mutualenergy

Annual Report and Accounts 2011

mutualenergy

A **Northern Ireland** company
working for **consumers**

2011

Annual report and accounts


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Contents

Mutual Energy Annual report and accounts

A **Northern Ireland** company working for **consumers**

Peter Warry
Chairman

I am pleased to present another strong set of accounts for the Mutual Energy group of companies for 2010/2011. The group's robust financing arrangements have allowed the group to once again maintain a solid balance sheet, in spite of a difficult economic climate.

The group has continued to be cash generative and has increased its operating profit from the previous year. As expected the comparatively high inflation rate has resulted in a £11.5m increase in finance costs due to our financing being index-linked.

Mutual Energy exists to address the high cost of energy in Northern Ireland and to bring ownership of key energy infrastructure assets into local hands. Our business model continues to comprise low cost of capital, no dividend payments and a focus on operational efficiencies. This has made a significant contribution to reducing the cost of energy for consumers in Northern Ireland this year.

Safety

We have established a powerful safety and operational risk structure with the risk committee tasked to provide enhanced focus in this area. This helps address one of the fundamental requirements of our stakeholders: the safe operation of our assets with very high levels of availability. During the year the Moyle interconnector encountered its first major forced outage with a fault on one of its cables. The management and staff of our companies and key partnership contractors worked hard to minimise the outage time and complete the repair works as quickly as possible. No safety incidents incurred during this significant repair work, in spite of the safety challenges, the remoteness of the fault location and the November weather and daylight conditions. This, and the continued excellent operation of our gas businesses, is a credit to both the management and staff of our companies and those of our key partnership contractors in SONI, ESBI, Siemens, Bord Gáis Eireann and Scotland Gas Networks. All of the gas used in Northern Ireland was supplied through Premier Transmission and Belfast Gas Transmission pipelines which

"We are still on course to deliver the cost of capital savings of some £81m* calculated at the inception of our three transactions to date."

*Net Present Value

were fully available all year. For periods during the year, security of electricity supply throughout Ireland depended on the availability of the Moyle Interconnector. The Board will continue to strive to maintain these high standards.

Costs to the customer

We continue to measure our success by the savings we make for the energy consumers of Northern Ireland. We remain on course to deliver the cost of capital savings of some £81m (net present value) calculated at the inception of our three investments. For the eighth successive year Moyle was able to make a further significant contribution to lower electricity prices in Northern Ireland by avoiding any cash call on consumers in 2010-11. This was achieved by setting aside £13.6m from its accumulated reserves at the end of the year. The gas transmission businesses produced operational cost savings, against forecast, of £1.2m before tax. A large part of these savings stemmed from a full review of all maintenance and monitoring operations in the gas businesses in the year, which also achieved improvement in the quality of the asset monitoring regime.

The group continues to utilise reserves as evenly as possible over the life of its debt so as to minimise costs to the consumer over the long term. Moyle has invested £10m in "loan notes" which will produce returns from 2013 to 2016, when the profile of its bond repayments will have increased. The European Renewable Energy Fund is well established now. We expect this fund to produce attractive returns in the medium term and allow the group to continue providing its services to customers at a lower cost than any other utility in Northern Ireland.

Future prospects

The energy industry in Ireland is facing a level of expenditure on infrastructure unprecedented in recent years. We are interacting with industry groups and the regulatory authorities to promote a wider use of the mutual model to minimise the cost of this investment to consumers. The impact of decisions made in the next few years will be felt for decades to come and it is vital that the long term cost to the consumer is high on policymakers agendas.

Auction revenues have been fairly stable during the year allowing our electricity business to cover its ongoing cash costs without having to levy any charges on consumers. However, once the East-West Interconnector comes online in October 2012 we expect there will be an oversupply of interconnector capacity and Moyle's revenues are likely to suffer.

The regulatory authorities are at the early stages of a work stream to develop a day-ahead market

for Ireland, a change we expect to have a beneficial effect on interconnector trading. As a first step an intra-day trading modification for the Irish market has been developed and is due to be implemented in mid 2012.

Work has continued throughout the year on a joint regulatory initiative known as the Common Arrangements for Gas or "CAG". Regulators north and south have produced conclusions papers for consideration by their respective governments; we await the outcome of these deliberations.

We are broadly supportive of the strategic objectives of this initiative and will work to ensure that any benefit which might accrue will be fairly shared with Northern Ireland consumers.

The planning application for the gas storage facility under Larne Lough which is being developed by Islandmagee Storage Limited (a company in which Moyle Energy Investments Limited owns a 35% share) is still in planning and we are awaiting a decision from the authorities. It is anticipated that a decision will be received in the coming financial year. The success of the project is in part dependent on tariffs being agreed that reflect the benefit that such gas storage would bring to Northern Ireland's security of supply.

£13.6m
Reserves applied to avoid customer charges in 2011/12

£1.2m
Pre tax operational savings in the gas business

£0.9m
In year saving from improving asset monitoring regime

Board and members

This year has seen the retirement of Felicity Huston and the arrival of Stephen Kirkpatrick and Clarke Black to the non-executive membership of the Board.

Felicity had served on the Board of the company since its creation and also served as Chair of the Audit Committee. I would like to take this opportunity to thank Felicity for all her hard work and dedication over the years.

Stephen Kirkpatrick (CEO, Corbo Properties and formerly CEO, Bank of Ireland Northern Ireland) was appointed as non-executive director on 1st April 2010 and Clarke Black (CEO, Ulster Famers' Union) was appointed as non-executive director on 1st January 2011. I would like to welcome both Stephen and Clarke to the Board where I believe their skills, experience and knowledge will further ensure the appropriate balance for an effective Board.

As a group dedicated to the long term interests of the energy consumers of Northern Ireland, we remain committed to the highest standards of corporate governance. Our members are an important constituent of our governance process and we are grateful to them for their support and for their challenge to the board and its executive management.

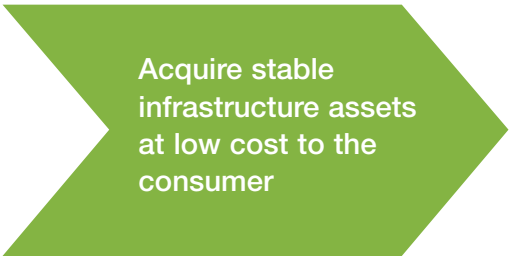
I would like to thank my colleagues on the board, our members, the executives and staff and our contracting partners, as I did last year, for their continued support and the part they are playing in furthering the interests of the energy consumers of Northern Ireland.

Peter Warry

Peter Warry
Chairman

Strategic objectives

Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a "mutual". The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. Our strategy can be dissected into three parts:



The group looks to acquire stable energy infrastructure assets which it can own and operate to benefit consumers through a reduced cost of capital and improved operating efficiencies.

The group looks to constantly assess opportunities which would benefit from a mutual model and to work to progress them.

In acquiring assets the group will not overpay the going market rate.

The cost of capital which the group has locked in to date averages 2.57% real over £351m debt raised.

The group will provide a safe, reliable and efficient transmission service to the electricity and gas systems of Northern Ireland.

The group aims to operate predominantly on an outsource model to minimise costs and overheads.

Group strategy involves returning all its savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets.

In doing so we will seek to build up reserves to smooth future cash flows and therefore, as far as possible, minimise energy price increases and fluctuations associated with our assets.

Where appropriate, reserves will be used to provide capital for future investments

Key Performance Indicators ("KPIs")

The directors have used the following identified KPIs to reflect what is important to our stakeholders and to assess the group's development against its strategy and financial objectives.

Strategy Objective

Acquire stable infrastructure assets at low cost to the consumer

Key Performance Indicator

1. Annual Debt Service Cover Ratio

The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing.

In addition to compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission and 1.20 for Belfast Gas Transmission.

Definition of KPI

Annual Debt Service Cover Ratio

The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company.

The basis of calculation is Available Cash / Debt Service in the next 12 months.

In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

Strategy Objective

Operate assets cost effectively on an outsource basis

Key Performance Indicator

2. Availability

The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity.

3.Operational savings against forecast

In respect of the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs.

Definition of KPI

Availability

Availability is calculated as the number of hours unavailable (excluding Scottish Power outages) x capacity unavailable / Total plant capacity under connection agreements x number of hours in a year (8760 hours).

Operational savings against forecast

The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year before tax, calculated in accordance with the gas companies licences, from the forecast required revenue submitted in advance of the year.

Strategy Objective

Deliver savings to all consumers evenly over the life of the assets

The electricity consumers of Northern Ireland underwrite any revenue shortfalls incurred by Moyle and the group's surpluses are used on their behalf. The relevant KPIs therefore measure cash:

Key Performance Indicator	Definition of KPI
4. Cash reinvested to avoid charging consumers	***Cash reinvested to avoid charging consumers***
Cash reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset. To date the Moyle business has never made a charge to consumers, always setting aside cash to avoid a charge.	The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. However, as a mutual company operating for the benefit of consumers, the company has chosen to meet its forecasted costs through using its cash reserves. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.
5. Cash generated from operations	***Cash generated from operations***
Cash generated in each of the businesses which will be used to avoid future charges to consumers.	Cash generated in each of the businesses post tax.

A number of other KPIs are used at a corporate level to monitor other aspects of business performance, including Corporate responsibility KPIs and Employee KPIs.

Highlights of the year

Changes to Moyle Connection

Historically Moyle has been limited to 80 MW of capacity from Ireland to Scotland. Following extensive discussions with National Grid this capacity has been increased to 295MW in the winter and 287MW in the summer from February 2011, at no additional cost.

+295MW

Reduction in Moyle Cost base

As a result of changes to the charging regime in GB, Moyle is no longer subject to Use of System Charges on either the import or export of power to GB. The saving in the Moyle business in 2010 was £0.9m.

-£0.9m

Major Inspections initiative

A major project to evaluate the inspection regime in the subsea assets concluded in 2010 with an improved scheme to assess the integrity of the subsea gas and electricity cables. The new regime is both more comprehensive and cost effective than that in place from the commissioning of the assets. In 2010 the value of this saving was £0.9m versus the last time the surveying was carried out.

-£0.9m

Operational challenges

2010 saw the first major fault on the Moyle asset, some 9 years from original construction, with a fault on a joint on shore in Scotland, resulting in the first ever implementation of the emergency response plan and a 10 week outage of half the capacity.

Common Arrangements for Gas

The Common Arrangements for Gas project started in earnest in late 2010 with both our gas businesses teaming up with Bord Gáis Networks and Gaslink to assist the regulatory authorities in Ireland develop common arrangements across Ireland. An ambitious target date of October 2012 has been set to align transmission arrangements.

2012

Renewal of partnership

Following a competitive tender process 2010 saw the reappointment of Scotland Gas Networks as the Maintenance and Emergency response contractor for both Belfast Gas and Premier Transmission for 5 years from 1 April 2011.

Our Business as a whole

Mutual Energy Group owns and operates both gas and electricity assets and operates businesses providing services to the main businesses. The purpose of the company is to own and operate energy infrastructure in the long-term interest of the energy consumers of Northern Ireland. The group operates in three main sub groups as shown in the diagram:

Revenue, Profitability and Reserves

Group revenue in the period to 31 March 2011 was £38.9m. (2010: £37.1m). Group operating profit before interest and tax was £3.2m (2010: £12.7m). After accounting for debt service, the group made an after-tax loss of £2.6m (2010: £1.6m loss as restated).

Finance charges

Included within finance costs is £22.7m (2010: £12.6m as restated) in respect of borrowing costs arising on the group's issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £8.8m (2010: £8.7m),
- £12.8m required to restate bond liability to latest applicable Retail Price Index (2010: £2.6m); and
- Bond fees, liquidity facility fees and other charges of £1.1m (2010: £1.3m).

The actual interest charge is a cash amount and the restatement on the outstanding bond liability, a non cash item. In the current high inflation environment, with the bonds in the early part of their tenure, the restatement to reflect the Retail Price Index movements is consequently particularly high. This contrasts with the 2009/10 financial statements which were particularly low due to the historically low movement in the applicable Retail Price Index.

The indexation effect in Premier Transmission was achieved by issuing fixed rate bonds and simultaneously entering into two index-linked swaps. The combination of these instruments has the same cash effect as an indexed linked bond, and provides an 100% effective hedge against the applicable licence income.

As noted in previous years, the current accounting treatment of this under International Accounting Standard 39 is deficient in that the hedge is not recognised as such. As a result a further non-cash finance charge is recognised, representing the movement in the fair value of these index-linked swaps.

Cash flow

As noted above the majority of the finance charges are non cash and the mechanisms which are in place to generate group income are aligned to the cash requirements to cover the bonds, both interest and principal. The Moyle group, Premier Transmission group and Belfast Gas Transmission group were all cash generative during the year.

Cash position

These groups are required to hold high levels of cash reserves as conditions of their financing arrangements. Cash reserves in Premier Transmission group amounted to £24.9m at year end, Belfast Gas Transmission £7.5m while Moyle held operating cash reserves of £54.2m, which includes the £13.6m retained to cover expected operating deficits in the current year, so as to avoid making a cash call on electricity consumers. Moyle's Distributions Account held £26.6m at year end. These funds are available for use for the benefit of electricity consumers in Northern Ireland in consultation with the Utility Regulator. £5.6m is held by the group's investment company, Moyle Energy Investments Limited, pending its drawdown by the European Renewable Energy Fund as already approved by the Utility Regulator. Total cash holdings by the group at year end amounted to £92.8m.

Key facts and KPIs

£38.9m turnover
2009/10
£37.1m

£0.63m Cash flow
2009/10
+£2.8m

£23.9m EBITDA
2009/10
£23.4m

£0.6m cash generated in year to benefit consumers

Business operated in a manner consistent with low cost financing

All bond covenants complied with

Debt Service and Liquidity

Under their respective financing documents, the ongoing ability of all the core regulated businesses to meet their debt service obligations is measured by the ADSCR at the level of the licence holding entity. For the year under review, the ADSCRs, calculated by comparing the actual cash flows with the debt service payments which they funded in accordance with the methodology dictated by the financing agreements, were 2.68 against a required figure of 1.15 for Moyle, 1.97 against a required figure of 1.20 for Belfast Gas and 2.05 against a required figure of 1.25 for Premier Transmission.

The group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts were fully funded and £20.9m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission.

Operational Performance

New monitoring regime introduced for subsea assets

As a group centred on assets fundamental to the economy of Northern Ireland, the cost effective running of the businesses is paramount.

As well as maintaining and operating our assets in what was a very busy year for engineering activity, as outlined below, the business undertook a number of initiatives to improve the cost efficiency of our operations. These included:

- a full review of the maintenance regime of the gas businesses to ensure they were cost efficient and followed good industry practice; and
- a review of the sub sea monitoring regime, resulting in a modified schedule which better addresses the potential risks.

The gas businesses outperformed the regulatory targets set in the shadow price control by £1.0m. Of this £0.26m was retained for use to the benefit of customers.

£13.6m to avoid consumer charges

Continuing the trend of the previous year, Moyle set aside £13.6m (2010: £12.9m) at year end as a further contribution from its accumulated operating surplus towards lower electricity prices in Northern Ireland in the coming year. In consequence, in 2011/12 there will again be no cash call on electricity consumers under Moyle's collection agency agreement with the System Operator for Northern Ireland ("SONI"). When the 2003 refinancing arrangements were put in place, it was anticipated that such cash calls would be required but in practice the group's performance has been such that this has not happened to date.

Zero direct charge to the consumer in the electricity business

At the 2011 year end £0.17m was transferred from the cash reserve held in Moyle's Distributions Account to the main operating bank account to help cover the anticipated cash deficit in 2012. (2010: £1.16m transferred to the Moyle's Distributions Account).

£0.2m returned to consumers via shippers

Efficiency gains achieved by the gas business through reduction in its costs are primarily returned to shippers by way of a year-end reconciliation payment. The group's success in maximising its returns to, and minimising receipts from, consumers is therefore reflected in the comparison between the forecast revenue requirement submitted at the start of the gas year to the Northern Ireland Utility Regulator and the actual outturn for the year. For the gas year ended 30th September 2010, the combined gas businesses actual required revenue was £19.9m, against a forecast of £20.1m. £0.2m was returned to shippers in January 2011 by netting against their ongoing charges for capacity. In addition a further £0.26m was retained in the businesses for the future benefit of consumers.

Maintenance and Emergency Response Contract

The new Maintenance and Emergency Response contract for the gas businesses was signed with Scotland Gas Networks in March 2011 for the five year period commencing 1 April 2011. The contract provides for 24 hour response and the full maintenance program for the gas assets of the group over the next five years, replacing two separate inherited contracts which were negotiated in 1996 and 2005. The new contract brings the terms up to date with current industry practice including computerising recording of asset maintenance histories, and reduces response time for calls in Northern Ireland to 1 hour. Scotland Gas Networks won the contract in the face of stiff competition from other suppliers and we look forward to continuing to build on our existing working relationship to further improve efficiency in the asset maintenance program.

Future Developments

The group is committed to furthering the objective of lowering the costs faced by the Northern Ireland consumers to pay for their energy infrastructure. With this in mind the group has engaged with the Regulator in their consultation on the financing of networks and would hope that the outcome will be a possible extension of the mutual model to other infrastructure in Northern Ireland.

New maintenance contract put in place

The group holds significant cash resources on its balance sheet. The directors continue to seek investment opportunities which will match the groups objective to profile the benefits of mutualisation fairly over the lifespan of the assets, with a risk profile which is appropriate to the nature of the group.

Potential acquisitions actively assessed

During the year the group actively evaluated a number of possibilities for further acquisitions in Northern Ireland. The group will continue to devote time to assessing the viability of extending the mutual model to other assets.

The group continues to support the efforts to develop gas storage in Northern Ireland (see page 28).

Risk Management

The group continues to apply a structured approach to risk management throughout the companies in the group, which is designed to ensure that emerging risks are identified and managed effectively.

Risk Management Structure

The Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk committee and the Audit committee. The Risk committee deals with all risks that are inherently operational in nature, while the Audit committee monitors all financial and other risks. Identification of risks and assessing how they are managed is carried out by way of a risk register process, with the register reviewed regularly by the board and the relevant board committees.

The ongoing process for identifying, evaluating and managing the group's significant risks has been in place for the full year ended 31 March 2011 and up to the date of approval of the annual report and financial statements.

Control is maintained through a management structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; a comprehensive financial planning and accounting framework and a formal reporting structure. These methods of control are subject to periodic review as to their continued suitability.

The Board, during its annual review of the effectiveness of the group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

The principal risks of the group are managed through a risk register which draws together the risks into a number of categories:

Operational Risk

As an owner of large infrastructure assets there is a risk of mechanical or process failure in the group's operations. This operating risk is addressed through the use and close supervision of experienced qualified maintenance subcontractors and the adherence to a structured maintenance plan.

The group is committed to ensuring a safe working environment. Site security is maintained to a standard suitable to the nature of the sites. The risks arising from inadequate management of health and safety matters are the exposure of third parties and employees to risk of injury. These risks are closely managed by the group through the strong promotion of a health and safety culture, well defined health and safety policies, industry standard safety practices and regular formal interaction with key subcontractors.

The risk of failure by subcontractors is managed

Our staff

The group is committed to maintaining a high quality and committed workforce. Our vision is to have an innovative corporate culture and employees who will look to constantly improve all aspects of the business to achieve the corporate strategy.

The group employs a personal performance evaluation system with assessment of targets and training needs to encourage performance. Succession planning is reviewed regularly and periodically reviewed by the board. Remuneration is linked to performance throughout the organisation.

Employee KPIs

KPI	2011	2010
Employee		
Training days per employee	4.7	2.8
Sickness absence days per employee	0.7	0.3
Cycle to work take up	53.1%	66.7%
Personal Pension take up	78%	99%

through the contractual process, frequent performance monitoring and maintaining a high standard of eligibility for tendered work.

Emergency procedures and disaster recovery plans are maintained and tested.

Financial Risk

The group's only borrowings are those of its operating subsidiaries - the Index Linked Guaranteed Secured Bonds 2033 issued by Moyle Interconnector (Financing) plc, the Index Linked Guaranteed Secured Bonds 2048 issued by Belfast Gas Transmission Financing plc, and the Guaranteed Secured Bonds 2030 issued by Premier Transmission Financing plc. The latter company has also entered into a derivative transaction which has the effect of index-linking the payments on its bonds. The purpose of these arrangements is to manage the index risk arising from the group's sources of long-term finance.

The group also utilised dual currency deposit accounts with major retail banks to manage its exposure to Euro costs and help maximise its deposit returns.

The group's treasury policies, determined by the terms of its long-term bond financing, are aimed at minimising the risks associated with the group's financial assets and liabilities. Where the group provides its transmission services on deferred terms to parties who do not hold an appropriate credit rating, security cover is required. The cash reserves of the group are held in interest-bearing accounts or invested in fixed term deposits of up to one year spread across a panel of approved banks and financial institutions having high credit ratings.

The main compliance risk which the group faces is in respect of its adherence to the terms of its structured finance. The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.

Business Environment and Market Risk

The group is exposed to risks associated with changes in the market for gas and electricity in Northern Ireland. Such changes may, for example, result in reduced volumes transported through the assets. Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas businesses are designed to offset the impact of such changes.

Specific recent and future market developments are discussed in the External Market Environment and Future Developments sections against each business.

Regulatory Risk

As the holder of licences for the conveyance and transportation of gas and electricity the group is exposed to economic regulation and Government policy. The group's relationship with the Utility Regulator for Northern Ireland is managed by senior management through frequent meetings and formal correspondence. A proactive approach is taken to consultations on any issue which could affect the group's business interests.

Corporate Strategy and Communication Risk

The risk that the group follows an inappropriate corporate strategy, or communicates poorly with external stakeholders is managed by the Board directly. The Board retains responsibility for strategy as a reserved matter.

The group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Emergency exercise, Mutual Energy offices.

Gas Business

Key facts and KPIs

£22.4m turnover
2009/10
£19.02m

£2.4m Cash flow
2009/10
+£0.6m

£10.3m EBITDA
2009/10
£9.8m

Market Environment

All the gas used in Northern Ireland is transported from Scotland in our pipeline system. We provide a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with BGE (NI) pipelines at Carrickfergus and Phoenix distribution exit points in Belfast. The shippers who currently use our system are Centrica, Phoenix, AES Ballylumford, Coolkeeragh /ESB, Firmus, Energia and Vayu.

Gas volumes transported in our pipeline system decreased by 4.6% from the previous year due to 11.4% less gas being used in Northern Ireland for power generation. This decline in power generation gas usage was a consequence of lower electricity demand, a shift in power supply to generators in the Republic of Ireland, imports across the Moyle interconnector and more renewable generation.

The fall in the power generation demand was partially offset by a 7.3% increase in gas demand in the non power (distribution) sector compared to the previous year, partly due to the unusually cold winter.

The most recent network studies indicate that the Scotland to Northern Ireland Pipeline ("SNIP") has the capacity to supply Northern Ireland until at least the winter of 2015/16, assuming no new gas fuelled power generation.

EU "Second and Third Packages"

The regulatory authorities in Northern Ireland and Republic of Ireland are seeking to implement the provisions of Regulation (EC) No 1775/2005 and 2009/73/EC of the European Parliament concerning conditions for access to the natural gas transmission networks as part of a wider alignment of arrangements in Ireland known as the Common Arrangements for Gas ("CAG").

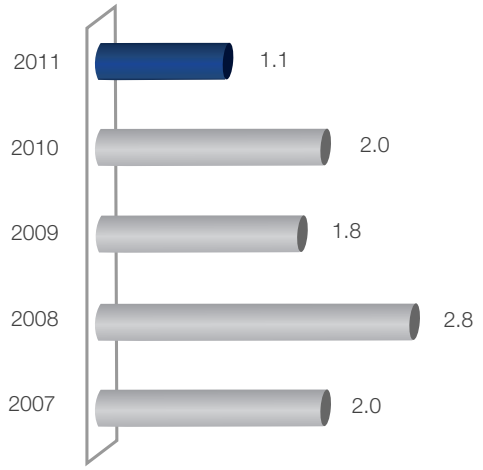
This CAG project is envisioned to involve the implementation of a common code throughout the island, a single joint system operator and a new entry/exit tariff regime.

Revenue and Profitability

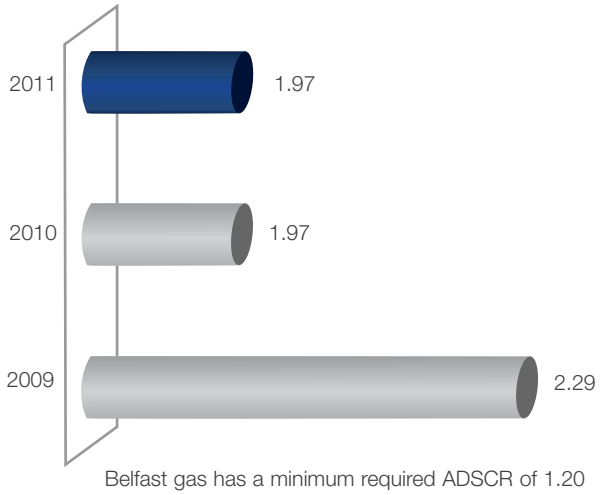
Premier Transmission Financing

Under Premier Transmission Limited's licence, the company's revenue is regulated so as to match the Premier Transmission group's debt service costs and operating expenditure in cash terms, with an annual reconciliation of actual to forecast being agreed with the Northern Ireland Utility Regulator at the end of each gas year (1st October). In the 2010 reconciliation Premier Transmission produced a saving of £1.22m against forecast, before tax payments of £929k. Following discussions with the Northern Ireland Authority for Utility Regulation, Premier Transmission Limited was entitled to retain £222k of this saving, to be applied for the benefit of consumers at a later date.

Gas business operational savings v forecast (£m)



Belfast Gas Transmission ADSCR



Belfast gas has a minimum required ADSCR of 1.20

Being regulated in this way, Premier Transmission group collects only the cash required to meet its costs. As a result, although the business is cash generative and able to meet its debt service obligations, it is not expected to be profitable for some years.

