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AES (NI) Limited

Annual report for the year ended 31 December 2003

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AES (NI) Limited**Directors and advisers****Directors**

J McLaren
S Lynch

Registered Auditors

PricewaterhouseCoopers LLP
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Secretary and registered office

G McNeilly
Larne Road
Carrickfergus
Co Antrim
BT31 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 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The consolidated profit and loss account for the year is set out on page 7.

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

Review of business

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.

Dividends

The directors have declared the following dividends in respect of the year ended 31 December 2003:

	£'000
Ordinary dividends:	
Final proposed	2,925
	<hr/>

Directors

The directors of the company are listed on page 1. The following changes occurred during the period:-

M Armstrong resigned as director on 16 December 2003

N Hopkins resigned as director on 1 March 2004

J McLaren was appointed as director on 1 March 2004

T McCullough resigned as director on 1 March 2004

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.

AES (NI) Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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;
- 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 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 to 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.

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.

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

6 April 2004

AES (NI) Limited

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

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes.

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 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 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 transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 company's circumstances, consistently applied and adequately disclosed.

Independent auditors' report to the members of AES (NI) Limited (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 of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Belfast

6 April 2004

AES (NI) Limited

Consolidated profit and loss account for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	98,476	103,644
Operating costs	3	(56,939)	(60,442)
Operating profit		<u>41,537</u>	<u>43,202</u>
Investment income	5	2,648	3,824
Interest payable and similar charges	6	(22,791)	(22,328)
Profit on ordinary activities before taxation	7	<u>21,394</u>	<u>24,698</u>
Tax on profit on ordinary activities	8	(5,209)	(3,520)
Profit for the financial year	9	<u>16,185</u>	<u>21,178</u>
Transfer (to)/from reserves	21	(13,260)	33,972
Dividends	10	<u>2,925</u>	<u>55,150</u>

All amounts relate to continuing operations of the group.

The group has no recognised gains or losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

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

AES (NI) Limited

Balance sheets at 31 December 2003

	Notes	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed assets					
Intangible assets	11	28,622	30,020	-	-
Tangible assets	12	160,333	167,875	-	-
Investments	13	-	-	234,971	234,971
		<u>188,955</u>	<u>197,895</u>	<u>234,971</u>	<u>234,971</u>
Current assets					
Stocks	14	8,776	8,897	-	-
Debtors: amounts falling due within one year	15	13,701	12,645	18,582	27,486
Debtors: amounts falling due after one year	15	-	-	32,000	32,000
Cash at bank and in hand		81,302	83,426	3,756	1,167
		<u>103,779</u>	<u>104,968</u>	<u>54,338</u>	<u>60,653</u>
Creditors: amounts falling due within one year	16	<u>(40,878)</u>	<u>(42,189)</u>	<u>(12,546)</u>	<u>(15,334)</u>
Net current assets		<u>62,901</u>	<u>62,779</u>	<u>41,792</u>	<u>45,319</u>
Total assets less current liabilities		<u>251,856</u>	<u>260,674</u>	<u>276,763</u>	<u>280,290</u>
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	17	245,938	264,097	224,623	239,623
Convertible debt	17	6,268	6,268	6,268	6,268
Provisions for liabilities and charges	18	45,584	49,504	-	-
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
Profit and loss account	21	(56,513)	(69,773)	35,294	23,821
Equity shareholders' (deficit)/funds	22	<u>(45,934)</u>	<u>(59,195)</u>	<u>45,872</u>	<u>34,399</u>
		<u>251,856</u>	<u>260,674</u>	<u>276,763</u>	<u>280,290</u>

The financial statements on pages 7 to 31 were approved by the board of directors on 6 April 2004 and were signed on its behalf by:


