

**NIE Energy Supply**

**31 March 2009**

**Summary Regulatory Accounts**

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**CONTENTS**

	<b>Page No.</b>
Statement of Directors' Responsibilities	2
Auditors' Report	3
Income Statement	4
Net Asset Statement	5
Cash Flow Statement	6
Notes to the Regulatory Accounts	7 - 13

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The summary regulatory accounts have been extracted from the full regulatory accounts for the year ended 31 March 2009, prepared by the directors of NIE Energy Limited (the Company) for NIE Energy Supply (the business) for submission to the Northern Ireland Authority for Utility Regulation (NIAUR) in accordance with Condition 47 of NIE Energy Limited's Electricity Supply Licence (the Licence). The regulatory accounts are prepared on a pro-forma basis based on the business' regulated entitlement.

The directors are required under the Licence to prepare regulatory accounts for each financial year which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the business and of the revenues, costs and cash flows of, or reasonably attributable to, the business for that period. In preparing those accounts, the directors are required:

- to conform to the best commercial accounting practices including International Accounting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board;
- to state the accounting policies adopted; and
- not to change the bases of charge, apportionment or allocation from those applied in respect of the previous financial year unless previously directed by NIAUR.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the business and which enable them to ensure that the regulatory accounts comply with the Licence. They are also responsible for safeguarding the assets of the business and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**INDEPENDENT AUDITORS' REPORT**  
**To the directors of NIE Energy Limited (NIE Energy or the Company)**

We have audited the summary regulatory accounts of NIE Energy Limited's Supply business for the year ended 31 March 2009 which comprise the Income Statement, Net Asset Statement, Cash Flow Statement and the related notes 1 to 11. These summary regulatory accounts have been prepared on the basis of the accounting policies as set out therein.

The summary regulatory accounts have been extracted from the full regulatory accounts for the year ended 31 March 2009 prepared by the Company for submission to the Northern Ireland Authority for Utility Regulation (NIAUR) as required by Condition 47 of NIE Energy Limited's Electricity Supply Licence.

This statement is made solely to the Company's directors, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and its directors as a body, for our work, for this statement or for the opinion we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation and submission of the full regulatory accounts to NIAUR as required by the Licence.

The directors are also responsible for preparing the summary regulatory accounts and ensuring they are consistent with the full regulatory accounts.

Our responsibility is to report to you our opinion on the consistency of the summary regulatory accounts with the full regulatory accounts.

**Basis of audit opinion**

We conducted our examination using the principles contained in Bulletin 1999/6 "The auditors' statement on the summary financial statements" issued by the Auditing Practices Board for use in the United Kingdom.

**Opinion**

In our opinion the summary regulatory accounts are consistent with the full regulatory accounts for the year ended 31 March 2009.

Ernst & Young LLP  
Registered Auditors  
Belfast

Date: 25 September 2009

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**INCOME STATEMENT**

*For the year ended 31 March 2009*

	Note	2009 £m	2008 £m
<b>Revenue</b>			
External sales		<b>603.4</b>	493.9
Sales to Northern Ireland Electricity		<b>5.7</b>	7.3
Sales to other Viridian Group companies		<b>2.4</b>	0.2
Sales to NIE Energy PPB		-	(3.0)
K correction		<b>52.9</b>	(6.9)
		<hr/>	
<b>Total Revenue</b>		<b>664.4</b>	491.5
<b>Operating costs</b>	3	<b>(650.6)</b>	(479.7)
		<hr/>	
<b>OPERATING PROFIT</b>		<b>13.8</b>	11.8
Interest receivable		<b>0.7</b>	2.2
Interest on K		<b>(0.6)</b>	(0.5)
Finance costs		<b>(3.2)</b>	(0.7)
Net finance (costs)/income		<b>(3.1)</b>	1.0
		<hr/>	
<b>PROFIT FROM OPERATIONS BEFORE TAX</b>		<b>10.7</b>	12.8
		<hr/> <hr/>	