In terms of the Annual Debt Service Cover (ADSCR) both BGT and PTL will tend to average towards 2.0. Over-performance above 2.0 in 2006 to 2009 when cash was retained will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers.

Belfast Gas Transmission Financing

As with Premier Transmission, Belfast Gas Transmission Limited's licence also matches the company's revenue to its debt service costs and operating expenditure in cash terms, with an annual reconciliation at the end of each gas year (1st October). In the 2010 reconciliation, Belfast Gas' costs were £150k below forecast. Following discussions with the Utility Regulator, Belfast Gas Transmission Limited was entitled to retain £35k of this saving, to be applied for the benefit of consumers at a later date.

Its licence structure is also designed to make the business cash generative but not profitable for some years.

Operational Performance

Safety and reliability are critical to the operation of our business. We are pleased to report that we have operated our gas assets without incident or lost time injury and that our system has been fully available at all times.

The booked capacity on the SNIP rose 1.4% to 7.74 mscm by the end of the year in response to growth in the distribution sector outside of the Greater Belfast area. A total volume of 15,817 GWhs flowed through the SNIP in the 2010/11 financial year, down 4.6% on the previous year's figure of 16,579 GWhs.

Although the annual demand decreased, the Northern Ireland system experienced a repeat of last year's peak day gas usage of 6.7 mscm, which is 87% of the total current booked capacity on the pipeline. This occurred during December in the midst of the extremely cold weather. There have been no incidents or lost time injuries associated with gas business operations and the gas transmission system was available for 100% of the time for the year ending 31 March 2011.

The programme of works for the period focused on monitoring and maintenance of our systems, with a seabed survey of the Scotland to Northern Ireland Pipeline (SNIP) and Belfast Lough Crossing (BLC) being carried out, along with on-line inspections of the SNIP, Belfast Transmission Pipeline (BTP) and BLC. Technical difficulties experienced during the on-line inspection of the BTP & BLC meant that not all the data on the pipeline was captured and consequently another inspection will be required next winter.

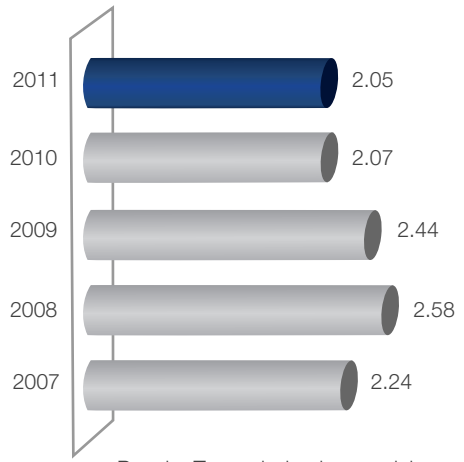
During the year the process to re-tender the key Maintenance and Emergency Response contract was completed, with Scotland Gas Networks (SGN) being awarded the 5 year contract commencing 1 April 2011. Under the

Key facts and KPIs

7.74 mscm
booked capacity
2009/10
7.63 mscm

15,817 GWhs
transported
2009/10
16,579 GWhs

Premier Transmission ADSCR



Premier Transmission has a minimum required ADSCR of 1.25.

terms of the new contract, SGN will have dedicated engineers available locally, giving improved response to call-outs, a new computerised maintenance system in place and two full-time jobs will be created in Northern Ireland.

Future developments

The future operation of the gas transportation system in Ireland will be dominated by the proposed convergence of the rules governing the gas markets in Northern Ireland and the Republic of Ireland, known as the Common Arrangements for Gas ("CAG"), and the overarching concerns for security of supply as the gas market continues to grow.

The two Regulatory Authorities, the Northern Ireland Authority for Utility Regulation in Northern Ireland and the Commission for Energy Regulation ("CER") in the Republic of Ireland, have initiated the CAG project aiming towards a single Transmission System Operator and single Network Code by October 2012.

The project was formally launched in June 2011 and its outcome will be clearer once a number of consultations are completed throughout 2011. The new arrangements are expected to address the legal obligation on the Republic of Ireland and Northern Ireland to have in place a mechanism to allow shippers to trade gas across the South North pipeline. Key decisions on single system operation and a combined network code could change our business significantly. We will work to ensure there is no increased risk to our creditors, that all pipeline owners will have a similar status within any new arrangements, that costs do not increase for consumers in Northern Ireland and that the benefits of our mutual business model are not eroded.

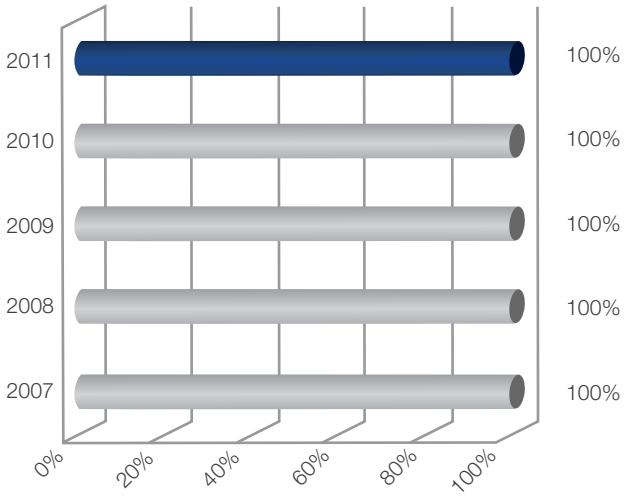
The UK government has previously written to the Republic of Ireland government to exercise an option in the Irish Sea Interconnector Agreement, allowing Northern Ireland an increase in capacity on fair commercial terms from 2012. The impact of the exercise of this option would be to increase the maximum volume of gas that Premier Transmission and Belfast Gas Transmission could transport through the existing pipeline system. This matter is still on hold awaiting progress on CAG.

Ireland is becoming very dependent on natural gas, particularly for power generation and this naturally leads to concerns over security of supply. Diversification into liquefied natural gas, gas storage and oil and gas exploration are being encouraged politically, to mitigate against the inevitable increasing dependence on natural gas.

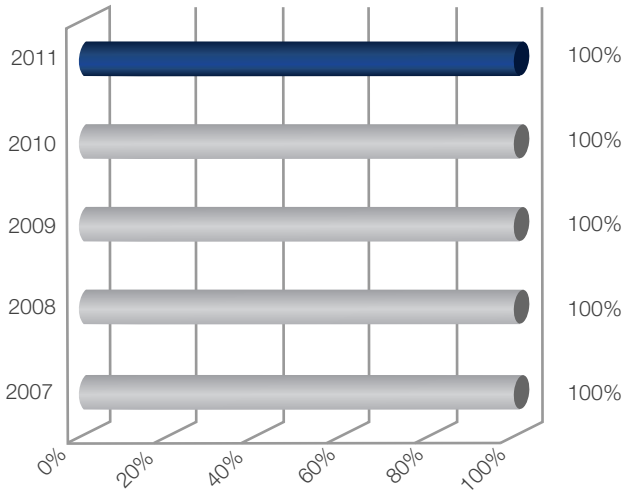
Total annual gas demand has fallen for three consecutive years now in Northern Ireland as a result of power generation dispatch moving from Northern Ireland to the Republic of Ireland and to renewable energy sources. Growth in the domestic and industrial sector has been too slow to offset this fall.

Upward pressure on the cost of operating our gas business, with flat or reducing volumes transported, will lead to upward pressure on transmission tariffs. While increases in

Premier Transmission availability



Belfast Gas Transmission availability



controllable operating costs are being maintained at less than inflation, there are significant uncontrollable external costs such as compressor gas (including carbon), costs passed through to us under a transportation agreement with BGE, the NIAUR Licence fee, rates increases and the inflation effect on financing costs.

New local sources of gas supply could seriously reduce the gas flowed from GB and consequently the ability of linking pipelines to readily recover their capital costs. SNIP is expected to have full capacity booked by shippers in the medium term. However the BGE interconnectors, from GB to RoI, IC1, and particularly IC2, are likely to operate at reducing capacity when the Corrib gas field comes on stream. The gas network in Northern Ireland continues to grow with BGE's development of markets along the route of their pipelines. All of Northern Ireland's gas is still supplied by the Premier Transmission Pipeline System (our two gas businesses, "PTPS") and that system is more than capable of meeting demand assuming organic growth for the foreseeable future. A new large customer such as a power station would mean that additional supply capacity would be required. This could be provided by the South North pipeline, accessing additional capacity in the Moffat to Twynholm line for SNIP or from gas storage if it goes ahead.

Our Customers

All Mutual Energy businesses supply, not to the end consumer, but to the large gas shippers or electricity suppliers and traders in the market.

Moyle operates in both the SEM and BETTA markets and consequently keeps up regular contact with the main companies, forums and bodies within the industry.

Regular meetings are held with the electricity suppliers and traders to try to ensure that their expectations regarding the type and quantity of capacity on offer are satisfied. Moyle's customers include Bord Gáis Eireann, Endesa, ESB Independent Energy, Scottish Power Energy Management Ltd, SSE Energy Supply Ltd, and Viridian Energy Supply Ltd.

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with BGE (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne. The shippers who currently use our system are Centrica, Phoenix, AES Ballylumford, Coolkeeragh/ ESB, Firmus, Energia and Vayu.

Rosen Pigging on Twynholm to South Cairns Gas Pipeline.

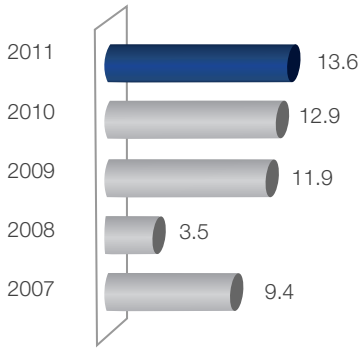
Key facts and KPIs

£16.5m turnover
2009/10
£18.0m

+£1.0m Cash flow
2009/10
+£3.2m

£13.5m EBITDA
2009/10
£13.6m

Cash reinvested to avoid charging consumers £m



Electricity business

External market environment

The auction revenue of the Moyle Interconnector is significantly affected by the difference in wholesale power prices between GB and Ireland.

The two markets operate in different ways, with Ireland a gross mandatory energy only pool where all generation taken is paid the half hourly marginal price. Generators, by licence, are obliged to bid only their marginal costs and a separate capacity payment is paid for generation capacity made available.

In Britain the market, known as BETTA, is a bilateral market where generators and suppliers contract with each other to match generation and demand. A pool type balancing market exists to reconcile differences in supply and demand.

During 2010/11 a pattern of cheaper wholesale prices in GB was seen, with a consequent consistent flow of power from GB to Ireland across Moyle (typically around 74% load factor importing for 2010/11 excluding outages). Demand for Moyle import capacity has been relatively high, and increasing arbitrage value has seen auction prices rise.

Northern Ireland renewable generation is close to 11% by capacity installed and the whole island is on track to meet a target of 40% of generation from renewables by 2020. The recent commissioning of the new ESB and the BGE plants in Cork has added 875 MW of new CCGT capacity to the Irish system. These factors interact to reduce the marginal price of electricity in Ireland.

If the 40% level of renewable generation is built then prices are likely to fall significantly in a market which uses system marginal price to set prices. The regulatory authorities are considering such a position with a view to introducing changes to the market structure. Without changes it is difficult to see how all the existing fossil fired plant will be able to achieve a sustainable level of income.

However there may be export opportunities for Irish generators, which would help interconnector businesses. In this regard the increase in Moyle export capacity from 80MW to 295MW until 2017 is a welcome improvement.

Windfarms connecting to the line feeding Moyle in 2017 will limit Moyle back to 80MW once constructed unless another overhead line or alternative network reinforcement is built in Scotland.

EU energy legislation continues to dominate market development activity. Legal requirements for interconnectors between member States is likely to lead to regulation of Mutual Energy assets both by NIAUR and OFGEM, albeit with their agreement to "co-ordinate" the regulation.

The planned second NI to ROI interconnector has been delayed due to difficulties in achieving planning permission and will probably not now be completed until at least 2015. Whilst this interconnector is simply treated as part of the transmission system rather than another interconnector, its construction will mean that Northern Ireland can physically rely more on RoI for security of supply. This will lessen the dependence on existing Northern Ireland supplies such as Moyle.

Generation on the island of Ireland is dominated by ESB, Viridian and their subsidiaries, through either direct ownership of power stations or long term contracts for other generators' output. During the year ESB completed the acquisition of NIE's transmission and distribution assets.

To accommodate significant planned wind generation in the GB and Ireland markets major investment, estimated at some £1 billion for Northern Ireland alone, will be required in the transmission systems. The transmission system investment and charges for its use are the subject of ongoing consideration in both markets.

Our partners and contractors

The Mutual Energy group companies carefully assess the level of work carried out internally and that outsourced, with the objective of remaining a lean and cost efficient operation.

Moyle Interconnector

The operation of the Moyle Interconnector and the administration of capacity auctions are contracted to SONI under the Operating and Agency Agreement. The long term maintenance agreement for Moyle's converter stations is placed with Siemens plc and is due for renewal from December 2011. ESBI was re-appointed as the Moyle Maintenance Manager from April 2008 for a period of five years.

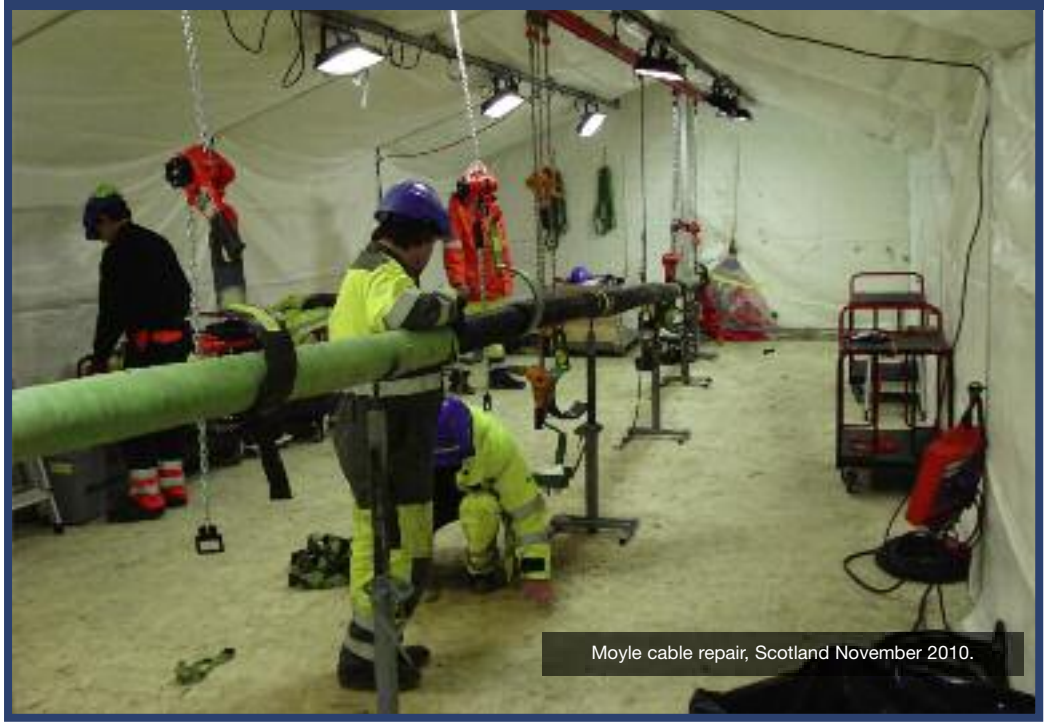
Premier Transmission Pipeline System

Premier Transmission works in partnership with major established utilities as its contractors, to provide operations and maintenance activities. This has worked well providing a consistent cost effective operations and maintenance regime.

The two key contractors are Bord Gáis Eireann, who monitors our system from the national gas control centre in Cork and Scotland Gas Networks, who carry out routine maintenance and emergency response. The maintenance and emergency response contract was re-tendered during the year with a 5 year contract, commencing 1 April 2011, being awarded to Scotland Gas Networks, this time in the form of a joint contract for services to both gas businesses.

Belfast Gas Transmission Pipeline System

Operation and maintenance of Belfast Gas Transmission assets is carried out by the Premier Transmission management team, using the same key contractors and harmonised procedures.



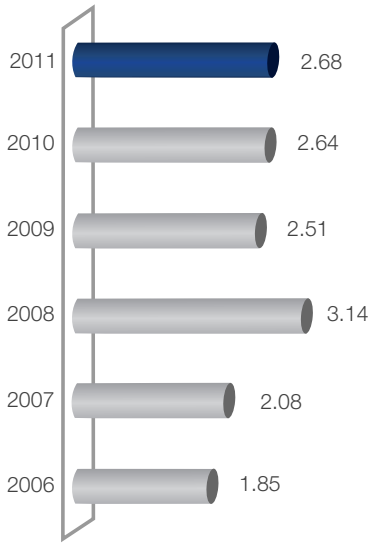
Moyle cable repair, Scotland November 2010.

Key facts and KPIs

100%
import capacity sold
2009/10
100%

£0
direct charge to consumers
2009/10 £0

Moyle ADSCR



Moyle Interconnector Ltd has a minimum required ADSCR of 1.15.

Key facts and KPIs

69%
Average load factor
2009/10
64%

2.395 TWh transferred
2009/10
2.305 TWh

Revenue and Profitability

The group's electricity business centres on the Moyle Interconnector. Moyle's revenue is earned from sales of the transmission capacity of the Moyle Interconnector, on contracts ranging from one month to three years, sold in monthly, quarterly, six-monthly and annual auctions.

In the event that revenues from capacity auctions are not sufficient to cover Moyle's costs then the shortfall is collected from Northern Ireland electricity customers via the system operator (CAIRt). It is this security of revenue that has allowed Moyle to achieve such a low cost of borrowing. Moyle is pleased that no such call on Northern Ireland customers has been made to date.

Moyle capacity was sold to electricity traders throughout 2010/11 in annual and monthly auctions. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% (east-west) (2010: 100%) and 23% (west-east) (2010: 42%) of available transmission capacity. Long term capacity auctions in the 2010/11 financial year realised some £15.3m sales revenue for 2010/11 and future years. This compares with the long term capacity auctions in the 2009/10 financial year, which realised £10.5m for 2009/10 and future years. Additional revenue was earned from capacity sales to the system operators in Ireland, both for system reserve and for inter-system trading between Northern Ireland and Great Britain. The overall effect was that annual revenue, at £16.5m, showed a decrease on 2010 (£18m).

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £13.5m (2010: £13.6m). The group made an operating profit of £9.8m (2010: £9.9m).

Operational Performance

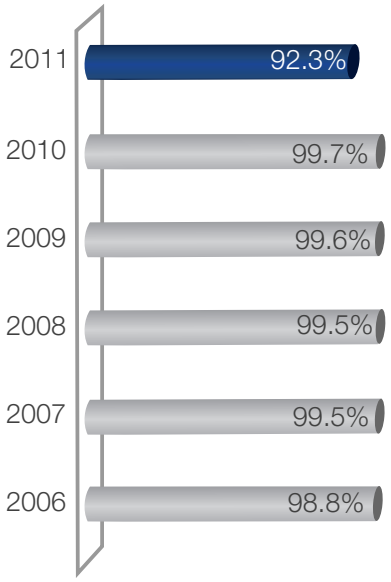
In the year to 31 March 2011, Moyle achieved 92.32% (2010 99.66%) availability. Taking into account outages on the Scottish power supplying line availability was 85.74% (2010 96.53%). This was below the technical adviser's long term availability prediction of 97.85% as the result of two separate extraordinary events arising in the year. Firstly in June 2010 the Scottish power line which connects us to the grid in GB was offline for two weeks to connect windfarms reducing the availability to users by 6.6%. Then in September a cable fault on one of two 250 MW cables that comprise the Moyle Interconnector, reduced the Interconnector's capacity for the transfer of electricity between Scotland and Northern Ireland to only 250MW for a period of 69 days. As the construction of the Moyle cables is particularly complex, the repair process required specialist personnel, tools, equipment, materials and methods, along with civil engineering works to produce a controlled environment.

During the year approximately 2.4 terrawatthours (2.3TWh 2009/10) of power was imported across Moyle into Northern Ireland with 0.001 terrawatthours (0.005TWh 2009/10) physically exported.

The necessary annual converter station maintenance was carried out during the Scottish Power line outage in June 2010 so that the overall downtime was minimised. An opportunity was also taken to bring forward and carry out circuit breaker maintenance at the Scotland converter station and thereby improve downtime in future years.

The availability of the Moyle assets in the year to 31 March 2011 was once again essential to the security of electricity supply in Ireland. For

Moyle availability



periods, the adequacy of the electricity systems throughout Ireland depended on the generation capacity delivered to them by the Moyle Interconnector from the electricity system of Great Britain.

Moyle operated throughout the year with no lost time injuries or environmental incidents.

Future developments

Scottish windfarm connections

With the connection of wind farms along the Scottish Power line supplying Moyle on the Scottish side, Moyle is required to fit static var compensation equipment at its Auchencrosh convertor station in order to comply with the grid code. Tendering for these works is ongoing. Installation works will try to avail of the Scottish Power outage programme and are currently expected to commence in 2012 and be completed in 2014.

Increased renewable generation in Ireland

Over the next few years significant levels of wind generation will be added to the Irish system. The result should be to lower the average system marginal price in Ireland. Consequently this is likely to erode the average arbitrage value with GB prices and reduce the revenue Moyle can earn from selling its capacity. Reducing arbitrage coupled with increasing bond repayments and a new interconnector means that over the next few years Moyle is not expected to cover its cashflow requirements through capacity sales and therefore shortfall collections from Northern Ireland electricity customers are more likely. In order to mitigate the position Moyle will continue to work with the regulatory authorities to ensure that the full value of interconnection is accessible by the market, and that Moyle can obtain a share of that value.

Security of supply services and capacity payments

The regulatory authorities are at the very early stages of a workstream to develop a day-ahead market for SEM and Moyle will participate fully to try and ensure that a useful solution is developed. Any subsequent changes to market rules which improve the use of interconnectors should also improve Moyle revenues. On this note, an intra-day trading modification to SEM has been developed which is due to be implemented in late 2012 (subject to impact assessment). This will result in unused interconnector capacity being released to market participants during the trading day including capacity released through superposition in the opposite direction to prevailing flows.

East West Interconnector

EirGrid is developing the East West Interconnector, a 500 megawatt high voltage direct current interconnector between Ireland and Wales, to be operational in October 2012.

The interconnector will provide a broadly equivalent service to that of Moyle and will have to comply with EU legislation regarding interconnectors. Moyle believes that at that point there is likely to be an oversupply of interconnector capacity, particularly as limited arbitrage is expected between BETTA and SEM. Moyle's revenues from capacity auctions are expected to suffer as a result and market forces will dictate that Moyle's capacity would be offered on similar terms to the new interconnector.

NIAUR Board visit to Moyle

Existing and potentially future EU congestion management principles for interconnectors will be applied to the East West Interconnector and Moyle is under increasing pressure to adopt such principles, the first impact of which will be the removal of the auction maximum reserve price in October 2011. The principles do not address the provision of an adequate revenue stream to Interconnector owners but assume that its "costs" are covered through a socialised charge on all users. Moyle will have to find a revenue solution that addresses the regulator's concerns and is compatible with the East West Interconnector charging regime.

"**Safety** There were no lost time injury incidents on any of the assets operated by Mutual Energy"

Environment and Safety

The group continues to put a high value on the safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context.

During the year our gas business participated in a two day simulated gas supply emergency exercise run by National Grid, acting as the UK Network Emergency Coordinator (UK NEC). Premier Transmission Ltd and Northern Ireland Network Emergency Co-ordinator (NINEC) coordinated the exercise for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency. The exercise simulated the load-shedding of gas at Moffat in Scotland.

All the operating companies of the group have delivered reliable energy transmission services to their customers without lost time accidents or public safety incidents. They continue to maintain regular contact with the landowners through whose land the pipelines and cables pass, to ensure that any land issues are addressed and that no works by others are taking place in the vicinity of the installations.

The group is committed to environmental performance, with no breach of any environmental licence or permit recorded in the year. Usage of gas for pre heating and auxiliary electricity used in the main electricity sites is monitored to help target improvements.

	2011	2010
Corporate Responsibility KPI		
Lost time and reportable accidents	0	0
Usage of gas in operations (MWh)	3,913	4,266
Electricity consumption at convertor stations (MWh)	2,810	2,656

Ancillary Businesses

In addition to the core businesses the group also includes companies to provide services to the core companies, ranging from investment management to procurement of maintenance and monitoring services.

Key facts and KPIs

€15m
committed to European Renewable Energy Fund

£10m
invested in Barclays plc inflation linked loan notes

£4.5m
five year maintenance agreement signed with Scotland Gas Networks

35%
Ownership percentage of Islandmagee Storage Ltd

Interconnector Services Ltd

Interconnector Services Ltd was formed in 2006 with the view to procuring joint services to the entire group, where this is the most efficient means of providing the service.

To date the company provides a procure-and-manage service for the regular subsea inspections, the provision of security contractors and, from 1 April 2011 the Maintenance and Emergency response contract for the gas businesses.

Moyle Energy investments Ltd

Moyle Energy Investments Ltd manages the longer term cash reserves of the business, notably the investment in the European Renewable Energy fund. As a founder member of the fund with a €15m investment, the group's share is just short of 7% of the fund's total value.

The fund is operated on an arms-length basis by the fund manager Platina Finance Ltd and is currently in its five year commitment period, during which time the money is invested in renewable energy projects.

Following the end of the commitment period there will be a five to seven year maturing period, during which time the investments will be sold, financed or wound up. Winding up must be before 31 December 2022. The fund targets an 8% return per annum.

To date circa €8.5m of our commitment has been drawn down, with forecasts of a further €6m to be drawn down before March 2012. Investments are expected to be spread by the fund over 15 to 20 projects in 7 to 10 countries, with one of the projects under negotiation being in Ireland. The fund has recently completed construction of an 82 megawatt wind farm in Cyprus, has acquired a 52 megawatt operational wind generator in France and a 50% share of an 11 megawatt operational solar photovoltaic plant in Tenerife.