SHANE LYNCH
Director

AES (NI) Limited

Consolidated cash flow statement for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	23	45,929	51,287
Returns on investments and servicing of finance			
Interest received		2,705	3,809
Interest paid		(22,875)	(22,317)
		<u>(20,170)</u>	<u>(18,508)</u>
Taxation paid		<u>(8,018)</u>	<u>(6,213)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,054)	(2,296)
Sale of fixed assets		1,510	908
		<u>(544)</u>	<u>(1,388)</u>
Equity dividends paid		<u>(12,237)</u>	<u>(48,213)</u>
Cash inflow/(outflow) before financing		<u>4,960</u>	<u>(23,035)</u>
Financing			
Refinancing proceeds		-	32,000
Repayment of loan capital		(8,000)	-
(Decrease)/increase in cash in the year	24&25	<u><u>(3,040)</u></u>	<u><u>8,965</u></u>

AES (NI) Limited

Notes to the financial statements for the year ended 31 December 2003

1 Principal accounting policies

The financial statements have been 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. A summary of the more important group accounting policies is set out below.

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.

Strategic spares

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

AES (NI) Limited

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

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.

Decommissioning of generating plant

Prior to the adoption of FRS 12, charges were made on an equal annual basis against profits for the estimated costs of decommissioning generating plant. Since that date decommissioning costs have been capitalised as part of fixed assets and depreciated on a straight line basis over the remaining useful economic life.

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 two principal trading subsidiaries within the group participate in a defined benefit pension scheme. The fund is valued every three years by an independent actuary. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of scheme members.

The transitional accounting requirements of FRS 17 "Retirement Benefits" are reflected in these financial statements. Full adoption of the standard has been deferred pending international discussions on the equivalent International Accounting Standard, IAS 19, which may result in convergence of the standards. FRS 17 requires a surplus or deficit in a pension scheme (measured with reference to the fair values of the scheme assets and actuarially valued liabilities) to be shown on the employer's balance sheet. Changes in those fair values from year to year will be reflected in the profit and loss account or statement of total recognised gains and losses as appropriate. Disclosures required under the transitional arrangements of FRS 17 are provided in Note 19 to these financial statements.

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.

AES (NI) Limited

3 Operating costs

	2003 £'000	2002 £'000
Cost of sales	40,960	44,084
Administrative expenses	15,979	16,358
	<u>56,939</u>	<u>60,442</u>

4 Employee information

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

	2003 Number	2002 Number
By activity		
Production	88	106
Administration	7	7
	<u>95</u>	<u>113</u>
	<u>2003</u> £'000	<u>2002</u> £'000
Staff costs (for the above persons)		
Wages and salaries	3,162	4,110
Social security costs	269	302
Other pension costs (see note 19)	849	838
	<u>4,280</u>	<u>5,250</u>

5 Investment income

	2003 £'000	2002 £'000
Other interest receivable	2,648	3,824
	<u>2,648</u>	<u>3,824</u>

AES (NI) Limited

6 Interest payable and similar charges

	2003 £'000	2002 £'000
On debentures and other loans	18,857	18,857
Amounts payable to parent companies	2,085	1,939
On bank loans and overdrafts	1,832	1,524
Other interest payable	17	8
	<u>22,791</u>	<u>22,328</u>

7 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Goodwill amortisation	1,398	1,399
Depreciation charge for the year on tangible owned fixed assets	9,530	9,178
Profit on sale of fixed assets	(1,444)	(843)
Auditors' remuneration - for audit (company £2,500 (2002: £2,400)	26	33
- for other services	176	111
	<u>17,486</u>	<u>18,875</u>

AES (NI) Limited

8 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
Current tax:		
UK corporation tax at 30%	7,418	9,374
Adjustment in respect of previous periods	95	(2,654)
Total current tax	<u>7,513</u>	<u>6,720</u>
Deferred tax:		
Accelerated capital allowances and other timing differences	(1,894)	(3,585)
Adjustment in respect of previous periods	(410)	385
Total deferred tax	<u>(2,304)</u>	<u>(3,200)</u>
Tax on profit on ordinary activities	<u><u>5,209</u></u>	<u><u>3,520</u></u>

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

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	21,394	24,698
Profit on ordinary activities multiplied by standard rate in the UK 30% (2002: 30%)	<u>6,419</u>	<u>7,409</u>
Effects of:		
Income not taxable	-	(250)
Expenses not deductible for tax purposes	185	471
Accelerated capital allowances and other timing differences	1,894	3,585
Group relief not paid	(1,200)	(1,200)
Adjustment in respect of previous periods	95	(2,654)
Other	120	(641)
Current tax charge for the period	<u><u>7,513</u></u>	<u><u>6,720</u></u>

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 £14,397,507 (2002: £57,185,035) is dealt with in the financial statements of the company.

