mutualenergy

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

2012

Annual report & accounts

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2012
Annual Report / accounts

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

Peter Warry
Chairman

This year Mutual Energy has faced two major challenges: substantial alterations to energy regulation; and sub-sea faults on our electric cables. Energy markets throughout Europe are facing unprecedented regulatory-driven change, and this change process will continue for much of the next decade. Whilst these market challenges are our future, this year presented us with a challenge of its own in the shape of concurrent sub-sea faults on each of the Moyle Interconnectors' cables. In response the group successfully undertook what is reputedly the largest offshore cable repair ever undertaken, encompassing two repairs and four joints in difficult waters in the worst possible season.

Market change

The energy industry in Northern Ireland is at the start of a period of great change, largely driven by European initiatives and legislation. At a policy level the EU directives on energy oblige member states to implement certain structures and arrangements. At the regulatory level a new body, The Agency for the Co-operation of energy Regulators ("ACER"), is effectively rewriting the rules for energy networks and energy markets throughout the EU, with the local regulatory bodies obliged to follow the decisions of ACER.

As a business we are beginning to see the effects of these changes. In our gas businesses we have recently undertaken a project to introduce new products to the market in order to comply with EU regulations even though there is no demand for these products from shippers. In our electricity business the imminent commissioning of the East West Interconnector has meant we have had to align our rules to those required by the EU. These rules include potentially giving away capacity for free if all auctioned capacity is not sold, the removal of a reserve price linked to the costs we need to recover and the selling of capacity to all bidders at the price of the

lowest successful bid. These changes will push the Moyle Interconnector to the more common European model of customers paying directly for interconnector assets through Use of System charges.

The theme of change extends also to the shape of the industry in Northern Ireland. The increasing use of wind power on the system, now above 400MW capacity in Northern Ireland, reinforces the essential need for both our electricity and gas interconnectors. Gas fuelled power stations are the natural complement to intermittent wind, and these rely on our gas interconnector, while the flexibility of electricity interconnectors becomes essential in a network heavily dependent upon wind generation. Our proposed gas storage facility will provide crucial resilience to the system if or hopefully when it is built.

Operational challenges

In the summer of 2011 the Moyle business faced its toughest operational challenge to date, with sub-sea faults on each of the two cables. The mobilisation of the necessary detection and repair vessels, along with the specialist repair and analysis teams from USA, Norway, the Netherlands and Great Britain, meant that the repairs would inevitably take place during the autumn / early winter period. We are very pleased that such a technically challenging deep sea operation was brought to a successful conclusion, with the first cable back in service in January 2012 and the second in February 2012. Sadly in June 2012 there has since been a further fault which we are currently investigating. The only financial implication to the group is the cost of reconfiguration or repair of the asset. Final resolution of the insurance claim in respect of the incidents may take some time, but the risk management arrangements within the group mean that the group has been able to meet the costs of this repair and absorb the loss of revenue in the outage period. The scale of the repair program and the financial impact of waiting for the insurance to be settled are evident in the financial statements.

The cause of these faults and a previous one in 2010 is the subject of an in depth scientific investigation which has yet to conclude. Once this investigation has concluded, Moyle, together with the regulator, will consider all possible options open to it. These possible options are outlined on page 14 of this report. Another fault has added even further urgency to these considerations.

Costs to the customer

We continue to measure our success by the savings we make for the energy consumers of Northern Ireland. As we move towards an era where payments to interconnectors are likely to come from Use of Systems charges it is worthwhile reflecting that if the Moyle Interconnector were charged in the same way as on land infrastructure with no capacity charges, consumers would have directly paid over £120m to date for use of the asset. Under our licence regime and auction arrangements nothing has been charged directly to consumers over the last eight years. The changing environment with the East West Interconnector and the European-lead regulations mean that for the 2012/13 tariff year Moyle will charge customers some £14.5m (through a CAIRt call) in a manner more consistent with the rest of the Northern Ireland system, which equates to an effective real rate of less than 2%.

Future prospects

The changing environment in energy in Northern Ireland makes both the gas and electricity interconnectors more essential than ever before. As a business we look forward to managing these assets under any new EU inspired frameworks. We are actively assessing the impacts on our networks of the increase in wind generation in the region and are interacting with industry groups and the regulatory authorities to promote a wider use of the mutual model to minimise the cost of investment to consumers.

During the year our gas storage joint venture with Infrastrata plc, sold a 50.4% option to BP Gas Marketing Ltd. The project is in the final stages of planning and, provided the regulatory arrangements are put in place, we expect this vital project to take a large step forward in the coming year. The presence of a gas storage facility in Northern Ireland would be a major boost to system stability and security of supply.

Board and members

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.

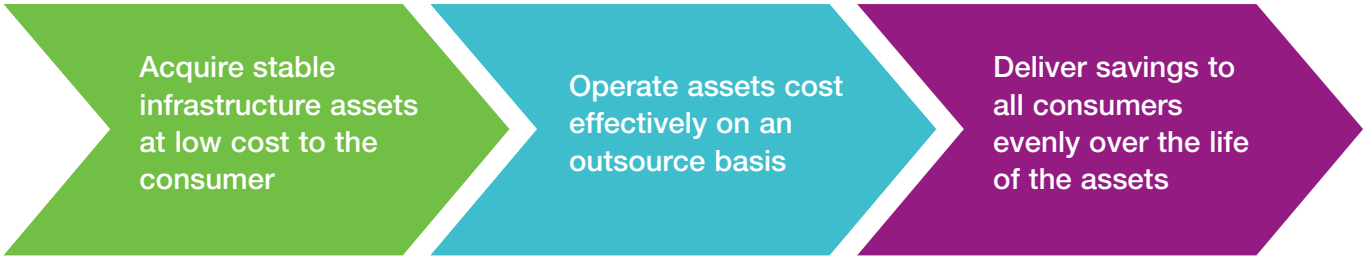
On 31 March 2012 a number of long standing members reached the end of their terms with the company and I would like to thank them for their contribution.

I would also like to thank my colleagues on the board, our 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.

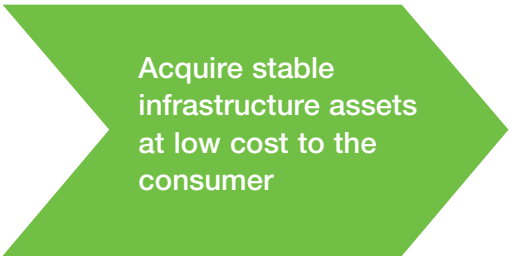
Peter Warry

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

The group will provide a safe, reliable and efficient transmission service to the electricity and gas suppliers 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 upstream outages) x capacity unavailable / Total plant capacity under connection agreements x the number of hours in the year.

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

Key Performance Indicator

4. Cash reinvested to avoid charging consumers

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:

Cash reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset.

5. Cash generated from operations

Cash generated in each of the businesses which will be used to avoid future charges to consumers.