On return of the proceeds from the fund, Moyle intends to apply these to lessen the impact of its financing cost increase on future customers. Moyle will continue to review how best to smooth its costs across generations of Northern Ireland consumers.

Islandmagee Storage Ltd

In order to improve security of supply and increase the flexibility of gas supply in an energy market with high levels of wind generation, Mutual Energy has been closely involved in a project to develop a 500 million cubic metres natural gas salt cavity storage facility beneath Larne Lough. A planning application for the project was submitted by Islandmagee Storage Limited (ISML) on 23 March 2010.

The planning service is conducting its statutory consultation on the application and following review of the responses from statutory consultees, any queries will be addressed to Islandmagee Storage Limited. Subject to satisfactory responses, a decision to grant planning permission will be taken, possibly within six months. Premier Transmission has signed an option to sell surplus land for this development and Moyle Energy Investments has taken a 35% (no financial risk) share in the project with a "put option" to exit the project in the future.

Andrew Hindle Chief Executive Officer, Infrastrata plc and Paddy Larkin, Chief Executive, Mutual Energy Limited, with a copy of the planning application for the Islandmagee gas storage project.

Objectives for this year are to achieve full planning consent, agree licence terms and tariff arrangements, and to develop a full shareholder agreement. Timely project development will require a new partner(s) to provide the funding and this will be a key Islandmagee Storage Limited objective for the coming year.

As part of Premier Transmission's transportation obligations it will be working with both BGE, Islandmagee Storage and other storage developers to develop appropriate storage transportation tariffs and support the workstream to achieve bi-directional flow at Moffat.

Forward-looking statements

The Chairman's Statement and Directors Report contain forward-looking statements. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity may differ materially from those expressed or implied by these forward-looking statements.

Stakeholders

For most of its business activities, the group relies on its network of professional advisers and contractors. While ensuring that contracts are at market rates, the group aims to build relatively long-term relationships of the order of five years.

During the year, the group ensured compliance with the terms of the financing of its regulated subsidiaries and continued to maintain good relations with the respective bond financiers, represented by: for Moyle, Assured Guaranty (Europe) Limited as controlling creditor and the Bank of New York Mellon as trustee; for Belfast Gas, Assured Guaranty (Europe) Limited as controlling creditor and Prudential Trustee Company Limited as trustee; and, for PTL, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee.

In December 2010 investors holding securities in Financial Guaranty Insurance Company formed a policyholder group to propose a group restructuring plan with FGIC in order to avoid a liquidation of FGIC. This group is reported to be in discussions both with FGIC and the State of New York Insurance Department. This has not affected the running of the Premier business and the Premier group continues to work with Financial Guaranty Insurance Company and Prudential Trustee Company Limited as before.

The Mutual Energy Board

Peter Warry (61) Chairman

Peter Warry is the chairman of a number of industrial companies. He was previously Chief Executive of Nuclear Electric and a director of British Energy. Peter acted as Senior Industrial Adviser to OFGEM for the 1999/2000 distribution price control review and has been a non-executive director of the Office of Rail Regulation. He graduated in Engineering and Economics and is a Fellow of the Royal Academy of Engineering as well as being a Fellow of the Institutions of Electrical Engineering and Mechanical Engineering.

Paddy Larkin (42) Chief Executive

Paddy Larkin was appointed Chief Executive Officer of Mutual Energy, on 1st January 2010. He joined what was then Northern Ireland Energy Holdings in 2007 as an executive director and managing director for the Moyle Interconnector. After studying mechanical engineering at Queen's University Belfast, he started work with NIE at Ballylumford power station in 1991 just before privatisation. In 1992 British Gas bought Ballylumford Power station and Paddy continued to work with Premier Power, initially in breakdown maintenance before moving to the business side of the operation where he helped to oversee the change in practices from a nationalised to a private company. Later he was involved in the buy out of the long term contracts and construction of the combined cycle gas turbine and served as the station's Chief Executive.

Gerard McIlroy (42) Finance Director

Gerard McIlroy joined Mutual Energy in July 2006 and was appointed Finance Director for the group in January 2010. A fellow of the Institute of Chartered Accountants in Ireland, Gerard trained with Coopers and Lybrand in Belfast and has previous experience in the health, retail and energy sectors within Northern Ireland. He joined Mutual Energy after five years with the Viridian Group where he was Finance Manager with their unregulated energy supply business covering both the Northern Ireland and Republic of Ireland market.

Gerry Walsh (58) Senior Independent Director

Gerry Walsh served as Chief Executive and Member of the Board of Bord Gáis from 2000 until 2007, during which time the equity value of the company increased by 100% to €1.6 billion. He joined Bord Gáis in 1984 and held a number of senior management roles in utility operations, including General Manager, Director of Strategy and Director of New Business Development before taking over as Chief Executive. Whilst CEO he oversaw an all-island investment programme of over €1.5 billion and the setting up of a new energy company in Northern Ireland in competition with the local incumbent with an investment of €200 million. Gerry now runs Spruce Consulting Ltd., which provides strategic support to a portfolio of corporate clients.

Regina Finn (44)

Since 2006, Regina Finn has been the Chief Executive of Ofwat, the economic regulator for the water and waste water sectors in England and Wales. Prior to joining Ofwat she was a Commissioner for Energy Regulation in Dublin where she worked on the development of an all island energy market. Previously she was Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and she has worked in the Channel Islands where she established a regulatory regime for electricity, post and telecommunications.

Stephen Kirkpatrick (47)

Stephen Kirkpatrick is CEO of Corbo Properties. Corbo is the largest property company in Northern Ireland and one of the leading developers/investors in retail property in the UK. Stephen previously spent 15 years with Bank of Ireland having joined the Bank in 1995 from KPMG Chartered Accountants where he specialised in corporate finance over an eight year period. He spent his early career in corporate banking, holding a number of senior roles and culminating in his appointment in 2002 as MD Corporate & Business Banking for Northern Ireland. In 2004 he was appointed head of its regional business banking operations in the UK. Stephen became CEO of Bank of Ireland in Northern Ireland in 2006. In 2009 Stephen was appointed Head of Retail Credit with accountability for almost two thirds of the Bank of Ireland Group's balance sheet lending. This key Group role encompassed a diverse range of loan books in the UK and Ireland including mortgages, consumer finance, SMEs and property development/investment.

Clarke Black (57)

Clarke Black took up his role as a position as a Director of Mutual Energy Limited in January 2011. Clarke was appointed as Chief Executive of the Ulster Farmers' Union in May 2002, and subsequently appointed a Director of Countryside Services Limited – the commercial arm of the Ulster Farmers' Union. He is a Director of Food NI, the food industry promotion body and of the Rural Development Council. He is also a member of an independent Food Advisory Panel set up to advise Government on food policy and represents the Ulster Farmers' Union in Concordia which is an informal social partnership involving the Trades Union, CBI, voluntary sector and agriculture. He is a Fellow of the Royal Agricultural Societies. He was previously employed by Northern Bank Ltd as a Senior Regional Agribusiness Manager, which laterally entailed a secondment to National Irish Bank, Dublin, where he established the Bank's Agribusiness segment in Ireland.

Corporate governance statement

The group is committed to high standards of corporate governance. The Board leads the group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2011, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council in June 2008. Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group.

Statement of compliance

The group has complied with the provisions set out in Section 1 of the Code throughout the year.

The Board

An effective board of directors leads and controls the group. The board, which met seven times during the year, has adopted a schedule of matters reserved for its approval.

The board is responsible for:

- long term objectives, strategy and major policies;
- business plans and budgets;
- the review of management performance;
- the approval of the annual operating plan and the financial statements;
- major capital expenditure;
- the system of internal control;
- corporate governance; and
- other reserved matters.

Directors are sent papers for meetings of the Board and those Committees of which they are a member, whether they are able to attend the meeting or not. In the event that a Director is unable to attend a meeting, they are able to relay their views and comments via another Committee or Board member. The Board also receives presentations and oral updates at the meetings which are minuted, as well as regular updates on changes and developments to the business, legislative and regulatory environments. This ensures that all directors are aware of, and are in a position to monitor, major issues and developments within the group.

In the event that specific business arises requiring Board discussion or action between scheduled meetings, special Board meetings are held.

A procedure is in place for directors to obtain independent professional advice in respect of their duties. All directors have access to the advice and services of the Company Secretary and the company solicitors. New directors receive induction on their appointment to the board covering the activities of the group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the group. Non executive directors receive on-going training in line with the Board timetable, a process overseen by the Chairman, and are encouraged to attend the annual members day to ensure they have an understanding of the members' opinions.

The committees of Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc and Premier Transmission Financing plc meet concurrently with those of Mutual Energy Limited.

Directors and Meetings Attended	Board	Nominations Committee	Remuneration Committee	Audit Committee	Risk Committee
Clarke Black	1/1			1/1	
Regina Finn	7/7	3/3	2/2	3/3	
Felicity Huston	4/5	2/2		2/2	
Stephen Kirkpatrick	7/7	3/3		3/3	
Paddy Larkin	7/7				2/2
Gerard McIlroy	7/7				
Gerry Walsh	6/7	3/3	2/2		2/2
Peter Warry	7/7	3/3	2/2		

Board membership

The number of meetings attended compared to those the director was entitled to attend are outlined in the preceeding table:

Felicity Huston, non-executive director, retired on 21 September 2010. Stephen Kirkpatrick (CEO, Corbo Properties) was appointed as non-executive director on 1st April 2010 and Clarke Black (CEO, Ulster Famers' Union) was appointed as non-executive director on 1st January 2011.

The names of the directors of each of the group companies and their details appear on the first page of the Directors' Report for that company.

Throughout the year, the Chairman and the other non executive directors were independent of management and were independent of any business relationship with the group.

The Senior Independent Director was Gerry Walsh who has held the role since September 2009. The Senior Independent Director's responsibilities include leading the non-executive directors' annual consideration of the Chairman's performance. From time to time the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

All non-executive directors joining the board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election after three years. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years.

The Board retained the services of an outside consultant, Clarendon Executive, to co-ordinate and manage the recruitment of new non executive directors as the long serving directors retire from the Board.

During the year the Board conducted an evaluation of its own performance and that of its committees and individual directors. The Chairman and Board members completed a questionnaire on the effectiveness of the Board, and Gerry Walsh as Senior Independent Director led a meeting of the non-executive directors to appraise the performance of the Chairman. The Board then discussed the findings of these exercises at a full meeting of the Board. The evaluation covered the role and organisation of the Board, meeting arrangements, information provision and committee effectiveness. Where areas for improvement have been identified, actions have been agreed.

Board committees

There are a number of standing Committees of the Board to which various matters are delegated. The Committees all have formal Terms of Reference that have been approved by the Board and can be found on the group's website at www.mutual-energy.com. Details are set out below:

Audit Committee

The Audit Committee comprised Felicity Huston (Chairman until 21 September 2010), Stephen Kirkpatrick (Chairman from 21 September 2010), Regina Finn, and, from 1 January 2011 Clarke Black. The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience as required by the code. Meetings were also attended, by invitation, by the external audit partner and the executive directors of the group.

The role and responsibilities of the Audit Committee are set out in its terms of reference and are described in more detail in the Audit Committee Report.

Remuneration Committee

The Remuneration Committee has been chaired by Regina Finn since 1 April 2009 and its members comprise solely non-executive directors. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report.

Nominations Committee

The Nominations Committee comprises all the non-executive directors and is chaired by the Chairman.

The Committee meets as necessary and the attendance during the year is listed in the previous table. The Committee is responsible for considering and recommending to the Board persons who are appropriate for appointment as executive and non-executive directors. The Nominations Committee is also responsible for succession planning and Board evaluation. The role and responsibilities of the Nominations Committee are set out in its terms of reference.

There is a rigorous and transparent procedure for the appointment of new directors to the Board. This process will involve the Nominations Committee interviewing suitable candidates who are proposed by either existing Board members or by an external search company. Careful consideration will be given to ensure appointees have enough time available to devote to the role and that the balance of skills, independence and knowledge on the Board will be maintained, whilst also considering the benefits of diversity, including gender diversity.

During the prior year the Committee met to discuss the recruitment of a non-executive director with financial expertise in order to aid succession planning. Clarendon Executive, an external consultant, was employed to assist with this process. After consideration Stephen Kirkpatrick (CEO, Corbo Properties) was appointed to the Board with effect from 1 April 2010.

As part of its original engagement Clarendon Executive, was also appointed to assist with the process of recruiting a Board member with an understanding of the needs of energy users in Northern Ireland and a personal skill set to complement the skills, experience and expertise of the existing Board. As a result of this process Clarke Black (CEO, Ulster Farmers' Union) was appointed to the Board on 1st January 2011.

Risk Committee

The Risk Committee is chaired by Gerry Walsh, non-executive director, and also comprises Paddy Larkin, Chief Executive, and Stephen Hemphill, Group Operations Manager. It is the responsibility of the committee to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor operational non financial risks. Financial risks are the concern of the audit committee.

The role and responsibilities of the Risk Committee are set out in its terms of reference.

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the company and two independents appointed by NIAUR. The non-executive directors on the Committee were Gerry Walsh, Felicity Huston

(retired 21 September 2010) and Clarke Black (appointed 1 January 2011).

The role of the Membership Selections Committee is to select suitable potential members of the company (see section below) and to recommend their appointment to the board. The Committee is tasked to ensure that the membership is large enough and sufficiently diverse as to:

- adequately represent all stakeholders and in particular adequately represent energy consumers in Northern Ireland; and
- have the necessary skills, expertise, industry experience and/or capacity to contribute to its key governance role.

The Membership Selections Committee procures candidates through two routes:

- requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and
- an open and transparent recruitment process similar to that used for public appointments.

During the previous and current year the Membership selection committee oversaw a successful membership recruitment campaign resulting in six new members being appointed in April and May 2010.

Members

As Mutual Energy Limited, the holding company of the group, is a company limited by guarantee the Board of Directors are supervised in their leadership and control of the group by the members. During the year three members resigned from the company and six new members were appointed.

The individuals who were members of the company for some part of the year are listed below:

Mark Beattie (appointed 27 April 2010)	Nicolas McCourt (appointed 4 May 2010)
Clarke Black	Andy McCrea
Ashley Boreland	Jim McCusker
Noel Brady (resigned 7 September 2010)	Colm McGarry
David Brown	John McLean (resigned 26 August 2010)
John Campbell	Brendan Milligan
Boyd Carson	Gordon Millington
Bill Cherry	Allister Murphy
John Cherry (appointed 26 April 2010)	Niall Rafferty
Seamus Downey	Noel Rice
Malcolm Emery	Robert Richmond (appointed 28 April 2010)
Regina Finn	Georges Senniger
Andrew Frew (appointed 27 April 2010)	Gerry Walsh
Felicity Huston	Nuala Watkins (resigned 1 June 2010)
Stephen Kirkpatrick (appointed 7 May 2010)	Peter Warry
Alasdair Locke	Noel Williams
Damian McAteer	John Woods

Bondholders

The directors are very conscious of their obligations to the bondholders in the finance documents. In addition to complying with their other reporting obligations, they make available to bondholders copies of the Annual Report.

Internal control and risk management

The Board has overall responsibility for the group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the Board confirms that it has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority.

A discussion of the process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the group's business and of the key risks identified is included in the Risk Management section of the directors' report.

The Board, during its annual review of the effectiveness of the group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

Going concern

The group has made losses in the current and previous year. These losses arise as a result of i) the mis-match that arises in the accounting for the group's inflation swaps - as explained in the directors' report; and ii) the structure of the Premier Transmission Financing plc and Belfast Gas Transmission Financing plc groups, where these groups incur significant non cash costs in respect of indexation on outstanding bond liabilities which are only recovered by the groups, under their respective licence agreements, when the cash is required to meet the bond liability payments. This is a situation which will prevail for potentially 20 years.

However, the group has always been cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £93m. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Arrangements approved by the Northern Ireland Authority for Utility Regulation are in place to ensure sufficient cash is available to meet bond payments.

Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

The Mutual Energy Board (left to right): Gerry Walsh, Stephen Kirkpatrick, Paddy Larkin (Chief Executive), Clarke Black, Gerard McIlroy (Finance Director), Peter Warry (Chairman) and Regina Finn.

Remuneration Committee Report

The Remuneration committee is chaired by Regina Finn and comprises two other non-executive directors, Peter Warry and Gerry Walsh. The executive directors of the group companies did not attend meetings of the Remuneration Committee. The Committee members are independent and save for their directors' fees, have no financial interest in the group. The Remuneration Committee met twice during the year with attendance as listed in the Corporate Governance Statement. The role of the Remuneration Committee during the year was to determine and agree the remuneration policies of the company and its subsidiaries and specifically:

- to monitor, review and make recommendations to the Board on the Executive structure of the Group;
- to review and agree the broad policy and framework for the remuneration of the Chairman, Executive Directors, Company Secretary and senior staff;
- to determine the nature and scale of performance arrangements that encourage enhanced performance and reward the Executive Directors in a fair and responsible manner for their contributions to the success of the group, whilst, reviewing and having regard to remuneration trends across the company or group;
- to review and set the group's remuneration of the Executive Directors including determining targets for performance related pay;
- to determine the policy for, and scope of, pension arrangements for each executive director and other senior designated employees;
- to benchmark the remuneration of the Executive Directors and the Company Secretary against remuneration of similar persons in similarly sized companies;
- to make recommendations to the Board, for it to put to the AGM for their approval in general meeting, in relation to the remuneration of the Executive Directors; and
- to agree the policy for authorising claims for expenses from the directors.

Remuneration Policy

The group's objective for executive directors' remuneration for the year ended 31 March 2011 was that the levels of remuneration should be sufficient to attract, retain and motivate directors to deliver best value, high levels of customer service, safety, and reliability, in an efficient and responsible manner. The remuneration policy is based on the following principles:

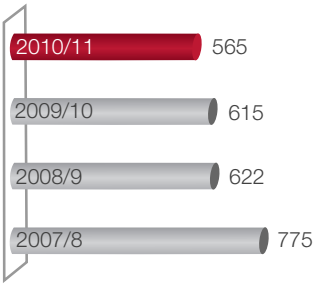
- a significant proportion of the executive directors' total reward should be performance based;
- incentive plans, performance measures and targets should be aligned as closely as possible with stakeholders' interests; and
- base salaries should be set at a market level for companies of a similar size, market and profile.

The executive directors' remuneration packages include basic salary, benefits, performance related bonus and pension benefits, with a significant proportion based on performance measured by the achievement of corporate targets, both short-term and long-term. Non-cash benefits include private health insurance.

Remuneration policy for the non-executives is set by the main board. The policy is to set remuneration at a level to attract non-executives with specific defined skill sets suitable for a company in the regulated utility sector. The groups policy is to pay a flat uniform remuneration with no additional uplift for committee chairmanships or membership. Performance related pay is also deemed inappropriate.

Regina Finn
Chairman
Remuneration
Committee

Total Board remuneration including pensions £,000



Remuneration in 2010-11

The following table sets out an analysis of the remuneration in 2010-11 and the previous year, including bonuses but excluding pensions, for individual directors of the group:

Table 1: directors' remuneration

Directors	Basic salary 2010/11	Basic salary 2009/10	Benefits in kind for 2010/11	Benefits in kind for 2009/10	Performance Bonus for for 2010/11	Performance Bonus for for 2009/10	Total Remuneration 2010/11	Total Remuneration 2009/10	Total paid as salary 2010/11	Total paid as salary 2009/10
Executive Directors	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Paddy Larkin	124	111	1	1	53	48	178	160	177	159
Gerard McIlroy	100	25*	1	-	43	10*	144	35*	135	33*
Non-Executive Directors										
Clarke Black	8	-	-	-	-	-	8	-	8	-
Regina Finn	34	32	-	-	-	-	34	32	34	32
Stephen Kirkpatrick	34	-	-	-	-	-				
Gerry Walsh	34	32	-	-	-	-	34	32	34	32
Peter Warry	77	75	-	-	-	-	77	75	77	75
Retired directors										
William Cargo	-	103	-	1	-	58	-	162	-	38
Felicity Huston	21	41	-	-	-	-	21	41	21	41
Damian McAteer	-	16	-	-	-	-	-	16	-	16
Alan McClure	-	20	-	-	-	-	-	20	-	20
Total	**432**	**455**	**2**	**2**	**96**	**116**	**530**	**573**	**520**	**446**

**from appointment as director on 1 January 2010*

The remuneration set out in the table above is the remuneration paid by Mutual Energy for acting as directors on the main board and any of the boards of the subsidiary companies. No separate remuneration is paid to any of the directors who act as directors of the subsidiary companies. Paddy Larkin's salary rose from 1 January 2010 to reflect his appointment as Chief Executive of the Mutual Energy Group. Gerard McIlroy also became a director at this date and the figures in table 1 reflect his remuneration from his appointment as director.

The difference between the "total remuneration" and "total paid as salary" in table 1, is salary taken as pension and benefits in kind.

2010/11

Felicity Huston retired as director of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc, Premier Transmission Financing plc and all associated subsidiaries on 21 September 2010. Stephen Kirkpatrick was appointed director of Mutual Energy Ltd, Moyle Interconnector Limited, Belfast Gas Transmission Limited, and Premier Transmission Limited on 1 April 2010. Clarke Black was appointed director of the same companies on 1 January 2011.

2009/10

Alan McClure and Damian McAteer retired as directors of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc, Premier Transmission Financing plc and all associated subsidiaries on 29 September 2009. Gerard McIlroy was appointed as director of all group companies on 1 January 2010.

Directors' Remuneration

Non-executive directors' remuneration are determined by the chairman and executive directors and approved by the Board. Non-executive directors do not receive any bonuses or benefits in kind from the group.

The chairman and the non-executive directors are appointed under letters of appointment, which may be terminated by either party at one month's notice. No compensation is payable by the group on termination of an appointment.

The executive directors have service contracts that provide for three months notice to give the group reasonable security with regard to their service. The service contracts do not provide for compensation to be payable in the event of termination by the group and the policy of the Committee in the event of termination would be to mitigate any contractual liability to the fullest extent possible. The group maintains liability insurance for the directors and officers of the group.

Performance Related Pay

The executive performance related bonus arrangements are designed to align executive bonuses with improved customer service, safety and the financial performance of the respective businesses.

Under their employee service contracts the executive directors may earn a bonus of up to 50% of basic salary, calculated on base salary before any salary sacrifice. The annual bonus is targeted at performance during the year.

In 2009/10 the annual bonus scheme was split into three categories: essential targets, milestone targets and outperformance targets. Between 50% and 60% of the annual bonus was assessed against achievement of essential performance targets (asset performance, cost management and compliance), 12% against milestone targets (completion of major works on time and within budget) and between 28% and 38% was based on the level of outperformance over the essential performance targets and, in the case of Moyle, revenue.

The Remuneration Committee restructured the targets for 2010/11 with 25% of the performance related bonus set against essential targets (including asset availability, performance and cost management) and 75% set against items of strategic importance to the business (including business growth, improvements to the industry structure, future revenue streams and charges to consumers). The strategic targets are long term targets ranging for a period of more than one year with annual assessment of progress against milestones.

All annual bonus payments are non pensionable. Bonuses are included in table 1 based upon figures accrued. Any difference between the accrued amount and the actual is accounted for in the following year.

Pension

The group does not run its own pension scheme but instead makes defined contributions to the employees' personal pension plans. All payments to executive directors' pensions are made by way of defined contributions to their personal pension plans. Employees may elect to take their bonuses by way of pension contribution.

Executive Directors Remuneration Analysis

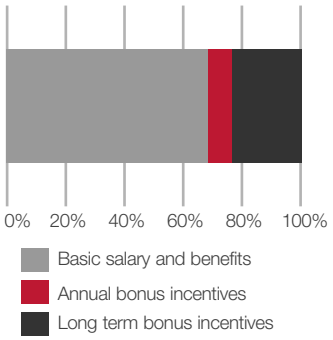


Table 2 pension contributions

	Company contributions to money purchase pension plan pension		Company contributions arising from salary sacrifice scheme		Contributions in lieu of bonus		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Paddy Larkin	18	13	-	-	-	-	18	13
William Cargo	-	16	-	74	-	58	-	148
Gerard McIlroy	15	4*	9	2*	-	-	24	6*
Totals	**33**	**33**	**9**	**76**	**-**	**58**	**42**	**167**

**from appointment as director on 1 January 2010*

During the year Gerard McIlroy elected to take £8,390 of salary by way of pension. This arrangement is known as a salary sacrifice, with the amount being taken from basic pay. The company salary sacrifice scheme allows the equivalent amount of employer's national insurance to be paid as pension to the employee rather than national insurance to HM Revenue and Customs. Bill Cargo elected to receive the performance bonus awarded last year in the same manner and the remuneration for 2009/10 in table 1 above has been restated to include an additional £7,000 paid to him as a result of utilising this arrangement.

Gerry Walsh
Chairman
Risk Committee

Risk Committee Report

The Risk Committee was set up in November 2009 in order to ensure that the group's overall business model and strategy is designed with risk firmly in mind. The Committee is chaired by Gerry Walsh, non-executive director, and also comprises Paddy Larkin, Chief Executive, and Stephen Hemphill, Group Operations Manager.

The Committee met twice during the year ended 31 March 2011 in order to review risk registers and audit plans, along with agreeing its terms of reference and other issues as required. Attendance was as listed in the Corporate Governance Statement.

Role

The Risk Committee has the remit of looking after non financial risks. All financial risks are the concern of the audit committee. The duties of the Committee are proactively to review the strategies, policies, management, initiatives, targets and performance of the group, and where appropriate, its suppliers and contractors in the following areas:

- Health and safety;
- Operational safety, including asset engineering fitness for purpose;
- Environment;
- Security; and
- Emergency response.

In relation to the areas noted, the Committee has responsibility for the following:

- Prior to each financial year considering and reviewing the plan for safety and environmental audits;
- Reviewing safety and environmental audits and safety and environmental performance at each meeting held;
- Annually reviewing Health and Safety matters and security matters;
- Reporting to the Board all fatal incidents, potential criminal prosecutions, potentially serious near misses and any other matters of appropriate significance, with details of follow-up action;
- Reviewing the effectiveness of the Committee annually; and
- Advising the audit committee on non-financial risks.