10 Dividends

	2003 £'000	2002 £'000
Adjustment to prior year final proposed	-	1
First interim of Nil p per share (2002: 25.00p)	-	5,753
Second interim of Nil p per share (2002: 36.50p)	-	9,999
Third interim of Nil p per share (2002 : 99.15p)	-	27,160
Final proposed 10.68p per share (2002 : 44.67p)	2,925	12,237
	<u>2,925</u>	<u>55,150</u>

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 2003 and 31 December 2003	44,829
Amortisation	
At 1 January 2003	14,809
Charge for year	1,398
At 31 December 2003	<u>16,207</u>
Net book value	
At 31 December 2003	<u>28,622</u>
Net book value	
At 31 December 2002	<u>30,020</u>

AES (NI) Limited

12 Tangible fixed assets

Group	Long leasehold land £'000	Long leasehold generating plant and buildings £'000	Maintenance asset £'000	Motor vehicles £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost							
At 1 January 2003	929	255,624	4,056	457	579	363	262,008
Additions	-	257	1,797	-	-	-	2,054
Disposals	-	(78)	-	-	(536)	(196)	(810)
At 31 December 2003	929	255,803	5,853	457	43	167	263,252
Depreciation							
At 1 January 2003	312	90,633	1,917	386	578	307	94,133
Charge for year	29	8,406	1,014	54	1	26	9,530
Eliminated in respect of disposals	-	(12)	-	-	(536)	(196)	(744)
At 31 December 2003	341	99,027	2,931	440	43	137	102,919
Net book value							
At 31 December 2003	588	156,776	2,922	17	-	30	160,333
Net book value							
At 31 December 2002	617	164,991	2,139	71	1	56	167,875

AES (NI) Limited

13 Fixed asset investments (continued)

Company

	Interests in Group Undertakings £'000
Cost	
At 1 January 2003 and 31 December 2003	234,971
Amounts Written Off	
At 1 January 2003 and 31 December 2003	-
Net Book Value	
At 31 December 2002 and 31 December 2003	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
Eden Village Produce Limited	N. Ireland	Ordinary £1 shares	-	100
Kilroot Electric Limited	Cayman Islands	Ordinary US \$1 shares	100	-
AES Kilroot Generating Limited	N. Ireland	Ordinary £1 shares	-	100
Nigen Supply Limited	N. Ireland	Ordinary £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.

Eden Village Produce Limited, AES Kilroot Generating Limited, AES Belfast West Limited and Nigen Supply Limited did not trade during the year.

AES (NI) Limited

14 Stocks

	Group	
	2003 £'000	2002 £'000
Engineering stock	2,893	2,846
Fuel stock	5,883	6,051
	<u>8,776</u>	<u>8,897</u>
Replacement cost	<u>8,489</u>	<u>9,308</u>

15 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year				
Trade debtors	12,531	11,114	-	-
Group relief receivable	-	-	2,524	3,077
Amounts owed by subsidiary undertakings	-	-	974	467
Amounts owed by parent company and fellow subsidiary undertakings	10	18	-	-
Dividends receivable	-	-	14,177	22,827
Other debtors	289	361	259	302
Prepayments and accrued income	871	1,152	648	813
	<u>13,701</u>	<u>12,645</u>	<u>18,582</u>	<u>27,486</u>
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	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank overdraft	13,997	13,081	-	-
Trade creditors	3,786	2,342	-	-
Amounts owed to subsidiary undertakings	-	-	1,832	1,822
Amounts owed to parent company and fellow subsidiary undertakings	16	44	424	550
Group relief payable	1,219	1,219	-	-
Corporation tax	6,091	6,596	-	-
Other taxation and social security	723	1,007	-	-
Other creditors	617	483	258	258
Accruals and deferred income	4,504	5,180	107	467
Dividends payable	2,925	12,237	2,925	12,237
Secured Term Loan due within 1 year	7,000	-	7,000	-
	<u>40,878</u>	<u>42,189</u>	<u>12,546</u>	<u>15,334</u>