Definition of KPI

Cash reinvested to avoid charging consumers

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 group operating for the benefit of consumers, the group has chosen to meet its forecasted costs through using its cash reserves where possible. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.

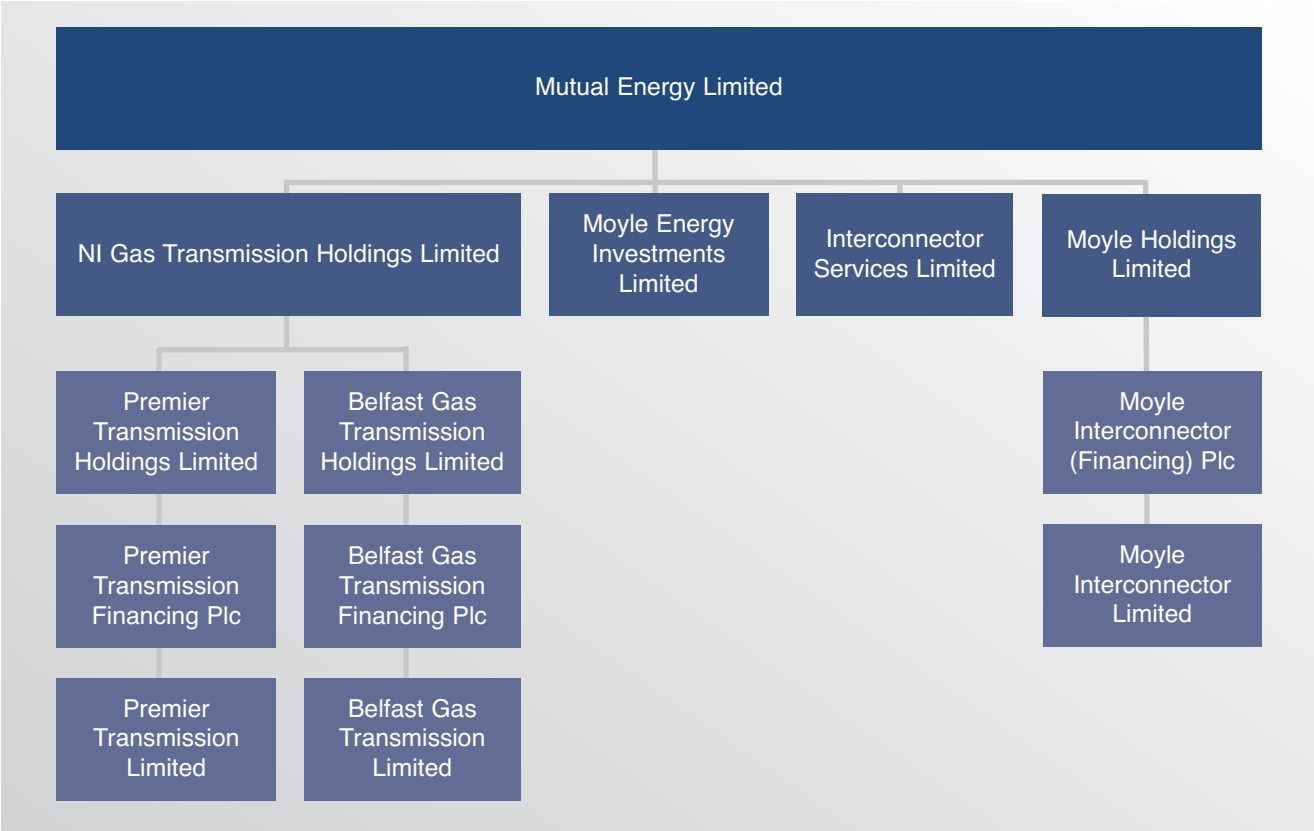
Cash generated from operations

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. These are included later in this report.

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 group 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:



The Mutual Energy Team: Back row (l-r) Mark Raphael, Emma-Jayne Armstrong, Paul McGuckin, Emmet McFadden, Roisin Clarke and Mick McGuckin, Front row (l-r) Stephen Hemphill, Paddy Larkin and Gerard McIlroy.

Key facts and KPIs

£31.0m turnover
2010/11
£38.9m

-£18.7m Cash flow
2010/11
+£0.6m

£17.2m Adjusted EBITDA*
2010/11
£23.9m

Revenue, profitability and reserves

Group revenue in the year to 31 March 2012 was £31.0m (2011: £38.9m). Group operating loss before interest and tax was £24.4m (2011: £13.2m profit), after the inclusion of cable repair costs of £31.0m. After accounting for debt service, the group made an after-tax loss of £34.6m (2011: £2.6m).

Finance charges

Included within finance costs is £22.2m (2011: £22.7m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.1m (2011: £8.8m);
- £11.9m (2011: £12.8m) required to restate bond liability to latest applicable Retail Price Index; and
- Bond fees, liquidity facility fees and other charges £1.2m (2011 £1.1m).

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.

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

As noted in previous years, the current accounting treatment of this under International Accounting Standard 39 "Financial Instruments: Recognition and measurement" 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

The major impact on the group cash flow in the year was the repair of the Moyle cable faults. As a result of these costs, and the reduction in sales revenue during the repair, Moyle group experienced a net cash outflow of £19.1m (2011: inflow of £1.0m).

The Premier Transmission group and Belfast Gas Transmission group were cash generative during the year.

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.

Cash position

All three subgroups hold high levels of cash reserves to allow for such unforeseen requirements as the Moyle faults and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. Cash reserves in Premier Transmission group amounted to £26.0m at year end and Belfast Gas Transmission held £9.8m. At the year end Moyle held operating cash reserves of £35.0m, which includes the £9.6m retained to cover expected operating deficits in the current year, so as to reduce the cash call made on electricity consumers. Moyle's Distributions Account held £7.9m at year end. These funds are available for use for the benefit of electricity consumers in Northern Ireland in consultation with the Utility Regulator. £2.8m 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 £74.2m (2011: £92.9m).

* Adjusted EBITDA is calculated as EBITDA before cable repair costs

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 2.58 against a required figure of 1.15 for Moyle, 2.58 against a required figure of 1.20 for Belfast Gas and 2.04 against a required figure of 1.25 for Premier Transmission.

All bond covenants complied with

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 £26.4m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission.

Operational performance

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

The subsea faults in Moyle were the major focus in the electricity business. The south cable suffered a fault on 26 June 2011 causing full loss of this cable. On 24 August 2011 a further fault on the north cable was experienced causing full loss on this cable.

The emergency response plan was enacted as soon as the first cable fault was encountered and specialist fault location teams mobilised (for more detail see pages 16 to 17).

The first cable was brought back into operational service on 18 January 2012, with both cables being back in full service on 19 February 2012.

The fault on the south cable of the Moyle Interconnector

In the gas businesses 100% availability was maintained throughout the year.