Activities in 2010/11

During the year the Committee:

- Considered the policies which should be in place to address risk, recommending improvements where applicable;
- Reviewed the operational risk processes for the gas and electricity businesses;
- Reviewed the risk registers for both the gas and electricity businesses;
- Discussed the development of a formal operational audit plan for both the gas and electricity businesses;
- Considered and reviewed the risk registers for major engineering projects such as the marine survey and online inspection of the Belfast Transmission Pipeline;
- Reviewed the improvement plan for the gas businesses, incorporating health and safety improvements, asset performance improvement, security improvements and requirements of the new Maintenance and Emergency Response (MERC) contract; and
- Reviewed and approved its terms of reference;

The minutes of the risk committee are issued to the full Board and the proceedings are reported at the subsequent Board meeting.

Audit Committee Report

Stephen Kirkpatrick
Chairman
Audit Committee

Principal Responsibilities

The role of the audit committee is to:

- review the effectiveness of the group's financial reporting and internal controls;
- review the procedures for the identification, assessment and reporting of risks;
- recommend the remuneration and approve the terms of the external auditors, monitoring their independence, objectivity and effectiveness and making recommendations to the Board as to their appointment; and
- monitor the engagement of the external auditors to supply non-audit services.

Membership

Felicity Huston (director, Huston & Co tax consultants) was chairman of the Committee from 2005 until her retirement on 21 September 2010, when she was replaced by Stephen Kirkpatrick (CEO, Corbo Properties). Stephen joined the committee on 1 April 2010 and, as a Chartered Accountant, will be further strengthening the financial expertise of the Committee going forward. During the year the Committee comprised Felicity Huston (resigned 21 September 2010), Stephen Kirkpatrick, Regina Finn and Clarke Black (appointed 1 January 2011). The requirement in the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience is fulfilled by the chairman. Other than the former chairman, members receive no additional remuneration for their service on the Committee.

Audit committee essential part of cost efficient operation

The Committee invites the executive directors to attend its meetings as and when appropriate. The external auditors are also invited to attend meetings of the Committee on a regular basis. During the year, the Committee has met without the executive directors present.

The Audit Committee was in place throughout the year ended 31 March 2011 and all its members were independent in accordance with provision A.3.1 of the Combined Code.

Activities

The Committee met three times in the year ended 31 March 2011 with attendance as listed in the Corporate Governance Statement. In accordance with its terms of reference and business and accounting developments during the year, matters considered by the Committee included:

Financial reporting

- monitoring the integrity of the financial statements of the group and reviewing the significant financial reporting issues and judgements which they contain;
- examining the accounting treatment of the groups inflation swaps and the applicability of hedge accounting to them;
- reviewing and challenging where necessary the consistency of accounting policies; the methods used to account for significant transactions; whether the group has followed appropriate accounting standards and made appropriate estimates and judgements;
- reviewing the clarity of disclosure in the group's financial reports and all material information presented with the financial statements; and
- making recommendations to the Board on the areas within its remit where action or improvement were needed.

Internal controls and risk management systems

- reviewing the effectiveness of the group's internal controls and risk management systems;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- reviewing the outcome of compliance reviews in areas including: conflicts of interest, procurement, treasury management and staff remuneration;
- reviewing the outcome of the group's risk register process;
- reviewing and approving policies including: invoicing and credit collection, intercompany charging, security, risk management, staff leaving, business planning and forecasting, counterparty credit requirements, treasury and procurement; and
- reviewing the company's systems and controls for the prevention of bribery and receiving reports on non compliance.

Auditors

- meeting with the external auditor to confirm their independence and objectivity;
- approving the tender process by which the terms of engagement for the external auditor and the level of fees charged are set;
- meeting with the external auditor:
  - o at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - o after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit;
  - o without management present so that any matters can be raised in confidence;
- assessing the effectiveness of the audit process including the qualifications, expertise and resources of the external auditors;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the re-appointment of the external auditor;
- pre-approving all non-audit work carried out by the external auditors, taking into account any relevant ethical guidance on the matter. Non-audit services are provided by external auditors where it can be demonstrated as part of the approval process that the engagement is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. Where non audit services are provided the Audit Committee ensures, through discussion with the external auditors, that sufficient safeguards are in place to protect auditor independence; and
- considering whether an internal audit function is required. The Committee is satisfied for the present, given the scope of the group's activities, that internal controls and risk management are adequate without such a function.

An annual review of the Audit Committee's effectiveness was also performed.

The group policy is to tender the audit services on a periodic basis. The Audit was last tendered in 2006 at which point PricewaterhouseCoopers LLP succeeded Ernst & Young as group auditor. There are no contractual obligations restricting the Committee's choice of external auditors, however, based on their assessment of the independence and effectiveness of the external auditors, the Committee recommended to the Board that PricewaterhouseCoopers LLP be reappointed at the Annual General Meeting, with a tender for audit services for 2011/12 to be carried out in 2011.

"during the year the committee reviewed and approved policies including: invoicing and credit collection, intercompany charging, security, risk management, staff leaving, business planning and forecasting, counterparty credit requirements, treasury and procurement"

Members

Mark Beattie

Mark has been the Operations Director of George Best Belfast City Airport since 2004. He is a Board Member of East Belfast Partnership and is a member of the Institute of Directors (IOD).

Ashley Boreland

Ashley has been employed in the public sector for over thirty years, twenty-one of which have been with Ards Borough Council where he has held the post of Chief Executive since 2004. He has an LLB from the University of London, is a Fellow of the Institute of Chartered Secretaries and Administrators and is a Justice of the Peace.

Noel Brady

Noel has a BA in Business Studies and has his own management consultancy company, Consult Nb1 Limited. He is Chair and Fellow of the Sales Institute of Ireland. He was formerly MD of SX3 from 1999-2004 and a Director of the CFM Group. Noel is a Non-Executive Director with the Driver and Vehicle Testing Agency. In January 2008 Noel was appointed by the Minister of DRD as a Belfast Harbour Commissioner.

David Brown

David Brown has an MA in International Marketing and is currently the Commercial and Services Director at NITHCo/ Translink. Formerly David held the positions of Sales & Marketing Director at Airtricity, Business Development Director at Yates TR (NI) Ltd, Managing Director at Simentra Group, Commercial Director at AnswerCall Direct and Head of Group Enterprise at BTNI. David was recently appointed to the Board of Crimestoppers NI.

John Campbell

John is a Chartered Director and studied a BA Tech Electrical & Electronic Engineering with further studies in Cert Applied Economics, Dip Management Studies, Dip Marketing, MBA, MA in Human Resource Mgt, and Certified Dip in Accounting and Finance, as well as an Executive Leadership Certificate from Cornell University. John presently heads up a US Fortune 500 company in Northern Ireland. He previously served as UK Director of Teletech also a Fortune 500 company, Chief Executive of Dungannon & South Tyrone Borough Council, Commercial Services Director in Translink, Group Business Development and Improvement Director at Lamont Holdings PLC, and a variety of positions in British Telecom. John was previously a Board Member of the Central Services Agency, and was a Board member of the Sports Council for Northern Ireland and a lay magistrate.

Boyd Carson

Boyd has a FCA qualification, and was a former Director of PricewaterhouseCoopers LLP in their New York office, before he returned to Nothern Ireland in 2005. He is currently pursuing interests in his family business, as well as acting as a Director of a real estate private equity company, Pearl Capital Limited and a Partner in the investment firm, Sapphire Capital Partners LLP.

Bill Cherry

Bill is the Managing Director of Fusion Heating Ltd, a specialist mechanical and electrical maintenance provider for the social housing sector within Nothern Ireland. In addition Bill is a Director of PMST the not for profit employer led managing agent responsible for the delivery of the DEL funded Modern Apprenticeship for the Gas, Plumbing and Mechanical sector. Bill is also a member of the Chartered Institute of Management.

John Cherry

John is currently a Programme Manager managing the delivery of European Regional Development Funding. Prior to this John was working as a consultant providing specialist forensic and advisory support to a leading consultancy firm in Ireland. John has also delivered bespoke training on topics such as fraud risk management, corruption, whistle blowing and investigative risk management. John is a Fellow of the Chartered Management Institute.

Seamus Downey

Seamus has an M.Eng in Electrical & Electronic Engineering from Queen's and an MBA from the Ulster Business School, Jordanstown. He is a Chartered Engineer and is currently Power & Utilities Manager for the Invista site at Maydown, Derry. He is CBI Large User Representative and has held various Energy and Electrical engineering positions within both Invista and DuPont.

Malcolm Emery

Malcolm holds an MSc in supply chain management and business development from the University of Ulster and an Advanced Diploma in Management Practice and an Agricultural Diploma. He is currently studying for an MSc at the University of Ulster. He is MD of theoneswitch Ltd and was CEO of Rural Support. He was also MD LB Meats from 1997-2002. He is currently a business mentor for the Princes Trust.

Andy Frew

Andy is the Heating Policy Manager with the Northern Ireland Housing Executive. He has held various roles within the energy sector, including working as an energy consultant and in research and development in industry. Andy is a registered architect.

Members' Day, Mutual Energy offices, May 2011.

Felicity Huston

Felicity Huston is a director of Huston and Co Tax Consultants. She is the Commissioner for Public Appointments for Northern Ireland. Previously Felicity was Chairman of the Northern Ireland Consumer Committee for Electricity and before that was Deputy Chairman and Energy Convenor of the General Consumer Council Northern Ireland, specialising in gas issues. Felicity has held a number of public appointments - including Commissioner for the House of Lords Appointments Commission until September 2008 and is a Trustee of Assisi Animal Sanctuary in Newtownards.

Alasdair Locke

Alasdair Locke was the founder and executive chairman of Abbot Group until his retirement in November 2009. He is non-executive chairman of Mecom Group Plc, a UK-listed European regional newspaper group, and First Property Group Plc, a UK-listed property asset management company.

Damian McAteer

Damian McAteer is a graduate of University of Ulster and Strathclyde Business School. He has extensive experience in business, community and the public sector. Mr McAteer holds a number of directorships in private business and serves in a voluntary capacity on a range of community and voluntary organisations. He was a Board Member of Northern Ireland Energy Holdings until 29th September 2009.

Nicolas McCourt

Nicolas is currently a mechanical engineer within the engineering support team at AES Kilroot where he was recently involved in the planning, construction and commissioning of a new gas turbine installation. Nicolas is a member of the Institution of Mechanical Engineers.

Andy McCrea

Andy McCrea began his career in 1975 with Northern Ireland Electricity, initially in the power stations, then in new power generation planning and eventually in the customer-facing Supply business. In NIE Supply, Andy worked to deliver

Members' Day, Mutual Energy offices, May 2011.

energy efficiency schemes, renewable energy initiatives, fuel poverty solutions and environmental excellence for NIE (as the company Environmental Manager). From 2003 to January 2009 he was Director and Chief Executive of Action Renewables, set up as a joint initiative with Viridian and the Department of Enterprise, Trade and Investment. In January 2009 he joined the international consultancy company Faber Maunsell/AECOM as a Director charged with developing new business in energy and sustainability which includes renewable energy, energy efficiency, demand side management and waste solutions. Andy left AECOM in October 2010 to act as a private consultant and is currently working for South Eastern Regional College, (SERC), NIE Energy and a range of wind energy developers.

James (Jim) McCusker

Jim has been a member of Moyle Holdings since 2003, nominated by the Irish Congress of Trade Unions. Formerly director of the Consumer Power Corporation, most of his working life has been spent with NIPSA (Northern Ireland Public Service Alliance), where he held the position of General Secretary from 1977 until his retirement in 2003. In addition to being the Chairperson of the Labour Relations Agency, Jim holds a number of other appointments including membership of the European Economic and Social Committee and the Economic Development Forum.

Colm McGarry

Colm has a MSc Social Policy Planning & Admin, FCIPD. He recently retired as CEO Larne Borough Council, and was formerly General Manager ORTUS and worked at the Northern Ireland Housing Executive from 1973 to 1998 latterly as assistant director (Corporate Services).

John McLean

John is a Chartered Engineer. He is Chief Executive of Fold Housing Association and Fold Ireland. He previously was Commercial Director with NIE Powerteam, Tyco Inc and the Rotary Group and has worked in the electricity, oil and gas construction sectors.

Brendan Milligan

Brendan qualified in London as a Chartered Accountant. Currently a Financial Controller with Glen Water Limited (a joint venture between Laing O'Rourke and Veolia Water), much of his recent career has involved change management. He is currently a board member of SHAC Housing Assocation Limited and is a member of the Audit Committee of Down District Council.

Gordon Millington OBE

Gordon has a DSc (Honoris Causa) and is a Fellow of the Institute of Civil Engineers, Fellow of Engineers Ireland, Fellow of the Institute of Highways and Transportation and Fellow of the Irish Academy of Engineering. He is retired and was formerly Senior Partner at Kirk McClure & Morton but is at present director of several property companies.

Allister Murphy

Allister Murphy is semi-retired and works part-time as a consultant, having previously worked for Hays IT, NIGEN and NIE. He has recently completed a course in Solar & Alternate Energy at Belfast Metropolitan College.

Niall Rafferty

Niall has an ACMA and is Managing Director, SCA Packaging Ireland. He was Finance Manager with BE Aerospace 1989-1997.

Noel Rice

Noel Rice is a graduate of Queen's University, Belfast and the Ulster Polytechnic, Jordanstown. He is the Energy Conservation Manager for the Northern Ireland Housing Executive which is Northern Ireland's Home Energy Conservation Authority (HECA). He is a former Board member of the UK Home Energy Conservation Association and in 2005 was appointed to the DSD's Fuel Poverty Advisory Group (Northern Ireland). He is also a member of the Energy Forum of CECODHAS (Federation of European Social Housing Organisations).

Robert Richmond

Robert is a self employed dairy farmer and is extensively involved with the local Rural Development Strategy Partnership and the Ulster Farmers Union and has a keen interest in the development of renewable energy.

Georges Senninger

Georges has a Master of Science (Paris University) and an MBA. He is Managing Director at Thermomax. He was formerly MD at Montupet (UK) Ltd and has had various senior executive roles in large global organisations.

Nuala Watkins

Nuala (Sheeran) Watkins was a partner in the firm of solicitors Mills Selig until August 2007 at which point she resigned to take up a post at Invest Northern Ireland. Nuala Watkins has experience in the acquisition and disposal of businesses and companies, equity investments, MBOs, director's roles, forensic investigations, corporate banking, general corporate work and joint venture agreements. She was a Board Member of Northern Ireland Energy Holdings until 31 August 2007.

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland (NI) for seven years, where his remit was to maximise the effectiveness of EST's programmes and oversee its strategy in NI. He sought to address the damaging effects of climate change, reducing NI's greenhouse gas emissions and tackle fuel poverty. He continues to maintain relationships with key NI partners such as Government Departments, NI Power (formerly NIE Energy), Phoenix Natural Gas, Firmus Energy, NI Housing Executive, Housing Associations, the Oil Industry, NI Local Authorities and other stakeholders in his capacity as the Chairman of the NI Fuel Poverty Advisory Group.

John Woods

John is an independent advisor on sustainable development and project leader of the Northern Ireland Green New Deal Group. He has an MSc in Social and Public Policy and a background in both business and the voluntary sector, most recently as Nothern Ireland director of Friends of the Earth. In 2008 he was named by the Independent on Sunday as one of the UK's top 100 environmentalists. John is also a Lay Magistrate.

Members' Day, Mutual Energy offices, May 2011.

Mutual Energy Limited

(a private company limited by guarantee and not having a share capital)

Annual report for the year ended

31 March 2011

Directors

Peter Warry	Chairman
Patrick Larkin	Executive Director
Gerry Walsh	Senior Independent Director
Regina Finn	
Gerard McIlroy	Executive Director
Stephen Kirkpatrick	
Clarke Black	

Company secretary

Gerard McIlroy

Registered office

First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

Principal place of business

First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

Solicitors

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

Bankers

Barclays plc
Donegall House
Donegall Square North
Belfast, BT1 5LU

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast, BT1 3LR

Registered Number: NI 053759

Directors' report for the year ended 31 March 2011

The directors present their report and the audited financial statements for the year ended 31 March 2011.

Principal activities and business review

The group's principal activities during the year were the financing and operation through its subsidiary undertakings of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. It is the intention of the directors to continue to maintain the efficient and effective operation of the Interconnector and the pipelines.

The Operating and Financial Review and Corporate Governance Statement on pages 5 to 48 provide a review of the business and future development for the group and is therefore incorporated in this report by cross reference.

Results

The group's loss for the year is £2,590,000 (2010: £1,562,000 as restated).

Directors

The directors who served the group during the year were:

Felicity Huston	(resigned 21 September 2010)
Patrick Larkin	
Regina Finn	
Gerry Walsh	
Peter Warry	
Gerard McIlroy	
Stephen Kirkpatrick	(appointed 1 April 2010)
Clarke Black	(appointed 1 January 2011)

Political and charitable donations

No political or charitable donations have been made during the year (2010: £nil).

Payment of suppliers

The group'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 group 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. The group had trade payable days of 18 days at 31 March 2011 (2010: 21 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable

Directors' report for the year ended 31 March 2011

accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the Directors' Report is aware:

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

Independent 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

Gerard McIlroy
Company secretary
20 June 2011

Independent auditors' report to the members of Mutual Energy Limited

We have audited the group and parent company financial statements (the "financial statements") of Mutual Energy Limited for the year ended 31 March 2011 which comprise the group statement of comprehensive income, the group balance sheet, the parent company balance sheet, the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

27 June 2011

Group statement of comprehensive income for the year ended 31 March 2011

		2011			2010 (as restated)		
	Notes	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue – continuing operations		38,917	-	38,917	37,067	-	37,067
Operating costs	3	(25,685)	-	(25,685)	(24,329)	-	(24,329)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		23,853	-	23,853	23,384	-	23,384
Amortisation of intangible assets		(5,549)	-	(5,549)	(5,550)	-	(5,550)
Depreciation (net of amortisation of government grants)		(5,072)	-	(5,072)	(5,096)	-	(5,096)
Operating profit		13,232	-	13,232	12,738	-	12,738
Finance income	5	2,771	-	2,771	2,963	-	2,963
Finance costs	5	(22,649)	-	(22,649)	(12,594)	-	(12,594)
Finance costs - fair value adjustment on derivative financial instruments	5	-	(5,283)	(5,283)	-	(4,029)	(4,029)
Finance costs – net	5	(19,878)	(5,283)	(25,161)	(9,631)	(4,029)	(13,660)
(Loss)/profit before income tax		(6,646)	(5,283)	(11,929)	3,107	(4,029)	(922)
Income tax credit/(charge)	6	8,528	811	9,339	(1,768)	1,128	(640)
Profit/(loss) for the year	16	1,882	(4,472)	(2,590)	1,339	(2,901)	(1,562)

The notes on pages 58 to 86 are an integral part of these group financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity has not been presented.

Group balance sheet at 31 March 2011

	Notes	2011 £'000	2010 (restated) £'000	2009 (restated) £'000
Assets				
Non current assets				
Property, plant and equipment	8	**224,394**	232,096	239,911
Intangible assets	9	**179,810**	185,359	190,909
Investments	10	**-**	-	-
Other investments	11	**7,069**	3,539	2,747
Trade and other receivables	12	**10,577**	10,000	10,000
Deferred income tax assets	19	**8,677**	8,091	7,370
		430,527	439,085	450,937
Current assets				
Trade and other receivables	12	**8,817**	9,977	8,866
Financial assets	13	**-**	1,942	-
Cash and cash equivalents	14	**92,830**	92,200	89,374
		101,647	104,119	98,240
Total assets		**532,174**	543,204	549,177
Equity and liabilities				
Equity				
Ordinary shares	15	**-**	-	-
Retained earnings	16	**6,237**	8,827	10,389
Total equity		**6,237**	8,827	10,389
Liabilities				
Non-current liabilities				
Borrowings	17	**322,333**	321,384	328,586
Provisions	18	**2,377**	2,536	3,106
Deferred income tax liabilities	19	**70,561**	78,920	80,228
Government grants	20	**76,291**	79,002	81,701
Derivative financial instruments	24	**33,375**	28,092	24,063
		504,937	509,934	517,684
Current liabilities				
Trade and other payables	21	**7,454**	10,524	9,855
Income tax liabilities		**-**	1,911	484
Borrowings	17	**10,838**	9,303	8,060
Government grants	20	**2,708**	2,705	2,705
		21,000	24,443	21,104
Total liabilities		**525,937**	534,377	538,788
Total equity and liabilities		**532,174**	543,204	549,177

The notes on pages 58 to 86 are an integral part of these group financial statements.

The group financial statements on pages 54 to 86 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by: Patrick Larkin **Director** Stephen Kirkpatrick **Director**
Mutual Energy Limited Registered number: NI 053759

Parent company balance sheet at 31 March 2011

	Notes	2011 £'000	2010 (restated) £'000	2009 (restated) £'000
Assets				
Non current assets				
Property, plant and equipment	8	**12**	17	31
Intangible assets	9	**-**	-	-
Investments	10	**10,250**	10,250	10,250
Other investments	11	**-**	-	-
Trade and other receivables	12	**-**	-	-
Deferred income tax assets	19	**5**	8	6
		10,266	10,275	10,287
Current assets				
Trade and other receivables	12	**2,409**	1,518	1,159
Financial assets	13	**-**	-	-
Cash and cash equivalents	14	**570**	543	459
		2,979	2,061	1,618
Total assets		**13,246**	12,336	11,905
Equity and liabilities				
Equity				
Ordinary shares	15	**-**	-	-
Retained earnings	16	**(704)**	(472)	(78)
Total equity		**(704)**	(472)	(78)
Liabilities				
Non-current liabilities				
Borrowings	17	**13,289**	12,547	11,846
Provisions	18	**-**	-	-
Deferred income tax liabilities	19	**-**	-	-
Government grants	20	**-**	-	-
Derivative financial instruments	24	**-**	-	-
		13,289	12,547	11,846
Current liabilities				
Trade and other payables	21	**661**	261	137
Income tax liabilities		**-**	-	-
Borrowings	17	**-**	-	-
Government grants	20	**-**	-	-
		661	261	137
Total liabilities		**13,950**	12,808	11,983
Total equity and liabilities		**13,246**	12,336	11,905

The notes on pages 58 to 86 are an integral part of these group financial statements.
The group financial statements on pages 49 to 86 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by: Patrick Larkin **Director** Stephen Kirkpatrick **Director**

Mutual Energy Limited Registered number: NI 053759

Group and parent company cash flow statements for the year ended 31 March 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash flows from operating activities					
Profit before income tax and finance costs		**13,232**	12,738	**93**	64
Adjustments for:					
Depreciation of property, plant and equipment		**7,780**	7,820	**9**	19
Amortisation of government grants		**(2,708)**	(2,699)	**-**	-
Amortisation of intangible assets		**5,549**	5,550	**-**	-
Movement in trade and other receivables		**(2,048)**	(1,111)	**(1,343)**	(359)
Movement in trade and other payables		**(60)**	669	**1,262**	825
Income tax (paid)/received		**(1,694)**	(1,242)	**-**	177
Net cash generated from operating activities		**20,051**	21,725	**21**	726
Cash flows from investing activities					
Interest received		**2,155**	2,392	**6**	64
Purchase of property, plant and equipment		**-**	(5)	**-**	(5)
Purchase of other investment		**(3,530)**	(734)	**-**	-
Proceeds from sale of investments		**1,880**	-	**-**	-
Purchase of financial assets		**-**	(2,000)	**-**	-
Net cash generated from/(used in) investing activities		**505**	(347)	**6**	59
Cash flows from financing activities					
Interest paid		**(10,908)**	(9,760)	**-**	(701)
Repayment of borrowings		**(9,018)**	(8,792)	**-**	-
Net cash used in financing activities		**(19,926)**	(18,552)	**-**	(701)
Movement in cash and cash equivalents		**630**	2,826	**27**	84
Cash and cash equivalents at the beginning of the year	14	**92,200**	89,374	**543**	459
Cash and cash equivalents at the end of the year	14	**92,830**	92,200	**570**	543

The notes on pages 58 to 86 are an integral part of these group financial statements.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements

General information

The group's principal activities during the year were the financing and operation through its subsidiaries of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. With the exception of the group's investments, all of the group's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 20 June 2011 and were signed on their behalf by Patrick Larkin and Stephen Kirkpatrick. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Mutual Energy Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 67.

Going concern

The group has suffered accounting losses over the past two years. These losses arise as a result of i) the mis-match that arises in the accounting for the group's interest rate swaps - as explained in the directors' report; and ii) of the structure of the Premier Transmission Financing plc and Belfast Gas Transmission Financing plc groups where these groups incur significant non cash costs in respect of indexation on outstanding bond liabilities which are only recovered by the groups, under their respective licence agreements, when the cash is required to meet the bond liability payments. This is a situation which will prevail for potentially 20 years.

However the group has always been cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £93m. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Arrangements approved by the Northern Ireland Authority for Utility Regulation are in place to ensure sufficient cash is available to ensure bond payments are made.

Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Statement of compliance with IFRSs

The financial statements of Mutual Energy Limited have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 that are relevant to the group's or parent company's operations:

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) - This revised standard coincided with the publication by the FASB in the US of equivalent guidance dealing with non-controlling (minority) interests. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the statement of comprehensive income.
- IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) - This revised standard harmonises business combination accounting with US GAAP, as the FASB issued an equivalent standard. The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed.