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	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
9.5% secured debenture stock (2006 - 2010)	197,275	197,100	-	-
Secured term loan	17,000	32,000	17,000	32,000
Loan from subsidiary undertaking	-	-	195,123	195,123
Transferable loan stock	12,500	12,500	12,500	12,500
Accruals and deferred income	19,163	22,497	-	-
	<u>245,938</u>	<u>264,097</u>	<u>224,623</u>	<u>239,623</u>
Non transferable loan stock	<u>6,268</u>	<u>6,268</u>	<u>6,268</u>	<u>6,268</u>

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 amounted to £197,274,640 after adjustment for original issue costs of £2,873,757, which are amortised over the life of the bond.

The entire loan is repayable after more than five years.

Loan from subsidiary undertaking

Company

The unsecured loan from the subsidiary undertaking is repayable as follows:

	£'000
30 December 2006	39,025
30 December 2007	39,025
30 December 2008	39,025
30 December 2009	39,024
30 December 2010	39,024
	<u>195,123</u>

The interest rate levied is 7% per annum.

Transferable loan stock

Group and company

Authorised

	£'000
Floating rate subordinated loan stock 2007	12,500

Issued

	£'000
Floating rate subordinated loan stock 2007	12,500

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)

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 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.

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.

AES (NI) Limited

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

The loan is repayable as follows:

	2003 £'000	2002 £'000
30 April 2004	-	7,000
30 April 2005	1,000	1,000
30 April 2006	2,000	2,000
30 April 2007	4,500	4,500
30 April 2008	3,000	3,000
30 April 2009	4,500	4,500
30 April 2010	2,000	4,000
29 April 2011	-	6,000
	<u>17,000</u>	<u>32,000</u>

The loan is secured by a second charge over the share capital of AES Kilroot Power Ltd.

18 Provisions for liabilities and charges

The company has no provision for liabilities and charges.

Group	Deferred tax (see below) £'000	Decommissioning and other £'000	Total £'000
At 1 January 2003	47,262	2,242	49,504
Profit and loss account	(2,304)	306	(1,998)
Payments in the year	-	(1,922)	(1,922)
At 31 December 2003	<u>44,958</u>	<u>626</u>	<u>45,584</u>

Deferred taxation

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

	Group	
	2003 £'000	2002 £'000
Tax effect of timing difference because of:		
Excess of capital allowances over depreciation	44,933	46,951
Provisions	(280)	(47)
Other timing differences	305	358
	<u>44,958</u>	<u>47,262</u>

AES (NI) Limited

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 triennial valuations by professionally qualified actuaries.

A full valuation was carried out at 31 March 2001 by a qualified independent actuary. The main methods and assumptions used were as follows:

	At 31 March 2001
Valuation method	Attained age
Scheme asset valuation	Market value
Rate of increase in salaries	3.0% per annum
Rate of increase in pensions in payment and deferred benefits during deferment	2.5% per annum
Rate of future investment return	6.5% per annum
Inflation assumption	2.5% per annum

On an ongoing basis, the market value of the assets as at 31 March 2001 covered the value of the past service liabilities with a funding level of 130%, representing an excess of assets above prospective accrued benefits amounting to £16.5 million.

Under the terms of the Electricity (Protected Persons) Pensions Regulations (Northern Ireland) 1992, assets were sufficient to cover 89% of the liabilities. The company intends to fund the scheme on a basis consistent with the Regulations.

During the accounting period, the company paid regular contributions at the rate of £849,000 per annum plus the cost of the early retirement augmentations under a voluntary severance scheme. With effect from April 2004, the company's ordinary contribution rate will increase to £2,089,000 per annum, increasing each April thereafter in line with price inflation.