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**NET ASSET STATEMENT**

*As at 31 March 2009*

	Note	2009 £m	2008 £m
<b>Non-current assets</b>			
Deferred tax assets	4	34.5	8.3
Intangible assets		-	0.3
		<u>34.5</u>	<u>8.6</u>
<b>Current assets</b>			
Trade and other receivables	5	162.6	91.7
Financial assets:			
Derivative financial assets	11	-	16.3
Other financial assets	6	11.8	47.2
Cash and cash equivalents	7	0.7	0.6
		<u>175.1</u>	<u>155.8</u>
<b>TOTAL ASSETS</b>		<u>209.6</u>	<u>164.4</u>
<b>Current liabilities</b>			
Trade and other payables	8	109.6	92.0
Financial liabilities:			
Derivative financial liabilities	11	89.2	-
Other financial liabilities	9	54.1	63.9
Short-term provisions	10	0.8	1.5
		<u>253.7</u>	<u>157.4</u>
<b>Non-current liabilities</b>			
Pension liability		12.0	8.5
		<u>12.0</u>	<u>8.5</u>
<b>TOTAL LIABILITIES</b>		<u>265.7</u>	<u>165.9</u>
<b>NET LIABILITIES</b>		<u>(56.1)</u>	<u>(1.5)</u>

The accounts on pages 4 - 13 were approved by the Company's board of directors and signed on its behalf by:

Director: Peter Ewing

Date: 25 September 2009

**NIE ENERGY SUPPLY**  
**Summary Regulatory Accounts**  
**31 March 2009**

**CASH FLOW STATEMENT**

*For the year ended 31 March 2009*

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Cashflows from operating activities</b>		
Profit from operations before tax	<b>10.7</b>	12.8
Adjustments for:		
Hedging loss/(gain) transferred to the income statement	<b>11.8</b>	(11.8)
Net finance costs/(income)	<b>3.1</b>	(1.0)
Depreciation of property, plant and equipment	-	0.1
Defined benefit pension charge less contributions paid	<b>(2.2)</b>	(2.2)
Net movement in provisions	<b>(0.7)</b>	1.5
<b>Operating cash flows before movement in working capital</b>	<b>22.7</b>	(0.6)
Increase in working capital	<b>(48.4)</b>	(4.4)
<b>Cash outflow from operations</b>	<b>(25.7)</b>	(5.0)
Interest received	<b>1.0</b>	1.8
Interest paid	<b>(1.8)</b>	(0.8)
Current taxes recoverable	<b>3.4</b>	-
<b>Net cash flows used in operating activities</b>	<b>(23.1)</b>	(4.0)
<b>Cash flows from investing activities</b>		
Proceeds from disposal of intangible assets	<b>0.3</b>	-
Proceeds from disposal of property, plant and equipment	-	11.4
<b>Net cash flows from investing activities</b>	<b>0.3</b>	11.4
<b>Cash flows from/(used in) financing activities</b>		
Receipt from/(repayment of) borrowings	<b>22.9</b>	(7.9)
<b>Net cash flows from/(used in) financing activities</b>	<b>22.9</b>	(7.9)
Net increase/(decrease) in cash and cash equivalents	<b>0.1</b>	(0.5)
Cash and cash equivalents at beginning of year	<b>0.6</b>	1.1
<b>Cash and cash equivalents at end of year</b>	<b>0.7</b>	0.6

**NIE ENERGY SUPPLY**  
**Notes to the Summary Regulatory Accounts**  
**31 March 2009**

**1. GENERAL INFORMATION**

The accounts have been prepared in accordance with Condition 47 of NIE Energy Limited's Supply Licence. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated. At the date of authorisation of these accounts, the following standards, which have not been applied in these accounts, were in issue but not yet effective:

IAS 1	Amendment - Revised Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
IAS 1 and IAS 32	Amendment - Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009)
IAS 23	Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
IFRS 2	Amendment – Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 July 2008)
IFRS 7	Amendment – Improving Disclosures about Financial Instruments (effective for accounting periods beginning on or after 1 January 2009)
IFRS 1 and IAS 27	Amendments - Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009)
Improvements	Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009)
IFRS 3	Business Combinations (revised) (effective for accounting periods beginning on or after 1 July 2009)
IFRS 8	Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
IAS 27	Consolidated and Separate Financial Statements (revised) (effective for accounting periods beginning on or after 1 July 2009)
IAS 39	Amendment - Eligible Hedged Items (effective for accounting periods beginning on or after 1 July 2009)
IAS 39 and IFRS 7	Amendments - Reclassification of Financial Assets (effective for accounting periods beginning on or after 1 July 2009)
IFRIC 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008)
IFRIC 17	Distribution of Non-Cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009)
IFRIC 18	Transfers of Assets from Customers (effective for transfers of assets from customers received on or after 1 July 2009)

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

## **2. ACCOUNTING POLICIES**

### **Change in cash flow presentation**

In the accounts for the year ended 31 March 2008 the cash flow statement started from operating profit; in preparing the accounts for the year ended 31 March 2009 the directors have chosen to present the cash flow statement starting from profit for the year as they believe this reflects a more suitable presentation, in accordance with IAS 7 'Cash flow statements'. The change in presentation has no impact on cash generated from operations for the years ended 31 March 2009 and 31 March 2008.

The principal accounting policies are set out below:

### **Basis of preparation**

The accounts are prepared on a pro-forma basis and include K factor adjustments in respect of the business' regulated entitlement which are not reflected in NIE Energy Limited's statutory accounts. Except for K factor adjustments, the accounts are prepared on the basis of the accounting policies set out below which are consistent with the policies adopted in NIE Energy Limited's statutory accounts.

### **Foreign currency translation**

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

### **Renewable obligations**

Renewable Obligation Certificates (ROCs) are initially recognised at cost (purchase price) within intangible assets. No amortisation is recorded during the period as the intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit.

Any liability for the renewables obligation is recognised based on the level of electricity supplied to customers.

### **Financial instruments**

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand.

#### *Interest bearing loans and overdrafts*

Interest bearing loans and overdrafts are initially recorded at fair value, being the proceeds received net of direct issue costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method.

#### *Trade and other receivables*

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

#### *Trade payables*

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

#### *Derivative financial instruments and hedge accounting*

The Company enters into Contracts for Differences (CfDs) to hedge its exposure to changes in wholesale electricity prices, and during the year entered into forward exchange contracts to hedge the risks of currency movements in respect of Euro-denominated CfDs.

Changes in the fair value of derivatives which are designated as effective hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income or expense.

**2. ACCOUNTING POLICIES (continued)**

*Derivative financial instruments and hedge accounting (continued)*

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

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

**Operating lease contracts**

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

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

**Revenue**

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

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

*Energy supply*

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

*Interest receivable*

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

**Tax**

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

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

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

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

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

**2. ACCOUNTING POLICIES (continued)**

**Provisions**

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

**Pensions and other post-retirement benefits**

Employees in the business are entitled to membership of the Viridian Group Pension Scheme (VGPS), which has both defined benefit and defined contribution pension arrangements. The amount recognised in the balance sheet in respect of liabilities represents the present value of the obligations offset by the fair value of assets.

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

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

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

The business has adopted the exemption allowed in IFRS 1 to recognise all cumulative actuarial gains and losses at the transition date in reserves.