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on Eligible hedged items (effective July 2009)

IAS 32 (amendment), 'Financial Instruments: Presentation and IAS 1:Presentation on classification of rights issue' (effective 1 February 2010)

IFRS 1 (amendment), 'On first time adoption of IFRS additional exemptions' (effective 1 January 2010)

IFRS 1 (revised), 'First time adoption' (effective 1 July 2009)

IFRS 2, 'Share-based payment - Group cash-settled share-based payment transactions' (effective 1 January 2010)

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

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

International Accounting Standards (IAS/IFRSs)	
IAS 24 (revised), 'Related party disclosures'	(effective 1 January 2011)
IAS 12 (amendment), 'Income taxes on deferred taxes'	(effective 1 January 2012)
IFRS 1 (amendment), 'First time adoption of IFRS'	(effective 1 July 2011)
IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates'	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition'	(effective 1 July 2011)
IFRS 9, 'Financial instruments'	(effective 1 Jan 2013)

International Financial Reporting Interpretation Committee (IFRIC's)	
IFRIC 14 (amendment), 'IAS 19 - Prepayments of a minimum funding requirement'	(effective 1 January 2011)
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	(effective 1 July 2010)

(*) not yet adopted by the European Union.

Basis of consolidation

The group financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2011. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Presentation of statement of comprehensive income

The presentation of certain prior year information has been restated to conform to current year presentation. The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the revaluation of derivatives on the results for both the current and prior years. Such presentation is expected to assist in the future implementation of IFRS 9. Based on the current Exposure Draft on hedge accounting, the company expects the reinstatement of hedge accounting treatment for the fixed borrowings and associated derivatives if the exposure draft treatment is adopted into the standard.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Restatement of prior year comparative information

In the 2009/10 financial statements the effective interest rate method was applied to cash flows of fixed rate borrowings net of proceeds from associated derivative financial instruments. Hedge accounting has not been permitted for these associated derivatives under IAS39 and these are annually remeasured at their fair value. Gains or losses arising from changes in the fair value of these associated derivative financial instruments are presented in the income statement within 'finance costs' in the period in which they arise. In order to provide more reliable and relevant information, the fixed rate borrowings have been restated for 2009/10 using the effective interest rate method applied to the gross cash flows excluding the associated derivatives. The net effect of this change is that the liabilities recorded in the balance sheet more closely represent the liabilities which would be incurred to settle the borrowings and derivatives at the balance sheet date, recognising that there is no intention to do so and that the valuation does not include any potential costs of early termination of either the borrowings or the associated derivatives.

As a result of this restatement, finance costs for 2009/10 have been increased from £14.6 m to £16.6m, the group profit before tax of £1.1m has become a loss of £0.9m and the group profit after tax of £0.4m has become a loss of £1.6m. The group opening equity of negative £5.2m at 1 April 2009 has now increased to positive £10.4m, group borrowings at 31 March 2010 have been reduced from £344.3m to £330.7m, and group total liabilities reduced from £548m to £534.4m, with no effect on total equity and liabilities.

Segment reporting

The company is not within the scope of IFRS 8 as none of its securities are publically traded, however, the group does provide segment analysis voluntarily. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the Premier Transmission Pipeline which links the gas transmission systems of Northern Ireland and Scotland, from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne and from the sale of capacity and ancillary services on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Gas businesses - revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period.

Electricity business - revenue is recognised over the period for which the capacity and ancillary services are provided, using a straight line basis over the term of the agreement.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 23 years for the Scotland Northern Ireland pipeline, 26 years for the Moyle Interconnector and 41 years for the Belfast Gas Transmission pipeline.

Property, plant and equipment

Property, plant and equipment is stated at historical 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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipelines	31 to 35 years
Interconnector assets	40 years
Control and protection equipment	20 years
Office and computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Impairment of non-financial assets

The group 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 group 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.

Investments

Investments that take the form of preference shares, and which are classified as debt by the issuer, are accounted for as investments in subsidiary undertakings. Investments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Investments in unquoted funds are recorded at cost, which is the fair value of the consideration paid. The company assesses at each balance sheet date whether there is objective evidence that these investments are impaired.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Classification of financial instruments

The group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The group's financial assets and liabilities comprise inflation rate SWAPs, which are classified as derivatives.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The group's available-for-sale financial assets comprise debt instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Financial assets and liabilities at fair value through profit and loss (financial instruments)

The group enters into derivative financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the income statement. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'finance costs' in the period in which they arise. Financial liabilities are classified as non-current liabilities unless the remaining maturity is less than 12 months after the balance sheet date.

Available for sale financial assets (financial instruments)

Available for sale financial assets are recognised initially at fair value. Changes in the fair value of debt instruments classified as available-for-sale are analysed between changes in amortised cost of the security and other changes in the carrying amount of the debt instrument. Changes in the fair value of debt instruments classified as available-for-sale are recognised in other comprehensive income. Interest on available-for-sale debt instruments calculated using the effective interest method is recognised in the income statement as part of finance income.

Loans and receivables (financial instruments)

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

Trade and receivables with a maturity of more than twelve months from the balance sheet date are shown as non-current trade and other receivables.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call or with short maturity periods with banks, other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Impairment of financial assets

(a) Assets held at amortised cost
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including i) adverse changes in the payment status of borrowers in the portfolio; and ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists. 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(b) Available-for-sale financial assets
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(b) Trade and other payables
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Decommissioning provision
Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the 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 decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Income tax and deferred income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to property, plant and equipment are included in non current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected useful economic lives of the related assets.

Operating lease commitments
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Pensions and other post-retirement benefits
The group contributes to individuals' personal pension schemes. Contributions are recognised in the income statement in the period in which they become payable.

Foreign currency translation
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Financial risk management

Financial risk factors

The group has 3 principle sub-groups: Premier Transmission Financing plc, Moyle Interconnector (Financing) plc and Belfast Gas Transmission Financing plc.

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

The group operates the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland and the Belfast Gas Transmission pipeline under licence agreements with the Northern Ireland Authority for Utility Regulation. Under the licence agreements the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly these sub-groups have limited financial risk.

Moyle Interconnector (Financing) plc

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The group earns its revenue from the sale of capacity on this interconnector through periodic auctions. In the event that the group does not earn sufficient revenues to cover its operating expenses, interest on borrowings and repayment of borrowings, the group's licence allows the company to make a call on its customers for any shortfall. Accordingly this sub-group has limited financial risk.

(a) Market risk

The group's interest rate risk arises from its long term borrowings.

The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at either fixed rates or are linked to the Retail Price Index. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs during the year by £2,440,000.

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. Accordingly the group does not need to actively manage its exposure to cash flow interest rate risk.

(b) Credit risk

The group has limited exposure to credit risk as its customers are high profile gas and electricity suppliers, who provide designated levels of security by way of parent company guarantees or letters of credit. Given the nature of the industry in which the group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. Accordingly the group does not need to actively manage its exposure to liquidity risk. The Group also retains significant cash reserves and a liquidity facility with an A rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings are shown in note 24.

Capital risk management

The group has no obligation to increase member's funds as it is a company limited by guarantee. The group's management of its borrowings and credit risk are referred to in the preceding paragraphs.

Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The group's only financial instruments fair valued (for recognition purposes) under level 2 is the group's derivative financial instrument. The fair value of the group's derivative financial instruments is obtained from the bankers that provided the instruments, and is based on observable market data.

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's current and non-current loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve UK yield curve data for a term that is similar to the financial instrument.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis.

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 29.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 30.5 years, depreciation would have decreased by £103,000 and if the remaining useful economic life had been assessed at 28.5 years, depreciation would have increased by £110,000.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 32 years at the beginning of the year. If the remaining useful economic life had been assessed at 33 years depreciation would have decreased by £96,000 and if the remaining useful economic life had been assessed at 31 years depreciation would have increased by £102,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 29 years at the beginning of the year. If the remaining useful economic life had been assessed at 30 years depreciation would have decreased by £41,000 and if the remaining useful economic life had been assessed at 28 years depreciation would have increased by £44,000.

(b) Estimate of assumptions used in the calculation of the decommissioning provision

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.83%. The decommissioning provision has been discounted using a rate of 4.32%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	822
Decrease in inflation factor by 1%	(616)
Increase in discount rate by 1%	(598)
Decrease in discount rate by 1%	846

Notes to the financial statements for the year ended 31 March 2011

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The group's operating businesses are organised and managed separately according to the nature of the services provided. Moyle Interconnector Limited sells capacity on an Interconnector for the transmission of electricity between Scotland and Northern Ireland, Premier Transmission Limited sells capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland and Belfast Gas Transmission Limited sells capacity for the transmission of gas to Greater Belfast and Larne. All of the group's operating businesses are located in the United Kingdom and the services provided are in the United Kingdom.

The Board of Directors assesses the performance of the operating segments based on Earnings before interest, tax, depreciation and amortisation ("EBITDA") adjusted to remove the release of government grants in respect of property, plant and equipment.

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 March 2011 is as follows:

Year ended 31 March 2011	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue to external customers	16,511	17,031	5,375	-	38,917
Segment expenses	(3,047)	(10,193)	(1,898)	74	(15,064)
Segment results (EBITDA)	13,464	6,838	3,477	74	23,853
Depreciation and amortisation (net of government grants)	(3,707)	(3,449)	(3,440)	(25)	(10,621)
Finance income	2,691	370	54	(344)	2,771
Finance costs	(10,596)	(3,564)	(8,472)	(17)	(22,649)
Fair value adjustment on derivative financial instruments	-	(5,283)	-	-	(5,283)
Profit/(loss) before income tax	1,852	(5,088)	(8,381)	(312)	(11,929)
Income tax credit	801	3,711	4,734	93	9,339
Profit/(loss) for the year	2,653	(1,377)	(3,647)	(219)	(2,590)
Assets					
Segment assets	199,793	162,823	145,462	24,096	532,174

Notes to the financial statements for the year ended 31 March 2011

2 Segment information (continued)

Year ended 31 March 2010 (as restated)	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue to external customers	18,045	14,459	4,563	-	37,067
Segment expenses	(4,430)	(7,817)	(1,383)	(34)	(13,666)
Segment results (EBITDA)	13,615	6,642	3,180	(34)	23,401
Depreciation and amortisation (net of government grants)	(3,706)	(3,478)	(3,441)	(40)	(10,663)
Finance income	2,879	416	62	(394)	2,963
Finance costs	(2,526)	(3,426)	(6,642)	-	(12,594)
Fair value adjustment on derivative financial instruments	-	(4,029)	-	-	(4,029)
Profit/(loss) before income tax	10,262	(3,875)	(6,841)	(468)	(922)
Income tax (charge)/credit	(2,937)	527	1,672	98	(640)
Profit/(loss) for the year	7,325	(3,348)	(5,169)	(370)	(1,562)
Assets					
Segment assets	206,013	168,016	148,463	20,712	543,204

There are no inter-segment revenues and all revenues are generated from the group's country of domicile, the United Kingdom.

Revenues from the group's gas transmission businesses of £22,406,000 are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

Revenues from the group's electricity business by customer (for those exceeding 10% of external revenues) are as follows:

	2011 £'000	2010 £'000
Customer A	**8,397**	7,803
Customer B	**2,589**	4,867
Customer C	**1,826**	2,280
Customer D	**2,039**	1,522
	14,851	16,472

Notes to the financial statements for the year ended 31 March 2011

3 Expenses by nature

Group	2011 £'000	2010 £'000
Employee benefit expense (note 4)	1,046	1,055
Depreciation and amortisation (net of amortisation of deferred government grants)	10,621	10,665
Operating lease payments	217	183
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	45	50
Fees payable to the company's auditor in respect of taxation services	26	18
Other expenses	13,730	12,358
Total operating costs	25,685	24,329

4 Employee benefit expense

Group	2011 £'000	2010 £'000
Wages and salaries	880	775
Social security costs	102	95
Pension costs – defined contribution pension scheme	64	185
	1,046	1,055

The average monthly number of employees during the period (including directors holding contracts of service with the group) was 15 (2010: 11).

Group	2011 £'000	2010 £'000
Directors' emoluments		
Aggregate emoluments	312	231
Contributions paid to defined contribution pension scheme	42	160
	354	391
	Number	Number
Members of defined contribution pension scheme	7	8

Directors' emoluments represent the remuneration of the group's current executive directors, Patrick Larkin and Gerard McIlroy (2010: William Cargo, Patrick Larkin and for 3 months, Gerard McIlroy). The remaining directors of the group received £207,000 (2010: £257,000) for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies. The emoluments of the highest paid director were £177,000 (2010: £38,000) and the contributions paid to his defined contribution pension scheme were £18,000 (2010: £141,000).

Company

The company's employee benefits expense during the year was £864,000 (2010: £452,000). Included in this amount is £85,000 (2010: £46,000) of social security costs and £55,000 (2010: £19,000) in respect of pension costs.

Notes to the financial statements for the year ended 31 March 2011

5 Finance income and costs

Group	2011 £'000	2010 (as restated) £'000
Interest expense:		
Borrowings (including borrowing fees)	22,649	12,594
Fair value adjustment in respect of derivative financial instruments (note 24)	5,283	4,029
Finance costs	27,932	16,623
Interest income:		
Short-term bank deposits	(1,396)	(2,050)
Movement of discount on decommissioning provision	(159)	(571)
Financial assets	(1,216)	(342)
Finance income	(2,771)	(2,963)
Finance costs – net	25,161	13,660

Fair value adjustment in respect of derivative financial instruments

The income statement has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. Not all hedging strategies qualify for hedge accounting and the Directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the user of this financial information will better understand the underlying performance of the group.

6 Income tax (credit)/charge

Group	2011 £'000	2010 (as restated) £'000
Current income tax:		
Current income tax charged at 28%	-	2,515
Adjustment in respect of previous periods	(394)	154
Total current income tax	(394)	2,669
Deferred income tax:		
Origination and reversal of temporary differences	(8,376)	(856)
Arising on derivative financial instruments	(811)	(1,128)
Adjustments in respect of previous periods	242	(45)
Total deferred income tax (note 19)	(8,945)	(2,029)
Income tax (credit)/charge	(9,339)	640

Notes to the financial statements for the year ended 31 March 2011

6 Income tax (credit)/charge (continued)

The income tax charge/(credit) in the income statement for the year differs from the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are reconciled below:

Group	2011 £'000	2010 (as restated) £'000
Loss before income tax	**(11,929)**	(922)
Tax calculated at the UK standard rate of corporation tax of 28% (2010: 28%)	**(3,340)**	(258)
Effects of:		
Expenses not deductible/Income not taxable	**(18)**	388
Reduction in corporation tax rate on deferred tax assets/liabilities	**(4,734)**	-
Tax losses arising for which no deferred tax asset is recognized	**213**	-
Treatment of indexation of borrowings	**(1,308)**	-
Different accounting period of subsidiary undertaking	**-**	401
Adjustments in respect of previous periods	**(152)**	109
Income tax (credit)/charge	**(9,339)**	640

Future tax changes

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The effect of the reduction in the main rate of corporation tax from 28% to 26% has been reflected in the calculation of deferred income tax assets and liabilities as it was substantively enacted as at 31 March 2011.

The proposed reduction in the main rate of corporation tax from 26% to 24% was not enacted as at 31 March 2011 and has therefore not been reflected in the calculation of deferred income tax assets and liabilities. The effect of this proposed reduction in the main rate of corporation tax will reduce deferred income tax assets by £667,000 and reduce deferred income tax liabilities by £5,427,000.

7 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £232,000 (2010: £394,000).

Notes to the financial statements for the year ended 31 March 2011

8 Property, plant and equipment

Group	Pipelines £'000	Interconnector £'000	Control equipment £'000	Office and computer equipment £'000	Total £'000
Cost					
At 1 April 2009	146,990	127,899	3,785	375	279,049
Additions	-	-	-	5	5
At 31 March 2010	**146,990**	**127,899**	**3,785**	**380**	**279,054**
Additions	**74**	**-**	**-**	**4**	**78**
At 31 March 2011	**147,064**	**127,899**	**3,785**	**384**	**279,132**
Accumulated depreciation					
At 1 April 2009	13,759	23,790	1,325	264	39,138
Provided during the year	4,385	3,180	188	67	7,820
At 31 March 2010	**18,144**	**26,970**	**1,513**	**331**	**46,958**
Provided during the year	**4,384**	**3,180**	**215**	**1**	**7,780**
At 31 March 2011	**22,528**	**30,150**	**1,728**	**332**	**54,738**
Net book amount					
At 31 March 2011	**124,536**	**97,749**	**2,057**	**52**	**224,394**
At 31 March 2010	128,846	100,929	2,272	49	232,096
At 31 March 2009	133,231	104,109	2,460	111	239,911

Depreciation expense of £7,780,000 (2010: £7,820,000) has been fully charged to operating costs.

Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2011

8 Property, plant and equipment (continued)

Company	Office and computer equipment £'000
Cost	
At 1 April 2009	71
Additions	5
At 31 March 2010	76
Additions	4
At 31 March 2011	**80**
Accumulated depreciation	
At 1 April 2009	40
Provided during the year	19
At 31 March 2010	59
Provided during the year	9
At 31 March 2011	**68**
Net book amount	
At 31 March 2011	**12**
At 31 March 2010	17
At 31 March 2009	31

Depreciation expense of £9,000 (2010: £19,000) has been fully charged to operating costs.

Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2011

9 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2009	-	18,061	18,061
Provided during the year	-	5,550	5,550
At 31 March 2010	-	**23,611**	**23,611**
Provided during the year	-	**5,549**	**5,549**
At 31 March 2011	-	**29,160**	**29,160**
Net book amount			
At 31 March 2011	**2,435**	**177,375**	**179,810**
At 31 March 2010	2,435	182,924	185,359
At 31 March 2009	2,435	188,474	190,909

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 34 years (electricity transmission). The Group has concluded that these assets have a remaining useful economic life of 23 years, 41 years and 26 years respectively.

Goodwill recognised includes certain intangible assets within acquisitions that cannot be individually separated and reliably measured due to their nature.

Amortisation expense of £5,549,000 (2010: £5,550,000) has been fully charged to operating costs.

Notes to the financial statements for the year ended 31 March 2011

9 Intangible assets (continued)

Impairment testing for goodwill

Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the Scotland to Northern Ireland pipeline.

The recoverable amount of the goodwill is based on fair value less costs to sell calculation which has been determined using discounted future cash flows. The cash flow projections are over a period of 20 years, which matches the remaining duration of the group's bond. The key assumptions, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The projections are based on a financial model for a period of 29 years which has been approved by the board.

The discount rate of 4.84% used is based on Bank of England gilt yield curve UK yield curve data for a debt with a remaining maturity of 19 years. The inflation rate assumption used by the group in these calculations of 4.11% has been obtained from Bank of England yield curves over a 19 year period.

Sensitivity to changes in assumptions

With regard to the assessment of fair values less costs to sell of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

10 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	10,250

The company's investments in its subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid.

Notes to the financial statements for the year ended 31 March 2011

10 Investments (continued)

The company's subsidiary undertakings, all of which are incorporated in Northern Ireland are:

Name of company	Holding	Proportion held	Nature of business
Moyle Holdings Limited	Limited by guarantee		Holding company
Moyle Interconnector (Financing) plc *	Ordinary shares	100%	Financing
Moyle Interconnector Limited *	Ordinary shares	100%	Operation of Moyle Interconnector
Premier Transmission Holdings Limited *	Ordinary shares	100%	Holding company
Premier Transmission Financing plc*	Ordinary shares	100%	Financing
Premier Transmission Limited*	Ordinary shares	100%	Operation of Scotland Northern Ireland Pipeline
Moyle Energy Investments Limited	Ordinary shares Preference shares	100% 100%	Investing
Interconnector Services (NI) Limited	Ordinary shares	100%	Provision of seabed survey
Northern Ireland Gas Transmission Holdings Limited	Ordinary shares	100%	Dormant
Belfast Gas Transmission Holdings Limited*	Ordinary shares	100%	Holding company
Belfast Gas Transmission Financing plc*	Ordinary shares	100%	Financing
Belfast Gas Transmission Limited*	Ordinary shares	100%	Operation of the Belfast Gas Transmission pipeline
Northern Ireland Energy Holdings Limited	Ordinary shares	100%	Holding company

(*) held by a subsidiary undertaking

11 Other investments

Group	£'000
Cost	
At 1 April 2009	2,747
Additions	792
At 31 March 2010	3,539
Additions	**3,530**
At 31 March 2011	**7,069**

The company's investment is recorded at cost, which is the fair value of the consideration paid.

Other investments represent amounts contributed by Moyle Energy Investments Limited to the European Renewable Energy Fund Limited Partnership. Mutual Energy Limited is an initial limited partner in this limited partnership. Other investments also include a 35% interest in Islandmagee Storage which is carried at cost of £35.

Notes to the financial statements for the year ended 31 March 2011

12 Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade receivables	2,015	2,031	-	-
Prepayments and accrued income	3,188	4,409	18	-
Loan notes receivable	10,577	10,000	-	-
Other receivables	3,614	3,537	9	16
Amounts owed by subsidiary undertakings	-	-	2,382	1,502
	19,394	19,977	2,409	1,518
Less: loan notes receivable (non-current)	(10,577)	(10,000)	-	-
	8,817	9,977	2,409	1,518

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The group's loan notes receivable carry interest at rates between 3.12% and 3.31% per annum and are index linked to the Retail Price Index. They are repayable by the issuer in 4 equal tranches of £2,500,000 commencing 31 March 2013. The fair value of these loan notes are £11,131,000 (2010: £10,337,000). This fair value has been calculated by discounting the future cash flows using discount rates of between 1.39% and 2.66% that reflects the maturity profile of the group's and the company's loans and receivables.

13 Financial assets

Group	Available-for-sale
At 1 April 2010	-
Additions	1,942
At 31 March 2010	1,942
Disposals	(1,942)
At 31 March 2011	-

The available-for-sale financial assets represent an investment in UK Government sterling gilts. These gilts carried an interest rate of 4.25% and were redeemed on 7 March 2011.

Notes to the financial statements for the year ended 31 March 2011

14 Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash at bank and in hand	**59,772**	18,552	**570**	543
Short-term bank deposits	**33,058**	73,648	**-**	-
	92,830	92,200	**570**	543

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 2.6%.

15 Called up share capital

The company is limited by guarantee and does not have a share capital. In accordance with the company's articles of association the members have undertaken to contribute in the event of winding up, a sum not exceeding £1.

16 Retained earnings

Group	£'000
At 1 April 2009 as previously reported	(5,217)
Restatement of prior year information (note 1)	15,606
At 1 April 2009 as restated	10,389
Total comprehensive income for the year	(1,562)
At 31 March 2010	**8,827**
Total comprehensive income for the year	**(2,590)**
At 31 March 2011	**6,237**

Company	£'000
At 1 April 2009	(78)
Total recognised income and expense for the year	(394)
At 31 March 2010	**(472)**
Total recognised income and expense for the year	**(232)**
At 31 March 2011	**(704)**

Notes to the financial statements for the year ended 31 March 2011

17 Borrowings

	Group		Company	
	2011 £'000	2010 (as restated) £'000	**2011 £'000**	2010 £'000
Non-current				
5.2022% Guaranteed secured bond	**86,497**	89,157	**-**	-
2.9376% Index linked guaranteed secured bond	**119,469**	120,764	**-**	-
2.207% Index linked guaranteed secured bond	**116,367**	111,463	**-**	-
Amounts owed to group undertakings	**-**	-	**13,289**	12,547
	322,333	321,384	**13,289**	12,547
Current				
5.2022% Guaranteed secured bond	**2,666**	2,496	**-**	-
2.9736% Index linked guaranteed secured bond	**7,410**	6,158	**-**	-
2.207% Index linked guaranteed secured bond	**762**	649	**-**	-
	10,838	9,303	**-**	-
Total borrowings	**333,171**	330,687	**13,289**	12,547

The 5.2022% Guaranteed secured bond 2030 was issued to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the Premier Transmission group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, including default interest.

The 2.9376% Guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group plc and is linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the Moyle Interconnector group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the Group pays an index linked fee of 0.125% of the outstanding balance of the bond.

The 2.207% Guaranteed secured bond 2048 was issued to finance the acquisition of Belfast Gas Transmission Limited and is linked to the Retail Price Index. The bond is secured by fixed and floating charges on all the assets of the Belfast Gas Transmission group, and also by way of an unconditional and irrecoverable financial guarantee given by Assured Guaranty (Europe)Limited as to scheduled payments of principal and interest excluding default interest. In return for this guarantee, every six months the Group pays an index linked fee of 0.18% of the outstanding balance of the bond.

The fair value of borrowings is disclosed in note 24 to these financial statements.

Notes to the financial statements for the year ended 31 March 2011

18 Provisions

Group	Decommissioning provision £'000
At 1 April 2009	3,106
Movement on discount during the year	(570)
At 31 March 2010	2,536
Movement on discount during the year	(159)
At 31 March 2011	2,377

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 31 years, at the end of its useful economic life. This provision is expected to be utilised within 31 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 4.32% (2010: 4.47%) that reflects the maturity profile of the group's provisions.

19 Deferred income tax

Defered income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Deferred income tax assets	8,677	8,091	5	8
Deferred income tax liabilities	(70,561)	(78,920)	-	-
Deferred income tax liabilities – net	(61,884)	(70,829)	5	8

The gross movement on the deferred income tax account is as follows:

	Group £'000	Company £'000
At 1 April 2009	(72,858)	6
Income statement credit for the year	2,029	2
At 31 March 2010	(70,829)	8
Income statement credit/(charge) for the year	8,945	(3)
At 31 March 2011	(61,884)	5

Notes to the financial statements for the year ended 31 March 2011

19 Deferred income tax (continued)

The movement in deferred tax assets and liabilities during the year is as follows:

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2009	631	(27,455)	(52,772)	6,738	(72,858)
Income statement (charge)/credit for the year	(406)	(247)	1,554	1,128	2,029
At 31 March 2010	225	(27,702)	(51,218)	7,866	(70,829)
Income statement (charge)/credit for the year	(225)	3,257	5,102	811	8,945
At 31 March 2011	-	(24,445)	(46,116)	8,677	(61,884)

It is not possible to determine the amount of the deferred tax asset arising from the group's derivative financial instruments which will fall due within 12 months as it will depend on the movement of interest rates. The group expects to utilise its tax losses over a number of years and accordingly the deferred tax asset arising from tax losses is considered to fall due after more than 12 months. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £44,673,000 (2010: £49,736,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £23,150,000 (2010: £27,702,000).

The company's deferred tax asset relates to accelerated capital allowances.