£9.6m to avoid consumer charges

Moyle set aside £9.6m (2011: £13.6m) at year end as a further contribution from its accumulated operating surplus towards lower electricity prices in Northern Ireland in the coming year by reducing the Moyle cash call. In previous years the cash set aside has been sufficient for Moyle to cover its costs but for the 2012/13 tariff year it was also necessary for Moyle to make a cash call of £14.5m to the System Operator for Northern Ireland ("SONI"), for collection from electricity suppliers as part of the use of system bill for Northern Ireland. The necessity to make such a call derives mostly from the uncertainty of auction income in 2012/13. The impact of the East West interconnector, the removal of the auction reserve price and the potential for future faults all make auction revenue uncertain.

£0.1m returned to consumers via gas shippers

Where efficiency gains are achieved by the gas business through reduction in its costs, these 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 30 September 2011, the combined gas businesses actual required revenue was £20.36m, against a forecast of £20.44m. £0.08m was returned to shippers in January 2012 by netting against their ongoing charges for capacity. In addition a further £0.22m was retained in the businesses for the future benefit of consumers.

Future developments

The essential nature of the Moyle Interconnector to Northern Ireland was highlighted in the electricity capacity review published by SONI and EirGrid in December 2011. For the foreseeable future the Moyle Interconnector is essential to the maintenance of a robust electricity system in Northern Ireland. Following the 2011 cable faults the group focused on assessing the various options to improve the resilience of the interconnector asset. These options include further developing the capability to run with different conductor arrangements, improvements to response plans, capital expenditure on low voltage return cables, early replacement of the control systems and reconfiguring the cables to work using only the HV core. These options will enable us to maintain the operating capacity of the system and auction revenue flows into the business. The precise failure mechanism leading to the faults is the subject of analysis by a Dutch consultancy group and the outcome of the tests will help inform the best course of action in response to the fault experienced in June 2012.

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 directors continue to seek investment opportunities which will match the group's 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 aquisitions actively assessed

During the year the group actively evaluated a number of possibilities for further acquisitions in Northern Ireland. In partnership with Scotia Gas Networks the group responded to a DETI consultation on the expansion of the gas network in Northern Ireland to the West of the province. Based on the detailed work we have carried out on the project we believe a mutualised transmission connection is the most economical way to deliver this network extension and look forward to exploring ways to make this a reality.

The group continues to support the efforts to develop gas storage in Northern Ireland (see page 18).

Moyle cable repair

The Moyle cable repair program was one of the largest of its kind ever undertaken in the world. In order to minimise the effect on Northern Ireland the work was undertaken as soon as a suitable vessel and specialist engineers were available. The work was carried out in testing conditions in the middle of winter. Despite a succession of storms with wind speeds gusting up to 80 mph, both cables were repaired at the first attempt and brought back into service.

Fault location

The immediate challenge faced by the engineering teams was to locate the fault. Data from the monitoring systems gave indicative locations within hours of the faults occurring. Within days specialist teams were brought in from UK to narrow down the locations. In all three different companies were used from as far afield as the USA using a number of location techniques, including tone location, where a tone is passed along the cable and monitored by a following remotely operated submarine vessel, and resistance measurement techniques, which calculated the location of the fault by comparing the measured resistance of the conductors either side of the fault.


Repair ship, The North Sea Giant in Belfast, October 2011.

The actual size of the damaged insulation area was not much bigger than a 10p piece, on cables each 63km long.

Mobilisation

Simultaneous with the fault location work, the mobilisation of the resources needed for the repair took place. The most critical resources were the repair vessel and cable repair engineers. Multi-year weather data on wave height and wind conditions were married with the technical repair plan to inform the specifications of the vessel required. Offshore marine vessels are much sought after, (the vessel eventually contracted for example was contracted for a full two years after completing the Moyle repairs), but after an exhaustive search a number of vessels were identified and the North Sea Giant successfully secured for the work. At 161m in length, a dead weight tonnage of over 12,000 tonnes (compared to about 6,000 tonnes for the new ferries on the Irish Sea) and with a crew of up to 120, the North Sea Giant is amongst the largest and most advanced offshore construction vessels ever built. As a multipurpose vessel with substantial deck and crane capacity, with its special features including 5 x Voith Schneider propellers, giving the vessel extremely good station keeping capabilities in dynamic positioning mode, it met the criteria required for a repair in winter heavy seas.

Nexans of Norway were appointed as lead contractor, providing the jointing engineers and managing the repair. Insurance for the repair work was sought in both the London and Frankfurt markets and the vessel fitted out for 2 weeks with the turntables, de-burial and other remotely operated vessels and specialist equipment required for the work. The spare cable itself weighed approximately 150 tonnes and took 22 days to prepare and transport by sea to the mobilisation port in Kristiansund, Norway.

De-trenching

Cable repair commenced with the deburying of the cable. The Moyle cables are nominally buried 1m below the sea bed. In soft seabed the burial depth is considerably more and in very hard material the cables are protected by placing rock along their length. With the cable faults located in water depths of up to 140 metres the work is all undertaken by remotely operated vehicles (ROV's). A trench is opened in the seabed to uncover the cable using high pressure water jetting with suction tubes to remove the associated suspended seabed material. Large rocks or other debris must be removed individually using a combination of water jetting and direct mechanical

force from an ROV. If the precise fault location is known then a length of about three times the water depth is needed to enable the cable to be cut and lifted to the surface.

The sea bed material around the fault location on the south cable was particularly difficult to cut through with the high pressure water jets and contained many rocks and boulders. Currents on the sea bed are determined by many factors such as, tidal flows, weather, depth of water and topography of the seabed. At the time of the repairs on the south cable we encountered very strong sea currents, to the extent that the ROV's could not hold their position or there was a severe reduction in visibility and work had to be suspended. The duration of the stoppages varied in line with the tidal daily and monthly cycle.

Cable recovery

Once uncovered the ROV uses a combination of abrasive discs and shears to cut the cable, then the cable is lifted to the surface using clamps and hooks from the vessels crane.

Cable testing

Once one cut end of the cable has been recovered to the vessel this can be tested back to the shore to determine if the fault is in that section or not. If it is in that section then the distance to the fault is estimated and the cable is taken on board until the damaged area is located, this may require further de-trenching if the fault is some distance away. Once the actual damaged section has been found the cable is cut beyond the fault in preparation for jointing to the spare cable.

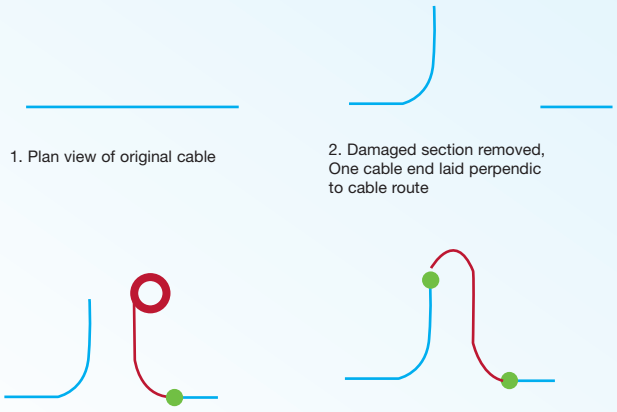
Repair process

Overall the repair process aims to replace the damaged section of cable with undamaged spare cable. However the water depth means that this cannot be achieved along the original cable route because the cable would be too long when re-laid on the sea bed. The following diagrams explain the process used to avoid this problem.