The actuarial valuation was updated to 31 December 2003 for FRS 17 purposes. The main financial assumptions used by the actuary for the purpose of calculating pension cost were:

	31 December 2003	31 December 2002	31 December 2001
Valuation method	Projected unit	Projected unit	Projected unit
Scheme asset valuation	Market value	Market value	Market value
Rate of increase in salaries	3.20%	2.85%	3.00%
Rate of increase in pensions in payment and deferred benefits during deferment	2.70%	2.35%	2.50%
Discount rate	5.40%	5.40%	5.50%
Inflation assumption	2.70%	2.35%	2.50%

AES (NI) Limited

19 Pension and similar obligations (continued)

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

	Long-term rate of return expected at 31.12.03	Value at 31.12.03 £'000	Long-term rate of return expected at 31.12.02	Value at 31.12.02 £'000	Long-term rate of return expected at 31.12.01	Value at 31.12.01 £'000
Equities	6.80%	36,459	6.9%	44,276	6.9%	56,394
Bonds	4.80%	24,532	5.4%	8,889	4.8%	11,270
Cash	3.75%	51	4.0%	1,241	4.0%	389
Total market value of assets	6.00%	61,042	6.6%	54,406	6.5%	68,053
			2003	2002	2001	
			£'000	£'000	£'000	
Total market value of assets			61,042	54,406	68,053	
Present value of scheme liabilities			(78,815)	(73,425)	(70,300)	
Deficit in the scheme			<u>(17,773)</u>	<u>(19,019)</u>	<u>(2,247)</u>	
Net pension liability			(17,773)	(19,019)	(2,247)	
Related deferred tax asset			5,332	5,706	674	
Net pension liability			<u>(12,441)</u>	<u>(13,313)</u>	<u>(1,573)</u>	

If the above amounts had been recognised in the financial statements, the group's net liabilities and profit and loss reserve at 31 December 2003 would be as follows:

	2003	2002	2001
	£'000	£'000	£'000
Net liabilities excluding pension liability	(45,934)	(59,195)	(22,923)
Pension liability	(12,441)	(13,313)	(1,573)
Net liabilities including pension liability	<u>(58,375)</u>	<u>(72,508)</u>	<u>(24,496)</u>
Profit and loss reserve excluding pension liability	(56,513)	(69,773)	(33,501)
Pension liability	(12,441)	(13,313)	(1,573)
Profit and loss reserve including pension liability	<u>(68,954)</u>	<u>(83,085)</u>	<u>(35,074)</u>

AES (NI) Limited

19 Pension and similar obligations (continued)

The following amounts would have been recognised in the performance statements in the year to 31 December 2003 under the requirements of FRS 17.

	2003	2002
	£'000	£'000
Operating profit		
Current service cost	258	279
Curtailment cost	-	2,139
	<u>258</u>	<u>2,418</u>
Other finance income		
Expected return on pension scheme assets	3,521	4,425
Interest on pension scheme liabilities	(3,883)	(3,782)
	<u>(362)</u>	<u>643</u>
Statement of total recognised gains and losses (Strgl)		
Actual return less expected return on pension scheme assets	5,077	(17,545)
Experience gains and losses arising on the scheme liabilities	(237)	(149)
Changes in assumptions underlying the present value of the scheme liabilities	(3,872)	318
	<u>968</u>	<u>(17,376)</u>
	2003	2002
	£'000	£'000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(19,019)	(2,247)
Movement in year:		
Current service cost	(258)	(2,418)
Contributions	898	2,379
Other finance income	(362)	643
Actuarial gain/(loss)	968	(17,376)
Deficit on scheme at end of the year	<u>(17,773)</u>	<u>(19,019)</u>

AES (NI) Limited

19 Pension and similar obligations (continued)

	2003	2002
	£'000	£'000
Details of experience gains and loss for the year to 31 December 2003		
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	5,077	(17,545)
Percentage of scheme assets	8%	(32%)
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(237)	(149)
Percentage of the present value of the scheme liabilities	0%	0%
Total recognised in statement of total recognised gains and losses:		
Amount (£'000)	968	(17,376)
Percentage of the present value of the scheme liabilities	1%	34%
	<u> </u>	<u> </u>