20 Government grants

Group	£'000
At 1 April 2009	84,412
Amortised during the year	(2,705)
At 31 March 2010	81,707
Amortised during the year	(2,708)
At 31 March 2011	78,999

The grants were provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grants is £2,708,000 (2010: £2,705,000), and the non-current portion is £76,291,000 (2010: £79,002,000).

Notes to the financial statements for the year ended 31 March 2011

21 Trade and other payables

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Trade payables	**686**	662	**17**	36
Accruals and deferred income	**5,400**	8,579	**256**	101
Amounts owed to subsidiary undertakings	**-**	-	**388**	124
Other tax and social security	**1,375**	1,092	**-**	-
Other payables	**(7)**	191	**-**	-
	7,454	10,524	**661**	261

22 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 5, 24, 40 and 89 years. There are no restrictions placed upon the lessee by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Not later than one year	**218**	217	**40**	40
After one year but not more than five years	**843**	867	**133**	160
After more than five years	**9,614**	9,769	**-**	13
	10,675	**10,853**	**173**	**213**

The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 3.

Other financial commitments

Under the terms of the European Renewable Energy Fund Limited Partnership' partnership agreement, the group is committed to provide funding of Euro 15 million, of which Euro 8.5 million has been invested to date, to the partnership during the next four years.

Notes to the financial statements for the year ended 31 March 2011

23 Related party transactions

The ultimate controlling parties of the group are the members.

During the year the company entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into, and balances outstanding at 31 March with related parties, are as follows:

	Amount owed (to)/from related party	
Group	2011 £'000	2010 £'000
Subsidiary undertakings – current assets	**2,382**	1,502
Subsidiary undertakings – current liabilities	**(388)**	(124)
Subsidiary undertakings – non-current liabilities	**(13,289)**	(12,547)

In addition to the amounts owed to related parties as disclosed above, the company owns £10.25m of preference shares in one of its subsidiary undertakings and financed this from borrowings from another subsidiary undertaking.

		Amount of transaction	
Company	Nature of transaction	2011 £'000	2010 £'000
Subsidiary undertakings	Interest payable	**742**	701
Subsidiary undertakings	Group relief surrendered	**-**	181
Subsidiary undertakings	Charges receivable	**1,249**	1,503

Compensation of key management (including directors):

Group	2011 £'000	2010 £'000
Short term employee benefits	**519**	446
Post-employment benefits	**42**	167

Notes to the financial statements for the year ended 31 March 2011

24 Financial instruments

The group's and company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Loans and other receivables
Financial assets	Available for sale financial assets
Cash and cash equivalents	Loans and other receivables
Borrowings	Other financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Other financial liabilities at amortised cost

Derivative financial instruments

During the period ended 31 March 2006 the group entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedged derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the income statement under net finance costs.

The movement on the group's derivative financial instruments is as follows:

Group	£'000
At 1 April 2009	24,063
Fair value adjustment	4,029
At 31 March 2010	28,092
Fair value adjustment	5,283
At 31 March 2011	33,375

It is not possible to determine the portion of the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates.

Notes to the financial statements for the year ended 31 March 2011

24 Financial instruments (continued)

The group's and the company's contractual undiscounted cash flows (including principal and interest payments) of its financial liabilities are as follows:

At 31 March 2011 Group	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
2.9376% Index linked bond	11,150	11,222	11,062	10,817	10,571	110,328	165,150
5.2022% Bond and associated derivatives	5,192	5,296	5,402	5,509	5,617	91,425	118,441
2.207% Index linked bond	3,344	3,411	3,479	3,548	3,621	163,293	180,696
Trade and other payables	6,079	-	-	-	-	-	6,079
	25,765	19,929	19,943	19,874	19,809	365,046	470,366

At 31 March 2010 Group	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
2.9376% Index linked bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
5.2022% Bond and associated derivatives	5,817	5,932	6,050	6,171	6,293	110,861	141,124
2.207% Index linked bond	3,119	3,182	3,246	3,311	3,376	158,831	175,065
Trade and other payables	10,428	-	-	-	-	-	10,428
	29,278	19,755	20,006	20,040	19,993	385,078	494,150

Fair values of financial assets and liabilities

The directors estimate fair value of all financial assets and liabilities to be equal to the book values with the exception of the 2.9376% index linked bond which has a fair value of £114,928,000 (2010: £113,440,000), the 5.2022% bond which has a fair value of £118,149,000 (2010: £114,808,000) and the 2.207% index linked bond which has a fair value of £78,051,000 (2010: £78,057,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 4.53% (2010: 4.65%) for the 2.9376% index linked bond, a discount rate of 4.49% (2010: 4.66%) for the 5.2022% bond and a discount rate of 4.52% (2010: 4.64%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings.

Moyle Interconnector (Financing) plc

Annual report for the year ended
31 March 2011

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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The Arena Building
85 Ormeau Road
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BT7 1SH

Principal place of business

First Floor
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BT7 1SH

Solicitors

Arthur Cox Northern Ireland
Capital House
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Belfast
BT1 6PU

Bankers

Barclays Bank plc
Donegall House
Donegall Square North
Belfast
BT1 5GB

Independent auditors

PricewaterhouseCoopers LLP
Statutory Auditors and Chartered Accountants
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Registered Number: NI 045625

Directors' report for the year ended 31 March 2011

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2011.

Principal activity, review of the business and key performance indicators

The group's principal activity during the year was the financing and operation through its subsidiary undertaking of the Moyle Interconnector which links the electricity 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 interconnector. The Operating and Financial Review on pages 22 to 27 of these financial statements provides a review of the business, future developments and its key performance indicators for the Moyle Interconnector (Financing) plc group and is therefore incorporated into this report by cross reference.

Results and dividends

The group's profit for the year is £2,653,000 (2010: £7,325,000). The directors do not recommend the payment of a dividend (2010: £nil).

Directors

The directors who served the group during the year were:

Felicity Huston (resigned 21 September 2010)

Patrick Larkin

Gerard McIlroy

Financial risk management

Please refer to note 1 to these financial statements for a description of the financial risks that the group faces and how it addresses those risks.

Political and charitable donations

No political or charitable donations have been made during the year (2010: £nil).

Payment of suppliers

The group'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 group 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.

The group had trade payable days of 25 days at 31 March 2011 (2010: 12 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report for the year ended 31 March 2011

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the directors' report is aware:

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

Independent 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

Gerard McIlroy
Company secretary

20 June 2011

Independent auditors' report to the members of Moyle Interconnector (Financing) plc

We have audited the group and parent company financial statements (the "financial statements") of Moyle Interconnector (Financing) plc for the year ended 31 March 2011 which comprise the group statement of comprehensive income, the group and parent company balance sheets and the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

27 June 2011

Group statement of comprehensive income for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Revenue – continuing operations		**16,511**	18,045
Operating costs	2	**(6,754)**	(8,136)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**13,464**	13,615
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(2,046)**	(2,045)
Operating profit		**9,757**	9,909
Finance income	4	**2,691**	2,879
Finance costs	4	**(10,596)**	(2,526)
Finance (costs)/income – net	4	**(7,905)**	353
Profit before income tax		**1,852**	10,262
Income tax credit/(charge)	5	**801**	(2,937)
Profit for the year	14	**2,653**	7,325

The notes on pages 95 to 115 are an integral part of these group financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity has not been presented.

Group and parent company balance sheets as at 31 March 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	99,832	103,202	-	-
Intangible assets	8	43,189	44,850	-	-
Investment in subsidiary undertaking	9	-	-	20,950	20,950
Trade and other receivables	10	24,241	22,886	101,669	102,940
		167,262	170,938	122,619	123,890
Current assets					
Trade and other receivables	11	3,377	4,853	6,359	5,324
Cash and cash equivalents	12	54,172	53,147	60	86
		57,549	58,000	6,419	5,410
Total assets		224,811	228,938	129,038	129,300
Equity and liabilities					
Equity					
Ordinary shares	13	50	50	50	50
Retained earnings	14	33,012	30,359	1,594	(222)
Total equity		33,062	30,409	1,644	(172)
Liabilities					
Non-current liabilities					
Borrowings	15	119,469	120,764	119,469	120,764
Provisions	16	2,377	2,536	-	-
Deferred income tax liabilities	17	16,950	19,281	-	-
Government grant	18	38,407	39,731	-	-
		177,203	182,312	119,469	120,764
Current liabilities					
Trade and other payables	19	5,812	7,935	515	2,550
Income tax liabilities		-	800	-	-
Borrowings	15	7,410	6,158	7,410	6,158
Government grant	18	1,324	1,324	-	-
		14,546	16,217	7,925	8,708
Total liabilities		191,749	198,529	127,394	129,472
Total equity and liabilities		224,811	228,938	129,038	129,300

The notes on pages 95 to 115 are an integral part of these group financial statements.

The group financial statements on pages 92 to 115 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by:

Patrick Larkin **Director** Gerard McIlroy **Director**

Moyle Interconnector (Financing) plc Registered number: NI 045625

Group and parent company cash flow statements for the year ended 31 March 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		**9,757**	9,909	**10,513**	(20)
Adjustments for:					
Depreciation of property, plant and equipment		**3,370**	3,369	**-**	-
Amortisation of government grant		**(1,324)**	(1,324)	**-**	-
Amortisation of intangible assets		**1,661**	1,661	**-**	-
Movement in trade and other receivables		**1,857**	(2,101)	**(7,823)**	-
Movement in trade and other payables		**(3,141)**	1,713	**(2,720)**	229
Income tax liabilities paid		**(1,477)**	(486)	**-**	-
Net cash generated from/(used in) operating activities		**10,703**	12,741	**(30)**	209
Cash flows from investing activities					
Interest received		**955**	-	**4,954**	2,455
Amounts (paid to)/received from related parties		**-**	-	**3,105**	6,817
Dividends received		**-**	-	**2,522**	-
Net cash generated from investing activities		**955**	-	**10,582**	9,272
Cash flows from financing activities					
Interest paid (including borrowing fees)		**(5,543)**	(4,272)	**(5,488)**	(4,223)
Repayment of borrowings		**(5,090)**	(5,283)	**(5,090)**	(5,283)
Net cash used in financing activities		**(10,633)**	(9,555)	**(10,578)**	(9,506)
Movement in cash and cash equivalents		**1,025**	3,186	**(26)**	(25)
Cash and cash equivalents at the beginning of the year	12	**53,147**	49,961	**86**	111
Cash and cash equivalents at the end of the year	12	**54,172**	53,147	**60**	86

The notes on pages 95 to 115 are an integral part of these group financial statements.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements

General information

The group's principal activity during the year was the financing and operation (through its subsidiary undertaking) of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 20 June 2011 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Moyle Interconnector (Financing) plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 102.

Statement of compliance with IFRSs

The financial statements of Moyle Interconnector (Financing) plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 that are relevant to the group's or parent company's operations:

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) - This revised standard coincided with the publication by the FASB in the US of equivalent guidance dealing with non-controlling (minority) interests. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the statement of comprehensive income.
- IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) - This revised standard harmonises business combination accounting with US GAAP, as the FASB issued an equivalent standard. The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on Eligible hedged items	(effective July 2009)
IAS 32 (amendment), 'Financial Instruments: Presentation and IAS 1:Presentation on classification of rights issue'	(effective 1 February 2010)
IFRS 1 (amendment), 'On first time adoption of IFRS additional exemptions'	(effective 1 January 2010)
IFRS 1 (revised), 'First time adoption' (effective 1 July 2009)	
IFRS 2, 'Share-based payment - Group cash-settled share-based payment transactions'	(effective 1 January 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 17, 'Distributions of non-cash assets to owners'	(effective 1 July 2009)
IFRIC 18, 'Transfer of assets from customers'	(effective 1 July 2009)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

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

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures'	(effective 1 January 2011)
IAS 12 (amendment), 'Income taxes on deferred taxes'	(effective 1 January 2012)
IFRS 1 (amendment), 'First time adoption of IFRS'	(effective 1 July 2011)
IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates'	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition'	(effective 1 July 2011)
IFRS 9, 'Financial instruments'	(effective 1 Jan 2013)

International Financial Reporting Interpretation Committee (IFRIC's)

IFRIC 14 (amendment), 'IAS 19 - Prepayments of a minimum funding requirement'	(effective 1 January 2011)
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	(effective 1 July 2010)

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of Moyle Interconnector (Financing) plc and its subsidiary undertaking drawn up to 31 March 2011. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Segment reporting

The group has one business segment, the selling of capacity on the Moyle Interconnector for the transmission of electricity between Scotland and Northern Ireland and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity and ancillary services on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised over the period for which the capacity and ancillary services are provided, using a straight line basis over the term of the agreement. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 26 years.

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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Interconnector	40 years
Control equipment	20 years
Office equipment	3 years

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Impairment of non-financial assets

The group 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 group 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 statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

Investments

Investments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Classification of financial instruments

The group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Loans and receivables (financial instruments)

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the statement of comprehensive income.

Trade and receivables with a maturity of more than twelve months from the balance sheet date are shown as non-current trade and other receivables.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Loans and receivables (financial instruments) (continued)

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call, or for short maturity periods, with banks, other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including i) adverse changes in the payment status of borrowers in the portfolio; and ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists. 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Other financial liabilities at amortised cost (financial instruments) (continued)

(b) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the statement of comprehensive income. 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 decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are included in non current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight line basis over the expected useful economic lives of the related assets.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Pensions and other post-retirement benefits

The group operates a defined contribution pension plan for certain directors of the group. Contributions are recognised in the statement of comprehensive income in the period in which they become payable.

Financial risk management

Financial risk factors

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The group earns its revenue from the sale of capacity on this interconnector through periodic auctions. In the event that the group does not earn sufficient revenues to cover its operating expenses, interest on borrowings and repayment of borrowings, the group's licence allows the group to make a call on its customers for any shortfall. Accordingly the group has limited financial risk.

(a) Market risk

The group's interest rate risk arises from its long term borrowings. These borrowings are index linked to the Retail Price Index and expose the company to interest rate cash flow risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs during the year by £1,333,000.

The group does not need to actively manage its exposure to interest rate cash flow risk as a result of its licence agreement mentioned in the preceding paragraph. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland.

(b) Credit risk

The group has limited exposure to credit risk as its customers are high profile electricity suppliers, who provide designated levels of security by way of parent company guarantees or letters of credit. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

As a result of the option under the group's licence agreement to call on customers in the event of any liquidity shortfall the group has limited liquidity risk. The Group also retains significant cash reserves and a liquidity facility with an A – rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 22.

Capital risk management

The group has no obligation to increase member's funds as the company's ultimate parent undertaking is a company limited by guarantee. The company's management of its borrowings and credit risk is referred to in the preceding paragraphs.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the interconnector was determined as approximately 32 years at the beginning of the year. If the remaining useful economic life had been assessed at 33 years depreciation would have decreased by £96,000 and if the remaining useful economic life had been assessed at 31 years depreciation would have increased by £102,000.

(b) Estimate of assumptions used in the calculation of the decommissioning provision

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.83%. The decommissioning provision has been discounted using a rate of 4.32%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	822
Decrease in inflation factor by 1%	(616)
Increase in discount rate by 1%	(598)
Decrease in discount rate by 1%	846

Notes to the financial statements for the year ended 31 March 2011

2 Expenses by nature

Group	2011 £'000	2010 £'000
Employee benefit expense (note 3)	39	190
Depreciation and amortisation (net of amortisation of deferred government grants)	3,707	3,706
Operating lease payments	94	94
Fees payable to the company's auditor		
in respect of the audit of the group and subsidiary financial statements	13	17
Other expenses	2,901	4,129
Total operating costs	6,754	8,136

3 Employee benefit expense

Group	2011 £'000	2010 £'000
Wages and salaries	34	159
Social security costs	3	20
Pension costs	2	11
	39	190

The average monthly number of employees during the year (comprising only directors holding contracts of service with the group) was 1 (2010: 1).

	2011 £'000	2010 £'000
Directors' emoluments		
Aggregate emoluments	-	159
Contributions paid to defined contribution pension scheme	-	13
	-	172

	Number	Number
Members of defined contribution pension scheme	-	1

In 2010 Directors' emoluments represented the remuneration of the group's executive director, Patrick Larkin. During the year the group's directors were not remunerated for their services to the company but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between service as a director of the company and services as a director of other group companies.

Company

The company had no employee benefits expense during the year (2010: £nil).

Notes to the financial statements for the year ended 31 March 2011

4 Finance income and costs

Group	2011 £'00	2010 £'000
Interest expense:		
Borrowings (including borrowing fees)	10,596	2,526
Finance costs	10,596	2,526
Interest income:		
Short-term bank deposits	(877)	(1,287)
Amounts owed by related parties	(1,655)	(1,021)
Movement of discount on decommissioning provision	(159)	(571)
Finance income	(2,691)	(2,879)
Finance costs/(income) – net	7,905	(353)

5 Income tax (credit)/charge

Group	2011 £'000	2010 £'000
Current income tax:		
Current income tax charged at 28%	-	1,194
Group relief claimed	1,512	709
Adjustments in respect of previous periods	18	310
Total current income tax	1,530	2,213
Deferred income tax:		
Origination and reversal of temporary differences	(2,331)	797
Adjustments in respect of previous periods	-	(73)
Total deferred income tax (note 17)	(2,331)	724
Income tax (credit)/charge	(801)	2,937

The income tax (credit)/charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are reconciled below:

Notes to the financial statements for the year ended 31 March 2011

5 Income tax (credit)/charge (continued)

	2011 £'000	2010 £'000
Profit before income tax	**1,852**	10,262
Tax calculated at the UK standard rate of corporation tax of 28% (2010: 28%)	**519**	2,873
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	**(1,293)**	-
Income not taxable	**(45)**	(173)
Adjustments in respect of previous periods	**18**	237
Income tax (credit)/charge	**(801)**	2,937

Future tax changes

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The effect of the reduction in the main rate of corporation tax from 28% to 26% has been reflected in the calculation of deferred income tax assets and liabilities as it was substantively enacted as at 31 March 2011.

The proposed reduction in the main rate of corporation tax from 26% to 24% was not enacted as at 31 March 2011 and has therefore not been reflected in the calculation of deferred income tax assets and liabilities. The effect of this proposed reduction in the main rate of corporation tax will reduce deferred income tax liabilities by £1,304,000.

6 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £1,816,000 (2010: loss of £20,000).

Notes to the financial statements for the year ended 31 March 2011

7 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**127,899**	**3,785**	**16**	**131,700**
Accumulated depreciation				
At 1 April 2009	23,790	1,325	14	25,129
Provided during the year	3,180	188	1	3,369
At 31 March 2010	**26,970**	**1,513**	**15**	**28,498**
Provided during the year	**3,180**	**189**	**1**	**3,370**
At 31 March 2011	**30,150**	**1,702**	**16**	**31,868**
Net book amount				
At 31 March 2011	**97,749**	**2,083**	**-**	**99,832**
At 31 March 2010	100,929	2,272	1	103,202
At 1 April 2009	104,109	2,460	2	106,571

Depreciation expense of £3,370,000 (2010: £3,369,000) has been fully charged to operating costs.

Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2011

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2009, 31 March 2010 and at **31 March 2011**	**56,477**
Accumulated amortisation	
At 1 April 2009	9,966
Provided during the year	1,661
At 31 March 2010	**11,627**
Provided during the year	**1,661**
At 31 March 2011	**13,288**
Net book amount	
At 31 March 2011	**43,189**
At 31 March 2010	44,850
At 31 March 2009	46,511

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 34 years. The group has concluded that these assets have a remaining useful economic life of 26 years.

Amortisation of £1,661,000 (2010: £1,661,000) has been fully charged to operating costs.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**20,950**

The company's investment in its subsidiary undertaking is recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertaking which is incorporated in Northern Ireland is

Name of company	Holding	Proportion held	Nature of business
Moyle Interconnector Limited	Ordinary shares	100%	Operation of Moyle Interconnector

Notes to the financial statements for the year ended 31 March 2011

10 Trade and other receivables (non-current)

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Financial assets				
Amounts owed by subsidiary undertaking	**-**	-	**107,858**	108,083
Amounts owed by related parties	**24,241**	22,886	**-**	-
	24,241	22,886	**107,858**	108,083
Amounts owed by subsidiary undertaking (current assets)	**-**	-	**(6,189)**	(5,143)
	24,241	22,886	**101,669**	102,940

None of the group's and company's loans and receivables are impaired or past due. The group and company have no history of default in respect of its loans and receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the company's non-current trade and other receivables is £24,420,000 (2010: £22,808,000). This fair value has been calculated by discounting the future cash flows using discount rates in the range 1.39% to 2.66% that reflects the maturity profile of the group's loans and receivables. The fair value of the company's loans and receivables is £100,462,000 (2010: £99,395,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.53% (2010: 4.65%) that reflects the maturity profile of the company's loans and receivables.

11 Trade and other receivables (current)

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Trade receivables	**1,543**	1,599	**-**	-
Prepayments and accrued income	**575**	2,361	**169**	177
Other receivables	**482**	854	**1**	2
Amounts owed by related parties	**777**	39	**6,189**	5,145
	3,377	4,853	**6,359**	5,324

None of the group's or company's trade and other receivables are impaired or past due. The group and company has no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

Notes to the financial statements for the year ended 31 March 2011

12 Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash at bank and in hand	**29,050**	99	**60**	86
Short-term bank deposits	**25,122**	53,048	**-**	-
	54,172	53,147	**60**	86

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 2.6%.

13 Called up share capital

Group and company	**2011 £'000**	2010 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

14 Retained earnings

Group	**£'000**
At 1 April 2009	23,034
Total comprehensive income for the year	7,325
At 31 March 2010	**30,359**
Total comprehensive income for the year	**2,653**
At 31 March 2011	**33,012**

Company	**£'000**
At 1 April 2009	(202)
Total comprehensive income for the year	(20)
At 31 March 2010	**(222)**
Total comprehensive income for the year	**1,816**
At 31 March 2011	**1,594**

Notes to the financial statements for the year ended 31 March 2011

15 Borrowings

Group and company	2011 £'000	2010 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**119,469**	120,764
Current		
2.9376% Index linked guaranteed secured bond	**7,410**	6,158
Total borrowings	**126,879**	126,922

The 2.9376% guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC and is indexed linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.125% of the outstanding balance of the bond. The fair value of the bond is £114,928,000 (2010: £113,440,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.53% (2010: 4.65%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 22.

16 Provisions

Group	Decommissioning provision £'000
At 31 March 2009	3,106
Movement on discount during the year	(570)
At 31 March 2010	**2,536**
Movement on discount during the year	**(159)**
At 31 March 2011	**2,377**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 31 years, at the end of its useful economic life. This provision is expected to be utilised within 31 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 4.32% (2010: 4.47%) that reflects the maturity profile of the group's provision.

Notes to the financial statements for the year ended 31 March 2011

17 Deferred income tax

The gross movement on the deferred income tax liability is as follows:

Group	£'000
At 1 April 2009	18,557
Income statement charge for the year	724
At 31 March 2010	**19,281**
Income statement credit for the year	**(2,331)**
At 31 March 2011	**16,950**

The movement in deferred tax assets and liabilities during the year is as follows:

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2009	(615)	6,148	13,024	18,557
Income statement charge/(credit) for the year	615	575	(466)	724
At 31 March 2010	-	**6,723**	**12,558**	**19,281**
Income statement credit for the year	-	**(1,002)**	**(1,329)**	**(2,331)**
At 31 March 2011	-	**5,721**	**11,229**	**16,950**

The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £10,799,000 (2010: £12,092,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £5,198,000 (2010: £6,148,000).

18 Government grant

Group	£'000
At 1 April 2009	42,379
Amortised during the year	(1,324)
At 31 March 2010	**41,055**
Amortised during the year	**(1,324)**
At 31 March 2011	**39,730**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £1,324,000 (2010: £1,324,000). The non-current portion is £38,407,000 (2010: £39,731,000).

Notes to the financial statements for the year ended 31 March 2011

19 Trade and other payables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade payables	192	144	-	12
Accruals and deferred income	2,690	6,546	3	3
Amounts owed to related parties	2,396	937	512	2,535
Other tax and social security	534	308	-	-
	5,812	7,935	515	2,550

20 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 89 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	2011 £'000	2010 £'000
Not later than one year	94	94
After one year but not more than five years	376	376
After more than five years	7,813	7,907
	8,283	8,377

Notes to the financial statements for the year ended 31 March 2011

21 Related party transactions

The ultimate controlling parties of the group are the members of Mutual Energy Limited.
During the year the group entered into transactions, in the ordinary course of business, with related parties.
Transactions entered into, and balances outstanding at 31 March with related parties, are as follows:

	Amount owed (to)/from related party	
Group	2011 £'000	2010 £'000
Parent undertakings – non-current assets	12,918	12,495
Fellow subsidiary undertakings – non-current assets	11,323	10,430
Fellow subsidiary undertakings – current assets	777	39
Parent undertakings – current liabilities	-	(174)
Fellow subsidiary undertakings – current liabilities	(2,396)	(763)

		Amount of transaction	
Group	Nature of transaction	2011 £'000	2010 £'000
Fellow subsidiary undertakings	Group relief claimed	(1,512)	(753)
Parent undertakings	Group relief claimed	-	(174)
Fellow subsidiary undertakings	Survey and security costs payable	(235)	34
Parent undertakings	Charges payable	(530)	(330)
Parent undertakings	Interest receivable	743	702
Fellow subsidiary undertakings	Interest receivable	912	319

	Amount owed (to)/from related party	
Company	2011 £'000	2010 £'000
Subsidiary undertakings – current liabilities	(284)	(2,532)
Subsidiary undertakings – non-current assets	101,601	102,940
Subsidiary undertakings – current assets	6,257	5,143
Fellow subsidiary undertakings – current assets	3	2
Fellow subsidiary undertakings – current liabilities	(113)	(3)
Parent undertaking – current liabilities	(115)	-

		Amount of transaction	
Company	Nature of transaction	2011 £'000	2010 £'000
Parent undertakings	Group relief surrendered	-	6
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	(635)	2
Subsidiary undertaking	Interest receivable	10,535	2,468

Compensation of key management (including directors):

Company	2011 £'000	2010 £'000
Short term employee benefits	-	159
Post-employment benefits	-	13

Notes to the financial statements for the year ended 31 March 2011

22 Financial instruments

The group and company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Loans and other receivables
Cash and cash equivalents	Loans and other receivables
Borrowings	Other financial liabilities at amortised cost
Trade and other payables	Other financial liabilities at amortised cost

The group's and company's contractual undiscounted cash flows (including principal and interest payments) of its financial liabilities are as follows:

At 31 March 2011 Group	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
2.9376% bond	11,150	11,222	11,062	10,817	10,571	110,328	165,150
Trade and other payables	5,278	-	-	-	-	-	5,278
	16,428	11,222	11,062	10,817	10,571	110,328	170,428

At 31 March 2010 Group	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
2.9376% bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
Trade and other payables	7,627	-	-	-	-	-	7,627
	17,541	10,641	10,710	10,558	10,324	115,386	175,160

At 31 March 2011 Company	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
2.9376% bond	11,150	11,222	11,062	10,817	10,571	110,328	165,150
Trade and other payables	515	-	-	-	-	-	515
	11,665	11,222	11,062	10,817	10,571	110,328	165,665

At 31 March 2010 Company	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
2.9376% bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
Trade and other payables	2,550	-	-	-	-	-	2,550
	12,464	10,641	10,710	10,558	10,324	115,386	170,083

Notes to the financial statements for the year ended 31 March 2011

23 Ultimate parent undertaking

The immediate parent undertaking is Moyle Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for that company are not prepared.

