2004 £'000
Amounts falling due:		
In one year or less on demand	-	4,980
In more than one year but not more than two years	-	5,280
In more than two years but not more than five years	-	17,940
In more than five years	52,101	13,680
	52,101	41,880
Less: included in creditors amounts falling due within one year	-	4,980
	52,101	36,900

Notes to the financial statements
at 31 March 2006

13. Financial Liabilities (continued)

2004 Loan

On 24 November 1998, the company received a loan of £60m from a consortium of commercial banks (Industrial Bank of Japan, Royal Bank of Scotland and Royal Bank of Canada). This loan was repaid on acquisition of the company by the NIEH group.

Under the terms of the agreement interest was payable at LIBOR plus a margin of 0.70% (70 basis points up to November 2005, and LIBOR plus 0.80% (80 basis points) thereafter. However, under two separate hedging agreements, interest on 50% of the loan was fixed at a rate of 6.38% until take over by the NIEH group.

2006 Loan

2.953% indexed linked loan from Premier Transmission (Financing) plc.

14. Government grants

	Deferred grants £'000
Grants	
At 1 January 2004	38,050
Amortised during the year	(1,094)
At 1 January 2005	35,956
Adjustment	1,094
Amortised during the period	(1,370)
At 31 March 2006	36,680

The current portion of deferred income is £1,096,000 (2004: £1,096,000). The non current portion is £35,584,000 (2004: £35,860,000).

15. Authorised and issued share capital

	Authorised Share Capital £000
At 1 January 2005 and 31 March 2006	
Ordinary shares of £1 each	861

	Allotted, called up and fully paid	
	No.	*£000*
At 1 January 2005 and 31 March 2006		
Ordinary shares of £1 each	860,928	861

Notes to the financial statements

at 31 March 2006

16. Reconciliation of movements in equity

	Equity Share capital £000	*Share premium £000*	*Retained earnings £000*	*Total £000*
Balance at 31 March 2004	861	14,012	3,982	18,855
Total recognised income and expense for the year	-	-	284	284
Balance at 31 March 2005	861	14,012	4,266	19,139
Total recognised income and expense for the year	-	-	2,064	2,064
Balance at 31 March 2006	861	14,012	6,330	21,203

17. Obligations under leases

Operating lease agreements where the Company is lessee

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

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2006 £000	*2004 £000*
Not later than one year	57	-
After one year but not more than five years	228	-
After five years	1,368	-
	1,653	-

Notes to the financial statements

at 31 March 2006

18. Related parties

During the year the Company entered into transaction, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

	Funding from related party £000	*Inter Company interest received £000*	*Amounts owed by related party £000*	*Amounts owed to related party £000*
Subsidiaries				
2006	52,101	-	3,248	52,115
2004	-	-	54	15

Compensation of key management personnel (including directors)

	2006 £000	*2004 £000*
Short term employee benefits	142	-
Post-employment benefits	27	1

19. Transition to IFRSs

For all periods up to and including the period ended 31 December 2004, the company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the period ended 31 March 2006, are the first the Company is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the company has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Company has started from an opening balance sheet as at 31 December 2003, the Company's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. No adjustments were made to the accounts in order to comply with IFRSs.

20. Financial Instruments

An explanation of the Company's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies in the Operating and Financial Review of the Parent Company.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Company as at 31 December is as follows:

Notes to the financial statements

at 31 March 2006

20. Financial Instruments (continued)

Period ended 31 March 2006

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Floating Rate Cash	17,468	-	-	-	-	-	17,468

Year ended 1 January 2005

	Within1year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Floating Rate Cash	3,624	-	-	-	-	-	3,624

Floating rate

Floating rate financial assets earn interest at a range of Bank of England base rate.

Credit risk

There are no significant concentrations of credit risk within the Company. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

21. Cash and cash equivalents

	2006 £000	*2004 £000*
Cash at bank and in hand	-	-
Short term deposits	17,468	3,624
	17,468	3,624

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