20 Called up share capital

	2003	2002
	£'000	£'000
Authorised		
160,000,000 ordinary shares of 25p each	40,000	40,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
27,393,999 ordinary shares of 25p each	6,849	6,849
	<u> </u>	<u> </u>

AES (NI) Limited

21 Share premium account and reserves

Group	Share premium account £'000	Profit and loss account £'000
At 1 January 2003	3,729	(69,773)
Profit for the year	-	13,260
At 31 December 2003	<u>3,729</u>	<u>(56,513)</u>
Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2003	3,729	23,821
Profit for the year	-	11,473
At 31 December 2003	<u>3,729</u>	<u>35,294</u>

22 Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Opening shareholders' funds	(59,195)	(25,223)
Profit for the financial year	16,185	21,178
Dividends	(2,925)	(55,150)
Closing shareholders' funds	<u>(45,934)</u>	<u>(59,195)</u>

AES (NI) Limited

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

	2003 £'000	2002 £'000
Continuing operating activities		
Operating profit	41,537	43,202
Profit on sale of fixed assets	(1,444)	(843)
Amortisation of intangible fixed assets	1,398	1,399
Depreciation on tangible fixed assets	9,530	9,178
Amortisation of issue costs	175	176
Decrease in stocks	121	7,057
(Increase)/decrease in trade debtors	(1,417)	2,173
Decrease/(increase) in prepayments and accrued income	224	(650)
Decrease in amounts owed by parent and fellow subsidiaries	8	20
Decrease in other debtors	72	630
Increase/(decrease) in trade creditors	1,444	(2,256)
Decrease in amounts owed to parent and fellow subsidiaries	(28)	(387)
Decrease in other taxation and social security	(284)	(292)
Decrease in accruals and deferred income	(3,925)	(3,423)
Increase/(decrease) in other creditors	134	(245)
Decrease in provisions	(1,616)	(4,452)
Net cash inflow from continuing operating activities	45,929	51,287

24 Reconciliation of net cash flow to movement in net debt

	2003 £'000
Decrease in cash in the year	(3,040)
Repayment of loan capital	8,000
Change in net debt resulting from cash flows	4,960
Amortisation of debt issue costs	(175)
Movement in net debt in the year	4,785
Net debt at 1 January 2003	(177,523)
Net debt at 31 December 2003	(172,738)

AES (NI) Limited

25 Analysis of net debt

	1 January 2003 £'000	Cash flow £'000	Non cash changes £'000	31 December 31.12.03 £'000
Cash at bank or in hand	83,426	(2,124)	-	81,302
Overdrafts	(13,081)	(916)	-	(13,997)
Term Loan due within 1 year	-	-	(7,000)	(7,000)
	<u>70,345</u>	<u>(3,040)</u>	<u>(7,000)</u>	<u>60,305</u>
Debt due after 1 year	(247,868)	8,000	6,825	(233,043)
	<u>(177,523)</u>	<u>4,960</u>	<u>(175)</u>	<u>(172,738)</u>

26 Capital commitments

	2003 £'000	2002 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	Nil	Nil

27 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% (2002: 97.41%) interest in the equity capital of AES (NI) Limited at 31 December 2003.

AES (NI) Limited**28 Directors' emoluments**

	2003 £'000	2002 £'000
Aggregate emoluments	196	116
Highest paid director		
Aggregate emoluments	177	59

Two directors (2002 – two) have retirement benefits accruing under the company's defined benefit pension scheme.

Exercise of share options

No directors (2002 – nil) exercised share options during the year.

No directors were granted share options during the year. No share options remain outstanding as at 31 December 2003.

Performance bonuses for 2002 have been disclosed in 2003 numbers above. The bonuses payable for 2003 performance have not yet been determined and will be disclosed in the 2004 financial statements.

29 Related party transactions

The share capital of AES (NI) Limited is owned 45.76% (2002: 45.76%) by AES Electric Limited and 51.65% (2002: 51.65%) by AES Horizons Investments Limited. The directors regard AES Corporation, a company registered in the United States of America, as the ultimate parent company.