The ultimate parent undertaking, and the only undertaking for which group financial statements are prepared, is Mutual Energy Limited, a company incorporated in Northern Ireland. Group financial statements for that company are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH

PTL's Gas Pressure Reduction Facility, Islandmagee.

premier TRANSMISSION

Premier Transmission Financing plc

Annual report for the year ended
31 March 2011

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

Principal place of business

First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

Solicitors

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

Bankers

Barclays plc
Donegall House
Donegall Square North
Belfast, BT1 5LU

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast, BT1 3LR

Registered Number: NI 053751

Directors' report for the year ended 31 March 2011

Principal activity, review of the business and key performance indicators

The group's principal activity during the year was the financing and operation through its subsidiary undertaking of the Scotland Northern Ireland 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 pipeline. The Operating and Financial Review on pages 5 to 21 of these financial statements provides a review of the business, future developments and its key performance indicators for the Premier Transmission Financing plc group.

Results and dividends

The group's loss for the year is £1,377,000 (2010: £3,348,000 as restated). The directors do not recommend the payment of a dividend (2010: £nil).

Directors

The directors who served the group during the year were:

Felicity Huston (resigned 21 September 2010)
Patrick Larkin
Gerard McIlroy

Financial risk management

Please refer to note 1 to these financial statements for a description of the financial risks that the group faces and how it addresses those risks.

Political and charitable donations

No political or charitable donations have been made during the year (2010: £nil).

Payment of suppliers

The group'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 group 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. The group had trade payable days of 18 days at 31 March 2011 (2010: 26 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Derivative financial instruments

The directors wish to draw the attention of readers to note 22 of these financial statements which explains the treatment of derivative financial instruments. During the period ended 31 March 2006 the group and company entered into two index-linked swaps in order to hedge against index-linked revenues receivable under the licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group and company, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to IFRS, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the relevant standard. Accordingly the movement of the fair value of these index-linked swaps is reported in the statement of comprehensive income under finance costs.

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £33,375,000 as at 31 March 2011. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £33,375,000 in respect of future revenues, however, this financial asset cannot be recognised under IFRS and therefore there is a significant accounting mis-match of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported profit for the year would have been £3,095,000 (2010: loss of £447,000 as restated).

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Directors' report for the year ended 31 March 2011

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

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

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

Independent 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

Gerard McIlroy
Company secretary
20 June 2011

Independent auditors' report to the members of Premier Transmission Financing plc

We have audited the group and parent company financial statements (the "financial statements") of Premier Transmission Financing plc for the year ended 31 March 2011 which comprise the group statement of comprehensive income, the group balance sheet, the parent company balance sheet, the parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 119, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast 27 June 2011

Group statement of comprehensive income for the year ended 31 March 2011

		2011			2010 (as restated) £'000		
	Notes	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue – continuing operations		**17,031**	**-**	**17,031**	14,459	-	14,459
Operating costs	2	**(13,642)**	**-**	**(13,642)**	(11,295)	-	(11,295)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**6,838**	**-**	**6,838**	6,642	-	6,642
Amortisation of intangible assets		**(1,402)**	**-**	**(1,402)**	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		**(2,047)**	**-**	**(2,047)**	(2,076)	-	(2,076)
Operating profit		**3,389**	**-**	**3,389**	3,164	-	3,164
Finance income	4	**370**	**-**	**370**	416	-	416
Finance costs	4	**(3,564)**	**-**	**(3,564)**	(3,426)	-	(3,426)
Finance costs - fair value adjustment on derivative financial instruments	4	**-**	**(5,283)**	**(5,283)**	-	(4,029)	(4,029)
Finance costs – net	4	**(3,194)**	**(5,283)**	**(8,477)**	(3,010)	(4,029)	(7,039)
Profit/(loss) before income tax		**195**	**(5,283)**	**(5,088)**	154	(4,029)	(3,875)
Income tax credit/(charge)	5	**2,900**	**811**	**3,711**	(601)	1,128	527
Profit/(loss) for the year	15	**3,095**	**(4,472)**	**(1,377)**	(447)	(2,901)	(3,348)

The notes on pages 126 to 147 are an integral part of these group financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity has not been presented.

Group balance sheet as at 31 March 2011

	Notes	2011 £'000	2010 restated) £'000	2009 (restated) £'000
Assets				
Non current assets				
Property, plant and equipment	7	**89,780**	92,849	96,021
Intangible assets	8	**34,668**	36,070	37,472
Investment in subsidiary undertaking	9	**-**	-	-
Trade and other receivables	10	**-**	-	-
Deferred income tax assets	17	**8,677**	7,866	6,738
		133,125	136,785	140,231
Current assets				
Trade and other receivables	11	**5,565**	4,624	6,275
Financial assets	12	**-**	1,942	-
Cash and cash equivalents	13	**24,873**	23,029	22,711
		30,438	29,595	28,986
Total assets		**163,563**	166,380	169,217
Equity and liabilities				
Equity				
Ordinary shares	14	**13**	13	13
Retained earnings	15	**(15,492)**	(14,115)	(10,767)
Total equity		**(15,479)**	(14,102)	(10,754)
Liabilities				
Non-current liabilities				
Borrowings	16	**86,497**	89,157	91,652
Deferred income tax liabilities	17	**22,007**	24,630	25,321
Government grant	18	**30,104**	31,200	32,296
Derivative financial instruments	22	**33,375**	28,092	24,063
		171,983	173,079	173,332
Current liabilities				
Trade and other payables	19	**3,298**	2,719	2,730
Income tax liabilities		**-**	1,092	479
Borrowings	16	**2,665**	2,496	2,334
Government grant	18	**1,096**	1,096	1,096
		7,059	7,403	6,639
Total liabilities		**179,042**	180,482	179,971
Total equity and liabilities		**163,563**	166,380	169,217

The notes on pages 126 to 147 are an integral part of these group financial statements. The group financial statements on pages 122 to 147 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by:

Patrick Larkin **Director** Gerard McIlroy **Director**

Premier Transmission Financing plc Registered number: NI 053751

Parent company balance sheet at 31 March 2011

	Notes	2011 £'000	2010 (restated) £'000	2009 (restated) £'000
Assets				
Non current assets				
Property, plant and equipment	7	-	-	-
Intangible assets	8	-	-	-
Investment in subsidiary undertaking	9	51,307	51,307	51,307
Trade and other receivables	10	46,553	44,429	45,075
Deferred income tax assets	17	8,677	7,866	6,738
		106,537	103,602	103,120
Current assets				
Trade and other receivables	11	895	82	1,670
Financial assets	12	-	-	-
Cash and cash equivalents	13	803	3,612	976
		1,698	3,694	2,646
Total assets		108,235	107,296	105,766
Equity and liabilities				
Equity				
Ordinary shares	14	13	13	13
Retained earnings	15	(14,332)	(17,225)	(12,337)
Total equity		(14,319)	(17,212)	(12,324)
Liabilities				
Non-current liabilities				
Borrowings	16	86,497	89,157	91,652
Deferred income tax liabilities	17	-	-	-
Government grant	18	-	-	-
Derivative financial instruments	22	33,375	28,092	24,063
		119,872	117,249	115,715
Current liabilities				
Trade and other payables	19	17	4,760	41
Income tax liabilities		-	3	-
Borrowings	16	2,665	2,496	2,334
Government grant	18	-	-	-
		2,682	7,259	2,375
Total liabilities		122,554	124,508	118,090
Total equity and liabilities		108,235	107,296	105,766

The notes on pages 126 to 147 are an integral part of these group financial statements. The group financial statements on pages 122 to 147 were authorised for issue by the Board of Directors on 20 June 2011and were signed on its behalf by:

Patrick Larkin **Director** Gerard McIlroy **Director**

Premier Transmission Financing plc Registered number: NI 053751

Group and parent company cash flow statements for the year ended 31 March 2011

		Group		Company	
		2011	2010	2011	2010
	Notes	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit /(loss) before income tax and finance costs		3,389	3,164	3,521	(61)
Adjustments for:					
Depreciation of property, plant and equipment		3,143	3,172	-	-
Amortisation of government grants		(1,096)	(1,096)	-	-
Amortisation of intangible assets		1,402	1,402	-	-
Movement in trade and other receivables		758	840	(2,688)	(29)
Movement in trade and other payables		(1,774)	879	(862)	720
Income tax paid		(216)	(758)	-	-
Net cash generated from operating activities		5,606	7,603	(29)	630
Cash flows from investing activities					
Interest received		413	474	1,435	1,387
Amounts (paid to)/received from related parties		-	-	(4,482)	6,278
Proceeds from the sale of financial asset		1,880	-	-	-
Purchase of financial asset		-	(2,000)	-	-
Dividend received		-	-	6,279	-
Net cash generated from/(used in) investing activities		2,293	(1,526)	3,232	7,665
Cash flows from financing activities					
Interest paid		(2,800)	(2,819)	(2,757)	(2,719)
Repayment of borrowings		(3,255)	(2,940)	(3,255)	(2,940)
Net cash used in financing activities		(6,055)	(5,759)	(6,012)	(5,659)
Movement in cash and cash equivalents		1,844	318	(2,809)	2,636
Cash and cash equivalents at the beginning of the year	13	23,029	22,711	3,612	976
Cash and cash equivalents at the end of the year	13	24,873	23,029	803	3,612

The notes on pages 126 to 147 are an integral part of these group financial statements

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements

General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The company is incorporated and domiciled in Northern Ireland. The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and parent company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 20 June 2011 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 134.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group's initial set up including the acquisition of Premier Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 20 years. However the group is cash generative and is forecast to remain cash positive over that 20 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Statement of compliance with IFRSs

The financial statements Premier Transmission Financing plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 that are relevant to the group's or parent company's operations:

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) - This revised standard coincided with the publication by the FASB in the US of equivalent guidance dealing with non-controlling (minority) interests. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the statement of comprehensive income.
- IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) - This revised standard harmonises business combination accounting with US GAAP, as the FASB issued an equivalent standard. The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on Eligible hedged items	(effective July 2009)
IAS 32 (amendment), 'Financial Instruments: Presentation and IAS 1:Presentation on classification of rights issue'	(effective 1 February 2010)
IFRS 1 (amendment), 'On first time adoption of IFRS additional exemptions'	(effective 1 January 2010)
IFRS 1 (revised), 'First time adoption'	(effective 1 July 2009)
IFRS 2, 'Share-based payment - Group cash-settled share-based payment transactions'	(effective 1 January 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 17, 'Distributions of non-cash assets to owners'	(effective 1 July 2009)
IFRIC 18, 'Transfer of assets from customers'	(effective 1 July 2009)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

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

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures'	(effective 1 January 2011)
IAS 12 (amendment), 'Income taxes on deferred taxes'	(effective 1 January 2012)
IFRS 1 (amendment), 'First time adoption of IFRS'	(effective 1 July 2011)
IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates'	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition'	(effective 1 July 2011)
IFRS 9, 'Financial instruments'	(effective 1 Jan 2013)

International Financial Reporting Interpretation Committee (IFRIC's)

IFRIC 14 (amendment), 'IAS 19 - Prepayments of a minimum funding requirement'	(effective 1 January 2011)
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	(effective 1 July 2010)

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of Premier Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2011. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Presentation of statement of comprehensive income

The presentation of certain prior year information has been restated to conform to current year presentation. The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the revaluation of derivatives on the results for both the current and prior years. Such presentation is expected to assist in the future implementation of IFRS 9. Based on the current Exposure Draft on hedge accounting, the company expects the reinstatement of hedge accounting treatment for the fixed borrowings and associated derivatives if the exposure draft treatment is adopted into the standard.

Restatement of prior year comparative information

In the 2009/10 financial statements the effective interest rate method was applied to cash flows of fixed rate borrowings net of proceeds from associated derivative financial instruments. Hedge accounting has not been permitted for these associated derivatives under IAS39 and these are annually remeasured at their fair value. Gains or losses arising from changes in the fair value of these associated derivative financial instruments are presented in the statement of comprehensive income within 'finance costs' in the period in which they arise. In order to provide more reliable and relevant information, the fixed rate borrowings have been restated for 2009/10 using the effective interest rate method applied to the gross cash flows excluding the associated derivatives. The net effect of this change is that the liabilities recorded in the balance sheet more closely represent the liabilities which would be incurred to settle the borrowings and derivatives at the balance sheet date, recognising that there is no intention to do so and that the valuation does not include any potential costs of early termination of either the borrowings or the associated derivatives.

As a result of this restatement, the finance costs for the group for 2009/10 have been increased from £5.5m to £7.5m, the loss before tax for the group increased from £1.9m to £3.9m and the loss after tax for the group increased from £1.4m to £3.3m. The group's negative opening equity at 1 April 2009 has reduced to £10.8m from £26.4m, group borrowings at 31 March 2010 have been reduced from £105.3m to £91.7m, and group total liabilities reduced from £194.1m to £180.5m, with no effect on total equity and liabilities.

The company loss after tax for 2009/10 has increased from £2.9m to £4.9m. The company's negative opening equity at 1 April 2009 has reduced to £12.3m from £27.9m, company borrowings at 31 March 2010 have been reduced from £105.3m to £91.7m, and company total liabilities reduced from £138.1m to £124.5m, with no effect on total equity and liabilities.

Segment reporting

The group has one business segment, the selling of capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 23 years.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipelines	35 years
Computer equipment	3 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Investments

Investments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Impairment of non-financial assets

The group 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 group 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 statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

Classification of financial instruments

The group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The group's financial assets and liabilities comprise interest rate swaps, which are classified as derivatives.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The group's available-for-sale financial assets comprise UK government gilts.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Financial assets and liabilities at fair value through profit and loss (financial instruments)

The group enters into derivative financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the statement of comprehensive income. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'finance costs' in the period in which they arise. Financial liabilities are classified as non-current liabilities unless the remaining maturity is less than 12 months after the balance sheet date.

Available-for-sale financial assets (financial instruments)

Available for sale financial assets are recognised initially at fair value. Changes in the fair value of debt instruments classified as available-for-sale are analysed between changes in amortised cost of the security and other changes in the carrying amount of the debt instrument. Changes in the fair value of debt instruments classified as available-for-sale are recognised in other comprehensive income. Interest on available-for-sale debt instruments calculated using the effective interest method is recognised in the statement of comprehensive income as part of finance income.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Loans and receivables (financial instruments)

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the statement of comprehensive income.

Trade and receivables with a maturity of more than twelve months from the balance sheet date are shown as non-current trade and other receivables.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call or for short maturity periods with banks, other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

(a) Assets held at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including i) adverse changes in the payment status of borrowers in the portfolio; and ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists. 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

(b) Available-for-sale financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(b) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight line basis over the expected useful economic lives of the related assets.

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Pensions and other post-retirement benefits

The group contributes to individuals' personal pension schemes. Contributions are recognised in the statement of comprehensive income in the period in which they become payable.

Financial risk management

Financial risk factors

The group operates the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited financial risk.

(a) Market risk

The group's interest rate cash flow risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its fixed rate borrowings to a borrowing linked to the Retail Price Index. Under the terms of its licence agreement the group receives sufficient revenue to settle its operating costs and its repayments of borrowings. Accordingly the group does not need to actively manage its exposure to cash flow interest rate risk.

(b) Credit risk

The group has limited exposure to credit risk as its customers are high profile gas suppliers, who are reliant on the use of the group's transmission assets. Given the nature of the industry in which the group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an A-rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 22.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Capital risk management

The group has no obligation to increase member's funds as the group's ultimate parent undertaking is a company limited by guarantee. The group's management of its borrowings and credit risk is referred to in the preceding paragraphs.

Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The group's only financial instruments fair valued (for recognition purposes) under level 2 is the group's derivative financial instrument. The fair value of the group's derivative financial instruments is obtained from the bankers that provided the instruments, and is based on observable market data.

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's current and non-current loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 29.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 30.5 years, depreciation would have decreased by £103,000 and if the remaining useful economic life had been assessed at 28.5 years, depreciation would have increased by £110,000.

Notes to the financial statements for the year ended 31 March 2011

2 Expenses by nature

Group	2011 £'000	2010 £'000
Employee benefit expense (note 3)	143	415
Depreciation and amortisation (net of amortisation of deferred government grant)	3,449	3,478
Operating lease payments	71	40
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	21	20
Other expenses	9,958	7,342
Total operating costs	13,642	11,295

3 Employee benefit expense

Group	2011 £'000	2010 £'000
Wages and salaries	122	229
Social security costs	14	30
Pension costs - defined contribution pension scheme	7	156
	143	415

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 2 (2010: 4).

	2011 £'000	2010 £'000
Directors' emoluments		
Aggregate emoluments	-	38
Contributions paid to defined contribution pension scheme	-	141
	-	179

	Number	Number
Members of defined contribution pension scheme	-	1

The emoluments for the year ended 31 March 2010 represented the remuneration of the groups' former executive director, William Cargo. During the year the group's directors were not remunerated for their services to the group but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between service as a director of the company and services as a director of other group companies.

Company

The company had no employee benefits expense during the year (2010: £nil).

Notes to the financial statements for the year ended 31 March 2011

4 Finance income and costs

Group	2011 £'000	2010 (as restated) £'000
Interest expense:		
Borrowings (including borrowing fees)	3,564	3,426
Fair value adjustment in respect of derivative financial instruments (note 22)	5,283	4,029
Finance costs	8,847	7,455
Interest income:		
Short-term bank deposits	(370)	(416)
Finance income	(370)	(416)
Finance costs – net	8,477	7,039

5 Income tax credit

Group	2011 £'000	2010 £'000
Current income tax:		
Current income tax charge at 28%	-	1,306
Group relief surrendered	(227)	-
Adjustments in respect of previous periods	(50)	(14)
Total current income tax	(277)	1,292
Deferred income tax:		
Origination and reversal of temporary differences	(2,637)	(704)
Arising on derivative financial instruments	(811)	(1,128)
Adjustments in respect of previous periods	14	13
Total deferred income tax (note 17)	(3,434)	(1,819)
Income tax credit	(3,711)	(527)

Notes to the financial statements for the year ended 31 March 2011

5 Income tax credit

The income tax credit in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are reconciled below:

	2011 £'000	2010 (as restated) £'000
Loss before income tax	**(5,088)**	(3,875)
Tax calculated at the UK standard rate of corporation tax of 28% (2010: 28%)	**(1,425)**	(1,085)
Effects of:		
Expenses not deductible for tax purposes	**23**	-
Reduction in rate of corporation tax on deferred tax assets and liabilities	**(1,003)**	-
Treatment of indexation of borrowings	**(1,308)**	559
Tax losses carried forward for which no deferred tax asset is recognised	**38**	-
Adjustments in respect of previous periods	**(36)**	(1)
Income tax credit	**(3,711)**	(527)

Future tax changes

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The effect of the reduction in the main rate of corporation tax from 28% to 26% has been reflected in the calculation of deferred income tax assets and liabilities as it was substantively enacted as at 31 March 2011.

The proposed reduction in the main rate of corporation tax from 26% to 24% was not enacted as at 31 March 2011 and has therefore not been reflected in the calculation of deferred income tax assets and liabilities. The effect of this proposed reduction in the main rate of corporation tax will reduce deferred income tax assets by £667,000 and reduce deferred income tax liabilities by £1,693,000.

6 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £2,893,000 (2010: loss of £4,880,000 as restated).

Notes to the financial statements for the year ended 31 March 2011

7 Property, plant and equipment

Group	Pipeline £'000	Computer equipment £'000	Total £'000
Cost			
At 1 April 2009 and 31 March 2010	108,510	237	108,747
Additions	74	-	74
31 March 2011	**108,584**	**237**	**108,821**
Accumulated depreciation			
At 1 April 2009	12,518	208	12,726
Provided during the year	3,143	29	3,172
31 March 2010	**15,661**	**237**	**15,898**
Provided during the year	**3,143**	**-**	**3,143**
At 31 March 2011	**18,804**	**237**	**19,041**
Net book amount			
At 31 March 2011	**89,780**	**-**	**89,780**
At 31 March 2010	92,849	-	92,849
At 31 March 2009	95,992	29	96,021

Depreciation expense of £3,143,000 (2010: £3,172,000) has been fully charged to operating costs.

The borrowings of the group are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2011

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2009, 31 March 2010 and **31 March 2011**	**2,435**	**40,645**	**43,080**
Accumulated amortisation			
At 1 April 2009	-	5,608	5,608
Provided during the year	-	1,402	1,402
At 31 March 2010	**-**	**7,010**	**7,010**
Provided during the year	**-**	**1,402**	**1,402**
At 31 March 2011	**-**	**8,412**	**8,412**
Net book amount			
At 31 March 2011	**2,435**	**32,233**	**34,668**
At 31 March 2010	2,435	33,635	36,070
At 31 March 2009	2,435	35,037	37,472

Amortisation expenses of £1,402,000 (2010: £1,402,000) has been fully charged to operating costs.

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years. The group has concluded that these assets have a remaining useful economic life of 23 years.

Goodwill recognised includes certain intangible assets within acquisitions that cannot be individually separated and reliably measured due to their nature.

Impairment testing for goodwill

Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the Scotland to Northern Ireland pipeline.

The recoverable amount of the goodwill is based on fair value less costs to sell calculation which has been determined using discounted future cash flows. The cash flow projections are over a period of 19 years, which matches the remaining duration of the group's bond. The key assumptions, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The projections are based on a financial model for a period of 29 years which has been approved by the board.

The discount rate of 4.84 % used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 19 years. The inflation rate assumption used by the group in these calculations of 4.11% has been obtained from Bank of England yield curves over a 19 year period.

Sensitivity to changes in assumptions

With regard to the assessment of fair values less costs to sell of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

Notes to the financial statements for the year ended 31 March 2011

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**51,307**

The company's investment in its subsidiary undertaking is recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertaking, which is incorporated in Northern Ireland, is:

Name of company	Holding	Proportion held	Nature of business
Premier Transmission Limited	Ordinary shares	100%	Operation of the Scotland to Northern Ireland pipeline

10 Trade and other receivables (non-current)

Company	2011 £'000	2010 £'000
Amounts owed by related parties	**46,553**	44,429

None of the company's loans and receivables are impaired or past due. The company has no history of default in respect of its loans and receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair values of the company's loans and receivables are £37,525,000 (2010: £34,901,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.49% (2010: 4.66%) that reflects the maturity profile of the company's loans and receivables.

11 Trade and other receivables (current)

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade receivables	**326**	298	**-**	-
Prepayments and accrued income	**2,497**	1,953	**9**	52
Other receivables	**2,002**	2,009	**2**	9
Amounts owed by related parties	**740**	364	**884**	21
	5,565	4,624	**895**	82

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

Notes to the financial statements for the year ended 31 March 2011

12 Financial assets

Group	Available-for-sale £'000
At 1 April 2009	-
Additions	1,942
At 31 March 2010	**1,942**
Disposals	**(1,942)**
At 31 March 2011	**-**

The available-for-sale financial assets represented an investment in UK Government sterling gilts. These gilts carried an interest rate of 4.25% and were redeemed on 7 March 2011.

13 Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash at bank and in hand	**18,937**	5,576	**803**	3,612
Short-term bank deposits	**5,936**	17,453	**-**	-
	24,873	23,029	**803**	3,612

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 1.75%.

14 Called up share capital

Group and company	**2011 £'000**	2010 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	**13**	13

Notes to the financial statements for the year ended 31 March 2011

15 Retained earnings

Group	£'000
At 1 April 2009 as previously reported	(26,373)
Restatement of prior year comparative information (note 1)	15,606
At 1 April 2009 as restated	(10,767)
Total comprehensive income for the year	(3,348)
At 31 March 2010	**(14,115)**
Total comprehensive income for the year	**(1,377)**
At 31 March 2011	**(15,492)**

Company	£'000
At 1 April 2009 as previously reported	(27,943)
Restatement of prior year comparative information (note 1)	15,606
At 1 April 2009 as restated	(12,337)
Total comprehensive income for the year	(4,888)
At 31 March 2010	**(17,225)**
Total comprehensive income for the year	**2,893**
At 31 March 2011	**(14,332)**

16 Borrowings

Group and company	2011 £'000	2010 (as restated) £'000
Non current		
5.2022% Guaranteed secured bond	**86,497**	89,157
Current		
5.2022% Guaranteed secured bond	**2,665**	2,496
Total borrowings	**89,162**	91,653

The 5.2022% Guaranteed secured bond 2030 was issued to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, including default interest. The fair value of the bond is £118,149,000 (2010: £114,808,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.49% (2010: 4.66%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 22.