Jointing

As can be seen from the diagram each repair requires two joints. The Moyle cables, having an integrated return conductor and integrated fibre optic cables, contain a complex multitude of layers which requires specialist skills to join. Typically one joint takes nine days to complete with jointers working continuously twenty four hours a day.

The key risk during jointing is weather. If the weather turns particularly bad there is a risk that the cable could be damaged further and to avoid this, the cable would be cut and returned to the sea bed with the need to start the jointing process all over again. Ideally we require a nine day fair weather forecast before starting a joint. We experienced particular problems around Christmas and the New Year when a succession of very heavy storms came through the work area.



1. Plan view of original cable

2. Damaged section removed, One cable end laid perpendic to cable route

3. Spare cable jointed to one end, and rolled out.

4. Spare cable jointed to other cable tail end, and loop laid on sea bed.

Testing, laydown and cable protection

The Moyle cables weigh nearly 50kg per metre so when the final joint is made there can be around 20 tonnes of cable hanging off the vessel. Careful handling of the cable is critical to avoid cable damage. The loop at the final joint is supported by a steel frame during the laydown process. In addition to the local testing at the joint location, the overall cable from end to end is tested before and after lay down. After the cable is safely laid on the seabed and fully tested it must then be protected from potential damage from strong sea currents, fishing gear, anchors or other external sources of damage. This is achieved by high pressure water jetting of the seabed underneath the cable to effectively fluidise the material and allow the cable to sink into the ground. The cable must again be tested following burial to ensure that the process has not damaged the cable.

Gas storage

Northern Ireland is fully reliant upon gas imported from Britain which currently all flows through Premier Transmission's pipeline system. Future short term unpredictable changes in the demand patterns for gas, particularly from gas power stations being switched on and off at short notice to balance wind generation, is unlikely to be accommodated through a pipeline system only. Contractual and physical limitations on the infrastructure supplying the SNIP, namely the Moffat interconnection point operated by National Grid and the South West of Scotland system operated by BGE, mean that allowable within day changes to power stations' gas take will be limited compared to the unpredictable nature of dispatch at the day-ahead stage. Without specific infrastructure these limitations will require the gas stations to switch to backup fuel if they are to change from a low output to a high output at short notice. Additional expenditure on adding compression to the system or building another pipeline in Scotland would alleviate the issue to a degree in the near term but would be time limited as the unpredictability of gas fired generation dispatch increases. By far the best long term solution for Northern Ireland would be the building of a flexible gas storage facility.

Layout of the proposed Islandmagee gas storage facility.

A gas storage facility provides security in the event that supplies are disrupted along the supply chain, a chain which since 2010 has changed from a short one from Northern Ireland to the North Sea to a much longer one stretching to Norway, the main continental gas hubs, (themselves supplied from as far away as Russia), and the world LNG market through ports in southern Britain. Of perhaps even more value a salt cavity gas storage facility provides what is known as "flexibility" – the ability to supply large volumes of gas at short notice. Gas storage situated in Co Antrim would solve the gas supply issues surrounding gas fired generation balancing wind output, remove the need for Northern Ireland consumers to fund expensive new gas infrastructure or pay for the power stations to burn back up fuel oil instead, as well as providing pressure on the system supporting gas supplies along any new network out to the west of Northern Ireland and allowing gas to flow from Northern Ireland to the Republic of Ireland.

There are two projects under development at present. Either of these projects has the potential to provide these widespread benefits for Northern Ireland.

Considering the Islandmagee project in which Mutual Energy has a minority stake, this year has seen the project take a number of significant steps forward, with BP Gas Marketing becoming involved with an option to take a majority stake, a formal licence application being submitted, and planning reaching the end of the process with a decision imminent. The Islandmagee project is expected to be a 500 million cubic meter facility, enough gas to supply all of Ireland's average demand at Moffat for 25 days and would be in effect a regional store, capable of providing at least 75% of the average winter demand in the island of Ireland in the event of supply constraints at Moffat. The key to the development of any storage facility of this size, and by extension the key to energy security in Northern Ireland, will be the implementation of a suitable cross jurisdictional transportation tariffing regime. This regime needs to allow gas to flow across the three jurisdictions of Great Britain, Northern Ireland and Republic of Ireland incurring charges that are appropriate to a "storage" user utilising off peak capacity which no-one else can use.

With a development time of 5 years until first physical operation, and the challenges facing the system if increased wind generation is to be supported by the gas supply, the need for an immediate start to construction of gas storage is essential. With the Common Arrangements for Gas project suffering a hiatus, the Regulatory Authorities have taken the positive step of publishing a workplan to put in place the key parts of the rules required to allow an investment decision and then construction. The timely completion of this workplan and implementation of a clear and workable regulatory and tariff regime are the most important steps to realising gas storage in Northern Ireland. The group's investment in this project to date is £35. The company has the right to exit the project in advance of any significant expenditure.

Photomontage of proposed Islandmagee gas storage facility.

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 2012 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.

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 periodically reviewed by the board. Remuneration is linked to performance throughout the organisation.

	2012	2011
Employee KPIs		
Training days per employee	3.0	4.7
Sickness absence days per employee	2.6	0.7
Cycle to work take up	78%	63%
Personal Pension take up	92%	78%

The risk of failure by subcontractors is managed 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'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 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 material issues 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.

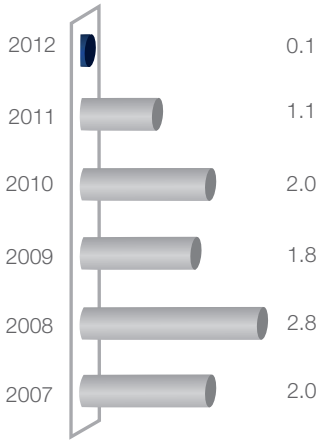
Key facts and KPIs

£20.7m turnover
2010/11
£22.4m

£3.4m Cash flow
2010/11
+£2.4m

£10.7m EBITDA
2010/11
£10.3m

Gas business operational savings forecast (£)



The effect of the CAG costs, which were not budgeted in the FRR, and increased costs passed through from BGE, was to reduce the savings against FRR this year.

Gas business

Market environment

All the natural 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.

Gas volumes transported in our pipeline system, based on demand, increased by 0.7% from the previous year due to 1.3% more gas being used in Northern Ireland for power generation. This increase in power generation gas usage was partly a consequence of the unavailability of the Moyle Interconnector in the year which resulted in reduced imports of electricity from GB, and therefore increased generation on the island.

The rise in the power generation demand was partially offset by a 0.5% decrease in gas demand in the non power (distribution) sector compared to the previous year.

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 2018/19, assuming no new gas fuelled power generation.