**Exceptional items**

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

**Critical accounting judgements and key sources of estimation uncertainty**

*Pensions and other post employment benefits*

Employees in the business are entitled to membership of VGPS which has both defined benefit and defined contribution arrangements. The cost of providing benefits under the defined benefit scheme is determined using the projected unit method. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

**NIE ENERGY SUPPLY**  
**Notes to the Summary Regulatory Accounts**  
**31 March 2009**

**3. OPERATING COSTS**

	<b>2009</b>	2008
	<b>£m</b>	£m
Cost of sales	<b>618.9</b>	471.4
Hedging loss/(gain)	<b>11.8</b>	(11.8)
Staff costs	<b>3.3</b>	2.3
Depreciation	-	0.1
Other operating costs	<b>16.6</b>	17.7
	<b>650.6</b>	479.7

**4. DEFERRED TAX**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b><i>Deferred tax assets</i></b>		
<b>At 1 April 2008</b>	<b>9.7</b>	0.3
Increase in provision	<b>24.8</b>	9.4
<b>At 31 March 2009</b>	<b>34.5</b>	9.7
<b><i>Deferred tax liabilities</i></b>		
<b>At 1 April 2008</b>	<b>1.4</b>	-
(Decrease)/increase in provision	<b>(1.4)</b>	1.4
<b>At 31 March 2009</b>	<b>-</b>	1.4
Net deferred tax asset	<b>34.5</b>	8.3

**5. TRADE AND OTHER RECEIVABLES**

	<b>2009</b>	2008
	<b>£m</b>	£m
Trade receivables (incl. unbilled consumption)	<b>110.8</b>	78.4
K correction under-recovery	<b>36.4</b>	-
Amounts owed by group undertakings	<b>11.9</b>	7.1
Corporation tax recoverable	<b>3.4</b>	-
Other receivables	-	0.4
Prepayments	<b>0.1</b>	-
VAT	-	5.8
	<b>162.6</b>	91.7

**NIE ENERGY SUPPLY**  
**Notes to the Summary Regulatory Accounts**  
**31 March 2009**

**6. OTHER FINANCIAL ASSETS**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Current</b>		
Amounts due from group undertakings	<b>11.8</b>	47.2

**7. CASH AND CASH EQUIVALENTS**

	<b>2009</b>	2008
	<b>£m</b>	£m
Cash at bank and in hand	<b>0.7</b>	0.6
	<b>0.7</b>	0.6

**8. TRADE AND OTHER PAYABLES**

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	£m
Trade payables	<b>4.4</b>	3.3
Other payables	<b>5.4</b>	4.9
Payments received on account	<b>24.8</b>	22.0
Amounts owed to group undertakings	<b>30.6</b>	25.3
Taxation and social security	<b>3.3</b>	1.7
Accruals	<b>41.1</b>	18.9
K correction over-recovery	<b>-</b>	15.9
	<b>109.6</b>	92.0

**9. OTHER FINANCIAL LIABILITIES**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Current</b>		
Amounts owed to group undertakings	<b>54.1</b>	63.9

**10. SHORT - TERM PROVISIONS**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>At 1 April 2008</b>	<b>1.5</b>	-
Increase in provision	<b>-</b>	1.5
Applied in the year	<b>(0.7)</b>	-
<b>At 31 March 2009</b>	<b>0.8</b>	1.5
<b>Comprising</b>		
Reorganisation and restructuring	<b>0.8</b>	1.5

**NIE ENERGY SUPPLY**  
**Notes to the Summary Regulatory Accounts**  
**31 March 2009**

**11. DERIVATIVE FINANCIAL INSTRUMENTS**

	2009 £m	2008 £m
<b>CfDs</b>		
Current assets	-	16.3
Current liabilities	<u>(89.0)</u>	-
<b>At 31 March 2009</b>	<u>(89.0)</u>	16.3
<b>Foreign exchange contracts</b>		
Current liabilities	<u>(0.2)</u>	-
<b>At 31 March 2009</b>	<u>(0.2)</u>	-
<b>Total</b>		
Current assets	-	16.3
Current liabilities	<u>(89.2)</u>	-
<b>At 31 March 2009</b>	<u>(89.2)</u>	16.3