Notes to the financial statements for the year ended 31 March 2011

17 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Deferred income tax assets	**(8,677)**	(7,866)	**(8,677)**	(7,866)
Deferred income tax liabilities	**22,007**	24,630	**-**	-
Deferred income tax liabilities/(assets) – net	**13,330**	16,764	**(8,677)**	(7,866)

The gross movement on the deferred income tax account is as follows:

	Group £'000	Company £'000
At 1 April 2009	18,583	(6,738)
Income statement credit for the year	(1,819)	(1,128)
At 31 March 2010	**16,764**	**(7,866)**
Income statement credit for the year	**(3,434)**	**(811)**
At 31 March 2011	**13,330**	**(8,677)**

The movement in deferred tax assets and liabilities during the year is as follows:

Group	**Accelerated capital allowances £'000**	**Valuation of intangible assets £'000**	**Derivative financial instruments £'000**	**Total £'000**
At 1 April 2009	15,511	9,810	(6,738)	18,583
Income statement credit for the year	(298)	(393)	(1,128)	(1,819)
At 31 March 2010	**15,213**	**9,417**	**(7,866)**	**16,764**
Income statement credit for the year	**(1,586)**	**(1,037)**	**(811)**	**(3,434)**
At 31 March 2011	**13,627**	**8,380**	**(8,677)**	**13,330**

Company	**Derivative financial instruments £'000**
At 1 April 2009	(6,738)
Income statement credit for the year	(1,128)
At 31 March 2010	**(7,866)**
Income statement credit for the year	**(811)**
At 31 March 2011	**(8,677)**

The group and company has approximately £3,000,000 of tax losses available for carry forward against future taxable profits. The related deferred tax asset of £790,000 has not been recognised as it is not more likely than not that the group and company will make sufficient taxable profits from which the tax losses can be deducted.

Notes to the financial statements for the year ended 31 March 2011

17 Deferred income tax (continued)

It is not possible to determine the portion of the deferred tax asset arising from the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £8,015,000 (2010: £9,024,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £13,114,000 (2010: £15,213,000).

18 Government grant

Group	£'000
At 1 April 2009	33,392
Amortised during the year	(1,096)
At 31 March 2010	**32,296**
Amortised during the year	**(1,096)**
At 31 March 2011	**31,200**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £1,096,000 (2010: £1,096,000) and the non-current portion is £30,104,000 (2010: £31,200,000).

19 Trade and other payables

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Trade payables	**451**	454	**7**	6
Accruals and deferred income	**1,611**	1,515	**10**	3
Amounts owed to related parties	**791**	127	**-**	4,751
Other tax and social security	**445**	420	**-**	-
Other payables	**-**	203	**-**	-
	3,298	2,719	**17**	4,760

20 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 24 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	**2011 £'000**	2010 £'000
Not later than one year	**71**	71
After one year but not more than five years	**284**	284
After more than five years	**1,349**	1,420
	1,704	1,775

Notes to the financial statements for the year ended 31 March 2011

21 Related party transactions

The ultimate controlling parties of the group are the members of Mutual Energy Limited.
During the year the group entered into transactions, in the ordinary course of business, with related parties.
Transactions entered into, and balances outstanding at 31 March with related parties, are as follows:

	Amount owed (to)/from related party	
Group	2011 £'000	2010 £'000
Fellow subsidiary undertaking – current liabilities	(791)	(127)
Parent undertakings – current assets	212	124
Fellow subsidiary undertaking – current assets	528	240

		Amount of transaction	
Group	Nature of transaction	2011 £'000	2010 £'000
Parent undertakings	Charges payable	(474)	(289)
Fellow subsidiary undertaking	Survey and security costs payable	(287)	(9)
Fellow subsidiary undertaking	Group relief surrendered	227	79

	Amount owed (to)/from related party	
Company	2011 £'000	2010 £'000
Fellow subsidiary undertaking – current assets	676	21
Subsidiary undertaking – non-current assets	46,553	44,429
Subsidiary undertaking – current liabilities	-	(4,751)
Subsidiary undertaking – current assets	208	-

		Amount of transaction	
Company	Nature of transaction	2011 £'000	2010 £'000
Fellow subsidiary undertaking	Group relief surrendered/(claimed)	227	-
Subsidiary undertaking	Group relief surrendered	850	-
Subsidiary undertaking	Interest receivable	3,580	1,387

Compensation of key management (including directors):

Company	2011 £'000	2010 £'000
Short term employee benefits	-	38
Post-employment benefits	-	141

Notes to the financial statements for the year ended 31 March 2011

22 Financial instruments

The group and company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Loans and other receivables
Financial assets	Available-for-sale
Cash and cash equivalents	Loans and other receivables
Borrowings	Other financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Other financial liabilities at amortised cost

Derivative financial instruments

During the period ended 31 March 2006 the group and company entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedged derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs.

The movement on the group's and company's derivative financial instruments is as follows:

Group and company	£'000
At 1 April 2009	24,063
Fair value adjustment	4,029
At 31 March 2010	28,092
Fair value adjustment	5,283
At 31 March 2011	33,375

It is not possible to determine the portion of the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates.

The group's and the company's contractual undiscounted cash flows (including principal and interest payments) of its financial liabilities are as follows:

At 31 March 2011 Group	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
5.2022% bond and associated derivative	5,192	5,296	5,402	5,509	5,617	91,425	118,441
Trade and other payables	2,853	-	-	-	-	-	2,853
	8,045	5,296	5,402	5,509	5,617	91,425	121,294

Notes to the financial statements for the year ended 31 March 2011

22 Financial instruments

At 31 March 2010 Group	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
5.2022% bond and associated derivative	5,817	5,932	6,050	6,171	6,293	110,861	141,124
Trade and other payables	2,299	-	-	-	-	-	2,299
	8,116	5,932	6,050	6,171	6,293	110,861	143,423

At 31 March 2011 Company	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
5.2022% bond and associated derivative	5,192	5,296	5,402	5,509	5,617	91,425	118,441
Trade and other payables	17	-	-	-	-	-	17
	5,209	5,296	5,402	5,509	5,617	91,425	118,458

At 31 March 2010 Company	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
5.2022% bond and associated derivative	5,817	5,932	6,050	6,171	6,293	110,861	141,124
Trade and other payables	4,760	-	-	-	-	-	4,760
	10,577	5,932	6,050	6,171	6,293	110,861	145,884

The group's and the company's contractual undiscounted cash flows of its bonds is based on the agreed payments under the index-linked swaps.

23 Ultimate parent undertaking

The immediate parent undertaking is Premier Transmission Holdings Limited, a company incorporated in Northern Ireland. group financial statements for that company are not prepared.

The ultimate parent undertaking, and the only undertaking for which group financial statements are prepared, is Mutual Energy Limited, a company incorporated in Northern Ireland. Group financial statements for that company are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

Members visit to Belfast Gas Pressure Reduction Station, Knocknagoney.

belfast gas
TRANSMISSION

Belfast Gas Transmission Financing plc

Annual report for the year ended
31 March 2011

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

Principal place of business

First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

Solicitors

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

Bankers

Barclays Bank plc
Donegall House
Donegall Square North
Belfast
BT1 5GB

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Registered Number: NI 067348

Directors' report for the year ended 31 March 2011

The directors present their report and the audited financial statements for the year ended 31 March 2011.

Principal activity, review of the business and key performance indicators

The group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipe line. The Operating and Financial Review on pages 5 to 21 of these financial statements provides a review of the business, future developments and its key performance indicators for the Belfast Gas Transmission Financing plc group.

Results and dividends

The group's loss for the year is £3,647,000 (2010: £5,169,000). The directors do not recommend the payment of a dividend (2010: £nil).

Directors

The directors who served the group during the year were:

Felicity Huston (resigned 21 September 2010)

Patrick Larkin

Gerard McIlroy

Financial risk management

Please refer to note 1 to these financial statements for a description of the financial risks that the company faces and how it addresses those risks.

Political and charitable donations

No political or charitable donations have been made during the year (2010: £nil).

Payment of suppliers

The group'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 group 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.

The group had trade payable days of 9 days at 31 March 2011 (2010: 6 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report for the year ended 31 March 2011

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the directors report is aware:

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

Independent 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
Gerard McIlroy
Company secretary

20 June 2011

Independent auditors' report to the members of Belfast Gas Transmission Financing plc

We have audited the group and parent company financial statements (the "financial statements") of Belfast Gas Transmission Financing plc for the year ended 31 March 2011 which comprise the group statement of comprehensive income, the group and parent company balance sheets and the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 151, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast 27 June 2011

Group statement of comprehensive income for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Revenue – continuing operations		**5,375**	4,563
Operating costs	2	**(5,338)**	(4,824)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**3,477**	3,180
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(953)**	(954)
Operating profit/(loss)		**37**	(261)
Finance income	4	**54**	62
Finance costs	4	**(8,472)**	(6,642)
Finance costs – net	4	**(8,418)**	(6,580)
Loss before income tax		**(8,381)**	(6,841)
Income tax credit	5	**4,734**	1,672
Loss for the year	13	**(3,647)**	(5,169)

The notes on pages 157 to 174 are an integral part of these group financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity has not been presented.

Group and parent company balance sheets as at 31 March 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**34,756**	35,997	**-**	-
Intangible assets	8	**101,952**	104,439	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
Deferred income tax assets	15	**-**	225	**-**	-
		136,708	140,661	**112,384**	112,384
Current assets					
Trade and other receivables	10	**3,479**	1,649	**9,070**	51
Cash and cash equivalents	11	**7,532**	6,923	**16**	1,307
		11,011	8,572	**9,086**	1,358
Total assets		**147,719**	149,233	**121,470**	113,742
Equity and liabilities					
Equity					
Ordinary shares	12	**50**	50	**50**	50
Retained earnings	13	**(10,794)**	(7,147)	**4,231**	8
Total equity		**(10,744)**	(7,097)	**4,281**	58
Liabilities					
Non current liabilities					
Borrowings	14	**116,368**	111,463	**116,368**	111,463
Deferred income tax liabilities	15	**31,618**	35,017	**-**	-
Government grant	16	**7,774**	8,062	**-**	-
		155,760	154,542	**116,368**	111,463
Current liabilities					
Trade and other payables	17	**1,653**	851	**59**	1,572
Borrowings	14	**762**	649	**762**	649
Government grant	16	**288**	288	**-**	-
		2,703	1,788	**821**	2,221
Total liabilities		**158,463**	156,330	**117,189**	113,684
Total equity and liabilities		**147,719**	149,233	**121,470**	113,742

The notes on pages 157 to 174 are an integral part of these group financial statements.
The group financial statements on pages 154 to 173 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by:

Patrick Larkin **Director** Gerard McIlroy **Director**

Belfast Gas Transmission Financing plc Registered number: NI 067348

Group and parent company cash flow statements for the year ended 31 March 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		**37**	(261)	**(57)**	(14)
Adjustments for:					
Depreciation of property, plant and equipment		**1,241**	1,242	**-**	-
Amortisation of government grant		**(288)**	(288)	**-**	-
Amortisation of intangible assets		**2,487**	2,487	**-**	-
Movement in trade and other receivables		**(2,046)**	86	**1,343**	(10)
Movement in trade and other payables		**2,362**	179	**(1,513)**	11
Net cash generated from /(used in) operating activities		**3,793**	3,445	**(227)**	(13)
Cash flows from investing activities					
Interest received		**54**	62	**243**	3,234
Amounts (paid to)/received from related parties		**-**	-	**1,931**	-
Net cash generated from investing activities		**54**	62	**2,174**	3,234
Cash flows from financing activities					
Interest paid		**(2,565)**	(2,659)	**(2,565)**	(2,659)
Repayment of borrowings		**(673)**	(569)	**(673)**	(569)
Net cash used in financing activities		**(3,238)**	(3,228)	**(3,238)**	(3,228)
Movement in cash and cash equivalents		**609**	279	**(1,291)**	(7)
Cash and cash equivalents at the beginning of the year	11	**6,923**	6,644	**1,307**	1,314
Cash and cash equivalents at the end of the year	11	**7,532**	6,923	**16**	1,307

The notes on pages 157 to 174 are an integral part of these group financial statements.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements

General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the board of directors on 20 June 2011 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Belfast Gas Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 163.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group's initial set up including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 20 years. However the group is cash generative and is forecast to remain cash positive over that 20 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Statement of compliance with IFRSs

The financial statements of Belfast Gas Transmission Financing plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 that are relevant to the group's or parent company's operations:

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) - This revised standard coincided with the publication by the FASB in the US of equivalent guidance dealing with non-controlling (minority) interests. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the statement of comprehensive income.
- IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) - This revised standard harmonises business combination accounting with US GAAP, as the FASB issued an equivalent standard. The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on Eligible hedged items	(effective July 2009)
IAS 32 (amendment), 'Financial Instruments: Presentation and IAS 1:Presentation on classification of rights issue'	(effective 1 February 2010)
IFRS 1 (amendment), 'On first time adoption of IFRS additional exemptions'	(effective 1 January 2010)
IFRS 1 (revised), 'First time adoption'	(effective 1 July 2009)
IFRS 2, 'Share-based payment - Group cash-settled share-based payment transactions'	(effective 1 January 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 17, 'Distributions of non-cash assets to owners'	(effective 1 July 2009)
IFRIC 18, 'Transfer of assets from customers'	(effective 1 July 2009)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

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

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures'	(effective 1 January 2011)
IAS 12 (amendment), 'Income taxes on deferred taxes'	(effective 1 January 2012)
IFRS 1 (amendment), 'First time adoption of IFRS'	(effective 1 July 2011)
IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates'	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition'	(effective 1 July 2011)
IFRS 9, 'Financial instruments' (effective 1 Jan 2013)	

International Financial Reporting Interpretation Committee (IFRIC's)

IFRIC 14 (amendment), 'IAS 19 - Prepayments of a minimum funding requirement'	(effective 1 January 2011)
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	(effective 1 July 2010)

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2011. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Segment reporting

The group has one business segment, the selling of capacity for the transmission of gas to Greater Belfast and Larne and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised over the period for which capacity is provided, using a straight line basis over the term of the agreement. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The remaining estimated useful lives of the licences are 41 years.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Pipeline	31 years

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Impairment of non-financial assets

The group 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 group 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 statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

Classification of financial instruments

The group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Loans and receivables (financial instruments)

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the statement of comprehensive income.

Trade and receivables with a maturity of more than twelve months from the balance sheet date are shown as non-current trade and other receivables.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Impairment of financial assets (continued)

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including i) adverse changes in the payment status of borrowers in the portfolio; and ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists. 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(b) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

Current income 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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the statement of comprehensive income.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are included in non current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight line basis over the expected useful economic lives of the related assets.

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Financial risk management

Financial risk factors

The group operates the gas pipeline which transports gas from Ballylumford to Greater Belfast and Larne under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited financial risk.

(a) Market risk

The group's interest rate cash flow risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at rates linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs during the year by £1,107,000.

Under the terms of its licence agreement the group receives sufficient revenue to settle its operating costs and its repayments of borrowings. Accordingly the group does not need to actively manage its exposure to cash flow interest rate risk.

(b) Credit risk

The group has limited exposure to credit risk as its customers are high profile gas suppliers, who are reliant on the use of the group's transmission assets. Given the nature of the industry in which the group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The Group also retains significant cash reserves and a liquidity facility with an A-rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 20.

Notes to the financial statements for the year ended 31 March 2011

Capital risk management

The group has no obligation to increase member's funds as the company's ultimate parent undertaking is a company limited by guarantee. The group's management of its borrowings and credit risk is referred to in the preceding paragraphs.

Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 29 years at the beginning of the year. If the remaining useful economic life had been assessed at 30 years depreciation would have decreased by £41,000 and if the remaining useful economic life had been assessed at 28 years depreciation would have increased by £44,000.

Notes to the financial statements for the year ended 31 March 2011

2 Expenses by nature

Group	2011 £'000	2010 £'000
Depreciation and amortisation (net of amortisation of deferred government grant)	**3,441**	3,441
Operating lease payments	**12**	12
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**10**	15
Other expenses	**1,875**	1,356
Total operating costs	**5,338**	4,824

3 Employee benefit expense

The company has no employees other than its directors (2010: none). The group's directors were not remunerated for their services to the company (2010: £nil) but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between service as a director of the company and services as a director of other group companies.

4 Finance income and costs

Group	2011 £'00	2010 £'000
Interest expense:		
Borrowings (including borrowing fees)	**(8,472)**	(6,642)
Finance costs	**(8,472)**	(6,642)
Interest income:		
Short-term bank deposits	**54**	62
Finance income	**54**	62
Finance costs/(income) – net	**(8,418)**	(6,580)

Notes to the financial statements for the year ended 31 March 2011

5 Income tax credit

Group	2011 £'000	2010 £'000
Current income tax:		
Current income tax at 28%	-	1
Group relief surrendered	(1,384)	(570)
Adjustments in respect of previous periods	(176)	(158)
Total current income tax	(1,560)	(727)
Deferred income tax:		
Origination and reversal of temporary differences	(3,399)	(1,346)
Adjustments in respect of previous periods	225	401
Total deferred income tax (note 15)	(3,174)	(945)
Income tax credit	(4,734)	(1,672)

The income tax (credit)/charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are reconciled below:

	2011 £'000	2010 £'000
Loss before income tax	(8,381)	(6,841)
Tax calculated at the UK standard rate of corporation tax of 28% (2010: 28%)	(2,347)	(1,915)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	(2,436)	-
Adjustments in respect of previous periods	49	243
Income tax credit	(4,734)	(1,672)

Future tax changes

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The effect of the reduction in the main rate of corporation tax from 28% to 26% has been reflected in the calculation of deferred income tax assets and liabilities as it was substantively enacted as at 31 March 2011.

The proposed reduction in the main rate of corporation tax from 26% to 24% was not enacted as at 31 March 2011 and has therefore not been reflected in the calculation of deferred income tax assets and liabilities. The effect of this proposed reduction in the main rate of corporation tax will reduce deferred income tax liabilities by £2,432,000.

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £4,223,000 (2010: £5,000).

Notes to the financial statements for the year ended 31 March 2011

7 Property, plant and equipment

Group	Total £'000
Cost	
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**38,480**
Accumulated depreciation	
At 1 April 2009	1,241
Provided during the year	1,242
At 31 March 2010	**2,483**
Provided during the year	**1,241**
At 31 March 2011	**3,724**
Net book amount	
At 31 March 2011	**34,756**
At 31 March 2010	35,997
At 1 April 2009	37,239

Depreciation expense of £1,241,000 (2010: £1,242,000) has been fully charged to operating costs. Borrowings are secured on the property, plant and equipment of the group

Notes to the financial statements for the year ended 31 March 2011

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2009, 31 March 2010 and at **31 March 2011**	**109,413**
Accumulated amortisation	
At 1 April 2009	2,487
Provided during the year	2,487
At 31 March 2010	**4,974**
Provided during the year	**2,487**
At 31 March 2011	**7,461**
Net book amount	
At 31 March 2011	**101,952**
At 31 March 2010	**104,439**
At 1 April 2009	**106,926**

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 44 years. The group has concluded that these assets have a remaining useful economic life of 41 years.

Amortisation expense of £2,487,000 (2010: £2,487,000) has been fully charged to operating costs.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2009, 31 March 2010 and **at 31 March 2011**	**112,384**

Investments in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertaking, which is incorporated in Northern Ireland, is:

Name of company	Holding	Proportion held	Nature of business
Belfast Gas Transmission Limited	Ordinary shares	100%	Operation of Belfast Gas Transmission pipeline

Notes to the financial statements for the year ended 31 March 2011

10 Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Trade receivables	**145**	134	**-**	-
Amounts owed by related parties	**2,257**	770	**9,059**	37
Prepayments and accrued income	**97**	88	**11**	14
Other debtors	**980**	657	**-**	-
	3,479	1,649	**9,070**	51

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

11 Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Cash at bank and in hand	**5,532**	4,318	**16**	1,307
Short-term bank deposits	**2,000**	2,605	**-**	-
	7,532	6,923	**16**	1,307

Cash and cash equivalents earn interest at a range of Bank of England base rate less 0.15% to Bank of England base rate plus 0.8%

12 Called up share capital

Group and company	**2011 £'000**	2010 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

Notes to the financial statements for the year ended 31 March 2011

13 Retained earnings

Group	£'000
At 1 April 2009	(1,978)
Total comprehensive income for the year	(5,169)
At 31 March 2010	**(7,147)**
Total comprehensive income for the year	**(3,647)**
At 31 March 2011	**(10,794)**

Company	£'000
At 1 April 2009	3
Total comprehensive income for the year	5
At 31 March 2010	**8**
Total comprehensive income for the year	**4,223**
At 31 March 2011	**4,231**

14 Borrowings

Group and company	2011 £'000	2010 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**116,368**	111,463
Current		
2.207% Index linked guaranteed secured bond	**762**	649
Total borrowings	**117,130**	112,112

The 2.207% Index linked guaranteed secured bonds 2048 were issued to finance the acquisition of Belfast Gas Transmission Limited and are linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, including default interest. In return for this guarantee, every six months the Group pays an index linked fee of 0.18% of the outstanding balance of the bond. The fair value of the bond is £78,051,000 (2010: £74,228,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.52% (2010: 4.64%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 20.

Notes to the financial statements for the year ended 31 March 2011

15 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Group	2011 £'000	2010 £'000
Deferred income tax assets	-	(225)
Deferred income tax liabilities	31,618	35,017
Deferred income tax liabilities (net)	**31,618**	34,792

The gross movement on the deferred income tax account is as follows:

Group	£'000
At 1 April 2009	35,737
Income statement credit for the year	(945)
At 31 March 2010	34,792
Income statement credit for the year	(3,174)
At 31 March 2011	**31,618**

The movement in deferred tax assets and liabilities during the year is as follows:

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2009	-	5,798	29,939	35,737
Income statement credit for the year	(225)	(23)	(697)	(945)
At 31 March 2010	(225)	5,775	29,242	34,792
Income statement charge/(credit) for the year	225	(664)	(2,735)	(3,174)
At 31 March 2011	-	5,111	26,507	31,618

The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £25,861,000 (2010: £28,545,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £4,859,000 (2010: £5,775,000).

Notes to the financial statements for the year ended 31 March 2011

16 Government grant

Group	£'000
At 1 April 2009	8,638
Amortised during the year	(288)
At 31 March 2010	8,350
Amortised during the year	(288)
At 31 March 2011	8,062

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £288,000 (2010: £288,000) and the non-current portion is £7,774,000 (2010: £8,062,000).

17 Trade and other payables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade payables	25	20	6	8
Accruals and deferred income	817	399	51	6
Amounts owed to related parties	415	66	2	1,557
Other tax and social security	396	366	-	1
	1,653	851	59	1,572

18 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land which expires on 31 December 2051. There are no restrictions placed upon the lessee by entering into this lease. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	2011 £'000	2010 £'000
Not later than one year	13	12
After one year but not more than five years	51	47
After more than five years	451	429
	515	488

Notes to the financial statements for the year ended 31 March 2011

19 Related party transactions

The ultimate controlling parties of the group are the members of Mutual Energy Limited.
During the year the group entered into transactions, in the ordinary course of business, with related parties.
Transactions entered into, and balances outstanding at 31 March with related parties, are as follows:

	Amount owed (to)/from related party	
Group	2011 £'000	2010 £'000
Fellow subsidiary undertakings – current assets	2,257	770
Parent undertakings – current liabilities	(347)	(45)
Fellow subsidiary undertakings – current liabilities	(68)	(21)

		Amount of transaction	
Group	Nature of transaction	2011 £'000	2010 £'000
Parent undertakings	Charges payable	(216)	(190)
Fellow subsidiary undertakings	Group relief surrendered	1,384	728
Fellow subsidiary undertakings	Charges payable	(177)	(31)

	Amount owed (to)/from related party	
Company	2011 £'000	2010 £'000
Subsidiary undertaking – current assets	6,568	-
Subsidiary undertaking – current liabilities	-	(1,557)
Parent undertaking – current assets	50	-
Fellow subsidiary undertakings – current assets	2,441	37

		Amount of transaction	
Company	Nature of transaction	2011 £'000	2010 £'000
Fellow subsidiary undertakings	Group relief surrendered	1,384	-
Parent undertaking	Group relief surrendered	929	-
Subsidiary undertaking	Interest receivable	8,529	6,817
Subsidiary undertaking	Interest payable	-	(162)

Notes to the financial statements for the year ended 31 March 2011

20 Financial instruments

The group and company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Loans and other receivables
Cash and cash equivalents	Loans and other receivables
Borrowings	Other financial liabilities at amortised cost
Trade and other payables	Other financial liabilities at amortised cost

The group's and company's contractual undiscounted cash flows (including principal and interest payments) of its financial liabilities are as follows:

At 31 March 2011 Group	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
2.207% bond	3,344	3,411	3,479	3,548	3,621	163,293	180,696
Trade and other payables	1,257	-	-	-	-	-	1,257
	4,601	3,411	3,479	3,548	3,621	163,293	181,953

At 31 March 2010 Group	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
2.207% bond	3,119	3,182	3,246	3,311	3,376	158,831	175,065
Trade and other payables	485	-	-	-	-	-	485
	3,604	3,182	3,246	3,311	3,376	158,831	175,550

At 31 March 2011 Company	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
2.207% bond	3,344	3,411	3,479	3,548	3,621	163,293	180,696
Trade and other payables	59	-	-	-	-	-	59
	3,403	3,411	3,479	3,548	3,621	163,293	180,755

At 31 March 2010 Company	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
2.207% bond	3,119	3,182	3,246	3,311	3,376	158,831	175,065
Trade and other payables	1,571	-	-	-	-	-	1,571
	4,690	3,182	3,246	3,311	3,376	158,831	176,636

Notes to the financial statements for the year ended 31 March 2011

21 Ultimate parent undertaking

The immediate parent undertaking is Belfast Gas Transmission Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are not prepared.

The ultimate parent undertaking, and the only group of undertakings for which group financial statements are prepared, is Mutual Energy Limited, a company incorporated in Northern Ireland. Copies of the group financial statements are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

Notes