EU "Second and Third Packages"

The regulatory authorities in Northern Ireland and Republic of Ireland were 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"). In October 2011 a number of key decisions were due to be made by the regulatory authorities to make this happen. No decisions were forthcoming and the project was put on hold pending completion of a study by regulators North and South and an update on the cost benefit analysis to be carried out by CER.

This CAG project was envisioned to involve the implementation of a common code throughout the island, a single joint system operator and a new entry/exit tariff regime. As all these issues are now on hold the gas businesses have embarked on a series of measures to ensure compliance with the EU regulations in the interim.

Gas market regulatory changes

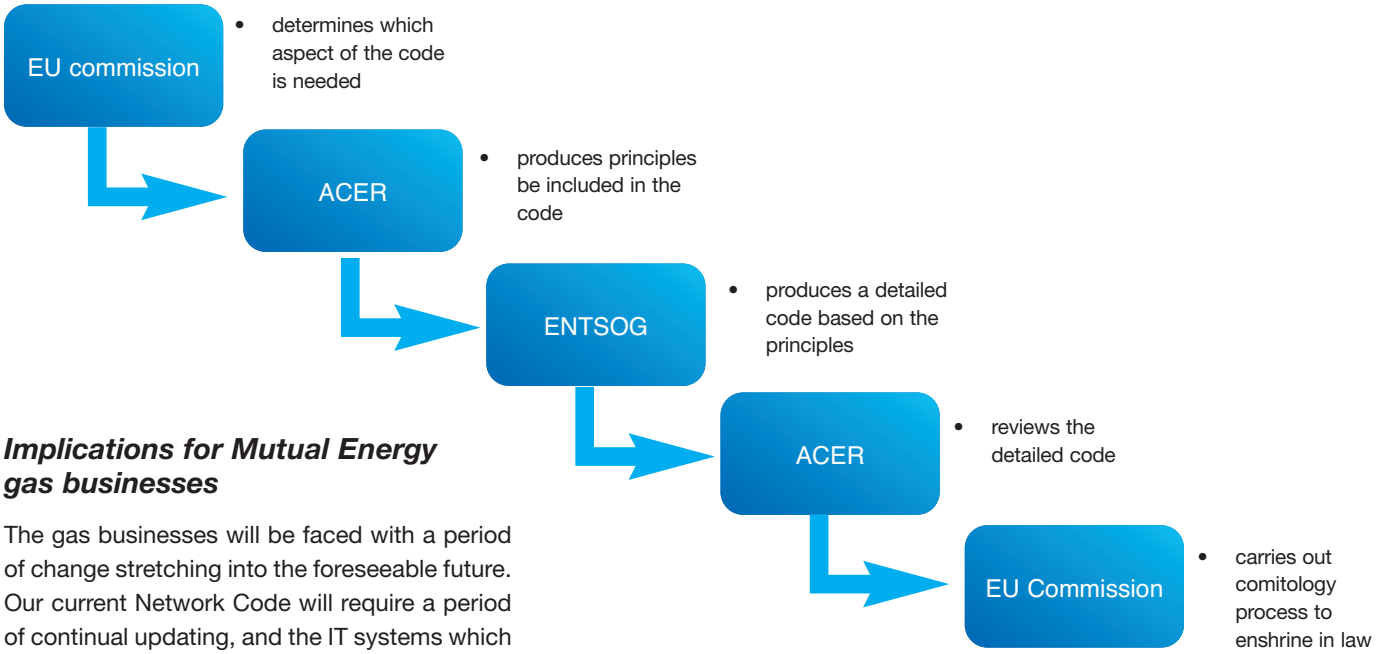
EU target model

The regulation of gas infrastructure, and in particular cross border points or interconnectors, is increasingly dominated by EU legislation. The latest EU directive seeks to ensure consistency across energy markets in the EU to move towards a single energy market. While previous directives have made specific requirements and then relied upon individual countries and regulators to implement them, there is a new approach with the latest regulation.

The EU has now set about creating a "target model". Under this arrangement the contracts between network operators and shippers who use gas infrastructure, the Network Code, must be based upon the detailed, prescriptive and centrally produced model. A number of new bodies have been set up to facilitate the creation of this centrally produced model including the Agency for the Co-operation of Energy Regulators ("ACER") and the European Network of Transmission Operators for Gas ("ENTSOG").

The diagram on the next page illustrates the process.

Process for creation of EU "target model":



Implications for Mutual Energy gas businesses

The gas businesses will be faced with a period of change stretching into the foreseeable future. Our current Network Code will require a period of continual updating, and the IT systems which implement the code will require reconfiguration to support the changes. The EU is currently working on the network codes on balancing, data exchange, and interoperability. The consequent changes will include migration to an entry exit code, and likely de-odourisation at transmission level.

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.

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 2012 reconciliation Premier Transmission produced a saving of £0.45m against forecast. Following discussions with the Northern Ireland Authority for Utility Regulation, Premier Transmission Limited was entitled to retain £0.2m of this saving, to be applied for the benefit of consumers at a later date.

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 Ratio (ADSCR), both BGT and PTL will tend to average towards 2.0. Over-performance above 2.0 in the 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 2012 reconciliation, Belfast Gas' costs were £0.15m above forecast.

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

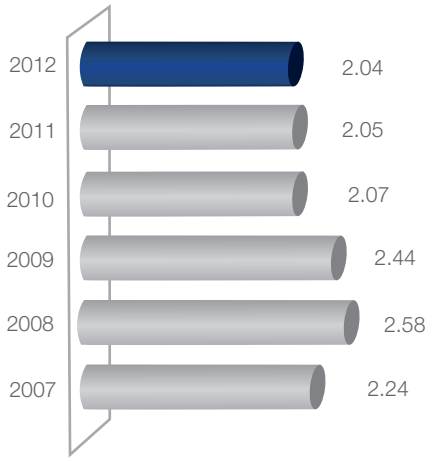
Operational performance

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 fell 8.4% to 7.09 mscm by the end of the year, as a result of a power station exercising an option to reduce their capacity. A total volume of 15,930 GWhs flowed through the SNIP in the 2011/12 financial year, which is largely in line with the prior year.

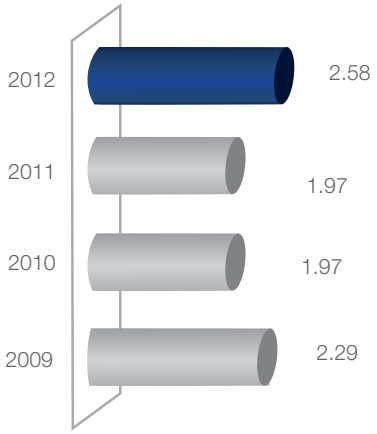
The winter of 2011/12 was considerably milder than the two previous winters. The Northern Ireland system experienced a peak day gas usage of 6.3 mscm, which is 89% of the total current booked capacity on the pipeline. This compares to a peak day of 6.7mscm last year.

Premier Transmission ADSCR



Premier Transmission has a minimum required ADSCR of 1.25.

Belfast Gas Transmission ADSCR



Belfast Gas has a minimum required ADSCR of 1.20

BGE (UK), who operate the network in the South West of Scotland, have a contractual obligation to reserve 8.08 mscm per day for the transportation of natural gas for Northern Ireland.

When the capacity is being used at a high level the pressure achievable in Northern Ireland is very dependent on the pressure delivered to the start of the SNIP by BGE (UK).

In October 2011 BGE (UK) indicated that they may not be able to achieve the anticipated normal operating pressure in high demand periods. As it happened pressures at Twynholm were fine over the 2011/12 winter period. However the issue is an important one for our shippers who could face being turned down in the event BGE cannot provide the anticipated normal operating pressure at Twynholm.

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 2012.

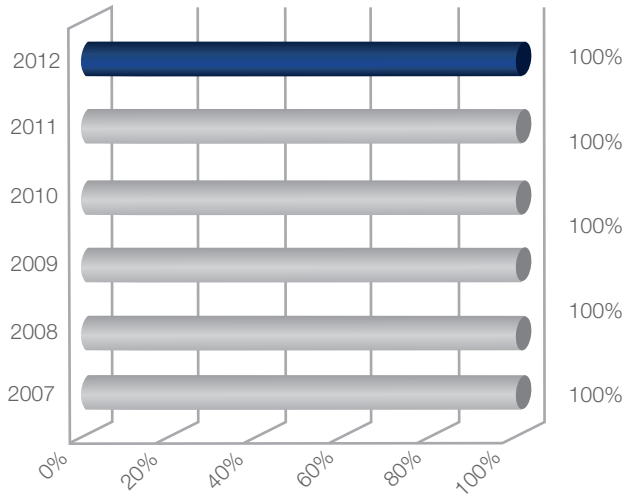
The programme of works for the period focused on safety and the set up and implementation of the new Maintenance and Emergency Response Contract (MERC).

Key facts and KPIs

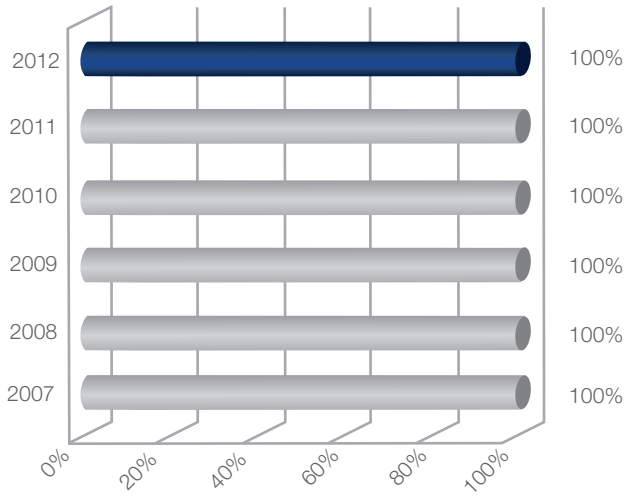
7.09 mscm
booked capacity
2010/11
7.74 mscm

15,930
transported
2010/11
15,817 GWhs

Premier Transmission availability



Belfast Gas Transmission availability



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.

The gas system Safety Case, as part of its three yearly periodic reviews, was submitted to the Health & Safety Executive (HSE). The Pipeline Integrity Management System Manual, which describes the gas systems asset integrity arrangements was completed and submitted as a Safety Case key reference document. The HSE confirmed acceptance of the gas system Safety Case in November 2011.

The financial year 2011/12 coincided with the first full year operation of the new MERC agreement. The gas system assets were populated on the computerised maintenance management system "Maximo" provided as part of the MERC agreement. The introduction of Maximo enhances work scheduling arrangements which were previously paper based and is the key asset repository system. All surveillance, inspection maintenance and monitoring of the gas system assets were completed on schedule throughout the year.

The presence and profile of the gas system subsea assets were enhanced through increased communication with the fishing organisations and the installation of 6 new marker buoys in Belfast Lough.

PTL successfully participated in the annual National Emergency Exercise Saffron and also conducted a separate exercise testing the capacity shortfall arrangements in the PTL Network Code. The debrief of both exercises was facilitated by PTL and included participants from the gas industry, NIAUR and DETI.

Future developments

The future operation of the gas transportation system in Ireland was expected to have been subject to convergence of the rules governing the gas markets in Northern Ireland and the Republic of Ireland, known as the Common Arrangements for Gas ("CAG"). The position of this policy initiative is under review by the regulators in NI and RoI.

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, are expected to decide in late 2012 on the future of this project.

In the absence of progress on this issue the work in the gas side will focus on the compliance with EU regulations. In the event that CAG does not proceed Northern Ireland may seek to have a single operator for the entire local network.

Total annual gas demand had fallen for three consecutive years in Northern Ireland, until this year's slight increase. This overall decrease in demand has occurred as a result of power generation dispatch moving from Northern Ireland to the Republic of Ireland and to renewable energy sources. The slight increase in demand in the year was caused by the unavailability of Moyle which resulted in lower imports and therefore increased use of gas fired power stations in Northern Ireland - this increase is therefore expected to be temporary.

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 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 for the use of capacity in their South West of Scotland pipeline, 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 sufficient 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 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.

Electricity business

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.

The all island capacity adequacy statement 2012-2021, produced by Eirgrid and SONI highlights that the Northern Ireland system is forecast to have very modest (200MW) of surplus capacity from 2016 to 2019. The Moyle Interconnector will therefore be a key component of the electricity system in Northern Ireland essential to maintaining a reliable system.

In the longer term the Northern Ireland executive has set a target for 40% renewables by 2020. If the 40% level of renewable generation is achieved then prices are likely to fall significantly in a market which uses system marginal price to set prices. Low prices in Ireland would encourage a change in direction for the Moyle Interconnector, creating export opportunities for Irish generators, which would help interconnector businesses. In this regard last year's 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.

The impact of the proposed Electricity Market Reform in the UK will not be clear until the detail is known, however the prospective abolition of the Renewable Obligations Certificates (ROCs) scheme may reduce the incentive for renewable development in Northern Ireland, whilst the carbon tax will encourage the displacement of Northern Irish generation by Republic of Ireland plant not subject to the tax.

As in the gas business, EU energy legislation continues to dominate market development activity and European bodies are developing compulsory network codes to govern how electricity markets and systems interact with each other with the objective of creating a single European energy market.

From the work carried out to date the form of the eventual single electricity market will not be compatible with the existing all island single electricity market (SEM) and it will have to be significantly modified or replaced by 2016 at the latest to allow for compliance with EU law.

The EU requirements also have specific obligations for interconnectors. Much work has been carried out on Moyle commercial arrangements to allow for compliance and this work will continue as the EU requirements crystallise.

Revenue and profitability

The group's electricity business centres on the Moyle Interconnector. Moyle's revenue is earned from sales of the transmission capacity on the Moyle Interconnector, on contracts ranging from one day to one year, 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. Expected competition from the East West interconnector, scheduled to commence operation in autumn 2012, and the fact that reserves have to be allocated to provide liquidity until insurance is settled, has meant that, for the first time, the Moyle Interconnector is obliged to make a CAIRt call for £14.5m for the tariff year 2012/13.

Moyle capacity is sold to electricity traders in annual, bi-annual, quarterly and monthly auctions. Monthly auctions were suspended in

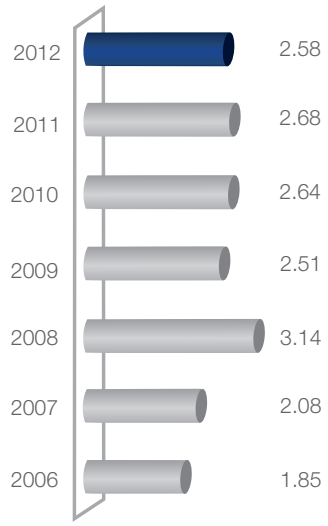
Key facts and KPIs

£10.3m turnover
2010/11
£16.5m

-£19.1m Cash flow
2010/11
+£1.0m

£6.5m Adjusted EBITDA
2010/11
£13.5m

Moyle ADSCR



Moyle Interconnector Ltd has a minimum required ADSCR of 1.15.

Key facts and KPIs

100%
import capacity sold
2010/11 100%

£0
direct charge to consumers
2010/11 £0

September 2011 due to the faults in the cables. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% (east-west) (2011: 100%) and 56% (west-east) (2011: 23%) of offered transmission capacity. Long term capacity auctions in the 2011/12 financial year resulted in some £18m contracted sales revenue for 2011/12 and future years. This compares with the long term capacity auctions in the 2010/11 financial year, which realised £15.3m for 2010/11 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 Moyle faults reduced revenue by approximately £12m and a business interruption insurance claim has been submitted in relation to this.

The cost of the Moyle repair was £31.0m. This cost is made up of £0.3m in fault location costs, £27.9m for repair, including vessel charter, £2.3m for insurance and £0.5m other costs.

All cash costs for the repair were made from company reserves and, in order to ensure an adequate level of immediately accessible reserves going forward, £10m of loan notes (originally purchased in 2008) were sold for a face value profit of £1.5m.

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation and cable repair costs (Adjusted EBITDA) of £6.5m (2011: £13.5m). The group made an operating loss of £28.3m (2011: £9.8m profit). The loss in the year is attributable to the costs incurred to locate, repair and insure the cable fault.

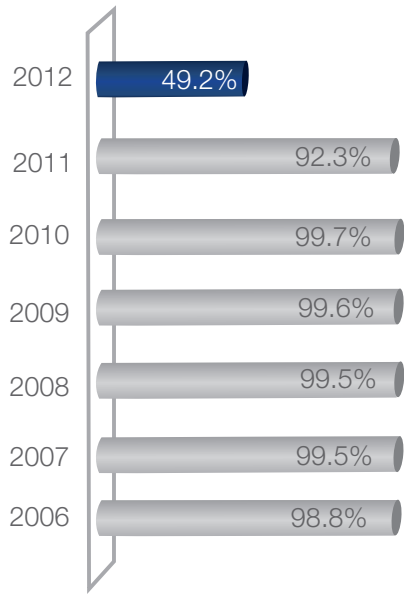
Operational performance

Operational performance was materially affected by the subsea outages, with availability in the year to 31 March 2012 falling to 49.18%, (2010/11: 92.32%) availability.

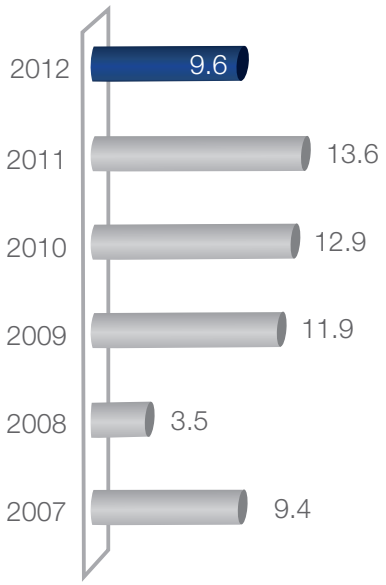
During the year approximately 1.44 Terawatt hours (2.4TWh 2011/12) of power was imported across Moyle into Northern Ireland with 0.00068 Terawatt hours (0.00069TWh 2010/11) physically exported.

On the 219 days Moyle was operational it recorded an average load factor of 75.6%, well above the long term average. Moyle operated throughout the year with no lost time injuries or environmental incidents.

Moyle availability



Cash reinvested to avoid charging consumers (£m)



Future developments

Scottish windfarm connections

With the connection of wind farms along the Scottish Power line supplying Moyle on the Scottish side, Moyle may be required to fit static var compensation equipment at its Auchencrosh convertor station in order to comply with the GB grid code. However given the disproportionately high cost of installing the equipment and the uncertainty over the eventual layout of the transmission system in that area of Scotland, the company is progressing an application for a longer-term grid code derogation.

Changes in Market arrangements

In October 2011, Moyle introduced major changes to its access rules and moved to a computerised auction system. The changes aided compliance with EU obligations and helped to improve trading over the interconnector. The changes included the ability to hold daily auctions, moving from pay as bid to pay as cleared auctions, removal of auction reserve prices, moving from a 5 megawatt to a 1 megawatt capacity unit and pricing capacity per megawatt hour instead of per megawatt month.

An intra-day trading modification to SEM has been developed with implementation due in July 2012. This will result in unused interconnector capacity being released to market participants during the trading day as well as capacity released through superposition in the opposite direction to prevailing flows.

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.

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. In the run up to its commencement a number of new participants have signed up as potential traders on the Moyle Interconnector. The impact on Moyle's revenues from capacity auctions with this increase in both supply, from the new interconnector, and demand from the new traders, will not be known until the new interconnector becomes operational. Existing and potentially future EU congestion management principles for interconnectors will be applied to the East West Interconnector and Moyle has already started to adopt such principles, the first impact of which being the removal of the auction 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. In anticipation of a fall in auction revenues with the new interconnector coming on line Moyle has had to make a CAIRt call of £14.5m for the 2012/13 tariff year.

Capital expenditure

As outlined on page 14 it is likely that Moyle will carry out an extensive capital expenditure plan in the coming years to improve the resilience of the asset.

Key facts and KPIs

75.6%
Average load factor
2010/11
69%

1.44 TWh
transferred
2010/11
2.4 TWh

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 was renewed in December 2011 for a further 5 years. 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 Networks, who monitor our system from the national gas control centre in Cork and Scotland Gas Networks, who carry out routine maintenance and emergency response. The control centre contract will be tendered during 2012.

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.

Des Young, Service Director, Siemens pictured with Paddy Larkin, Chief Executive, Mutual Energy Limited, at the signing of the new Moyle Interconnector maintenance agreement.

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. Our gas business runs simulated gas supply emergency exercises to ensure a robust response plan is in place and Premier Transmission Ltd and Northern Ireland Network Emergency Co-coordinator (NINEC) coordinate the exercises for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency.

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 its 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 its 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.

	2012	2011
Corporate Responsibility KPI		
Lost time and reportable accidents	0	0
Usage of gas in operations (MWh)	4,039	3,913
Electricity consumption at convertor stations (MWh)	2,761	2,810

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

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

£1.5m
profit made on face value of inflation linked loan notes

£1.3m
annual value of common contract services provided by Interconnector Services Ltd

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, the maintenance and emergency response contract for the gas businesses and contractor support for market changes.

Moyle Energy investments Ltd

Moyle Energy Investments Ltd manages the longer term cash reserves of the business.

During the year Moyle Interconnector Ltd requested that the medium term investments held in loan notes be sold early to provide extra contingent liquidity for the Moyle business. The sale was completed in January 2012 realising a 15% profit on the face value.

The company also manages the investment in the European Renewable Energy fund. As a founder member of the fund with a €15m investment, the groups 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.

The commitment period is now drawing to a close and returns are scheduled to begin from 2013 onwards. In all 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.

Final investments are expected to be spread by the fund over approximately 15 projects in 5-6 countries. The fund has identified projects in excess of the €213m fund size and surplus projects will be sold on to other funds.

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 and a high reliance on flexibility provided by dwindling North Sea supplies, Mutual Energy has been closely involved in a project to develop a 500 million cubic meters natural gas salt cavity storage facility beneath Larne Lough. During the year the company sold an equity option to BP Gas Marketing Ltd, which, if exercised, will dilute Mutual Energy's interest to just over 17%. The planning application is well progressed (having been applied for in March 2010) and a licence application to operate was submitted in early 2012.

The BP organisation has added additional expertise to help progress the development of this vital infrastructure.

The Regulatory Authorities in Northern Ireland and the Republic of Ireland have published a workplan to develop tariff arrangements for gas storage in Ireland. The development of tariffing which allows the storage facility to operate competitively with GB storage facilities is fundamental to the project's success as a commercial venture.

Moyle Energy Investments continues to hold an option to exit the project should the risk profile of the project prove unsuitable.

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.

Photomontage of proposed Islandmagee gas storage facility.

The Mutual Energy Board

Peter Warry (62) 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 (43) 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 (43) 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 within their unregulated energy supply business covering both the Northern Ireland and Republic of Ireland market.

Gerry Walsh (59) Senior Independent Director

Gerry Walsh is an Advisor and Business Consultant in Strategic Management and is also an experienced Executive Coach. Gerry is a partner at Praesta Irl Ltd, Ireland's leading Executive Coaching practice. Having graduated in Executive Coaching at Henley Business School, he combines his management experience and coaching skills to work at CEO and Director level and with Executive Teams in a range of Irish businesses. He is a non-executive director in a number of private sector companies. Gerry, a UCC engineering and MBA graduate is a Fellow of Engineers Ireland. Having started his career in the construction industry, he spent over twenty years working in Bord Gáis Eireann (BGE). He filled a number of General Management and Strategic roles in BGE culminating in a seven year period as Chief Executive. He led the transformation of the state-owned business to become a highly successful all Ireland natural gas and electricity supplier and investor in electricity generation. He left BGE in 2007 to work in the private sector as a strategic business consultant, setting up Spruce Consulting Ltd.

Regina Finn (45)

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 (48)

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 (58)

Clarke Black took up his role 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, and was previously a member of an Independent Food Advisory Panel set up to advise Government on food policy. He is a Fellow of the Royal Agricultural Societies. He was previously employed by Northern Bank Ltd as a 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 2012, 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 nine 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	9/9	-	-	4/4	-
Regina Finn	9/9	-	2/2	4/4	-
Stephen Kirkpatrick	9/9	-	-	4/4	-
Paddy Larkin	9/9	-	-	-	1/1
Gerard McIlroy	9/9	-	-	-	-
Gerry Walsh	7/9	-	2/2	-	1/1
Peter Warry	9/9	-	2/2	-	-

Board membership

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

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 Stephen Kirkpatrick (chairman), Regina Finn, and, 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, knowledge, independence and knowledge on the Board will be maintained, whilst also considering the benefits of diversity, including gender diversity.

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 Stephen Kirkpatrick and Clarke Black.

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.

In March 2012 the Membership selection committee oversaw a public membership recruitment campaign and expects to be appointing a number of new members in 2012.

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 four members' terms ended.

The individuals who were members of the company for some part of the year are listed in the table below.

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,

Mutual Energy Members during 2011/12	
Mark Beattie	Nicholas McCourt
Clarke Black	Andy McCrea (resigned 8/3/2012)
Ashley Boreland	Jim McCusker (term ended 29/3/2012)
David Brown	Colm McGarry
John Campbell	Brendan Milligan
Boyd Carson (resigned 17/11/11)	Gordon Millington
Bill Cherry	Allister Murphy
John Cherry	Niall Rafferty
Seamus Downey	Noel Rice (resigned 07/10/11)
Malcolm Emery	Robert Richmond
Regina Finn	Georges Senniger
Andrew Frew	Gerry Walsh
Felicity Huston (term ended 29/3/2012)	Peter Warry
Stephen Kirkpatrick	Noel Williams
Alasdair Locke (term ended 29/3/2012)	John Woods
Damian McAteer (term ended 29/3/2012)	

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 net liabilities resulting from losses in the current and previous years. These losses and net liabilities arise as a result of i) two faults on the Moyle cables ii) the mis-match that arises in the accounting for the group's inflation swaps - as explained in the directors' report; and iii) 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 is expected to reverse within the next decade.

However, the group has always been cash generative, is forecast to remain cash positive, has adequate banking facilities and has cash reserves of £74m. 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.

Gerard McIlroy

Company secretary

10 August 2012

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 comprises three non-executive directors, Peter Warry, Gerry Walsh and the committee chair Regina Finn. 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 executive directors of the group companies did not attend meetings of the Remuneration Committee. 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 2012 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.

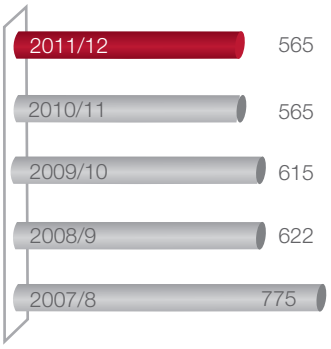
The executive directors' remuneration packages include basic salary, benefits, performance related bonus and pension benefits, with a significant proportion based on performance measured by the achievement of corporate targets, both short-term and long-term. Non-cash benefits include private health insurance.

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 group's policy is to pay a flat uniform remuneration with no additional uplift for committee chairmanships or membership. Performance related pay is also deemed inappropriate.

None of the directors have any interest in the shares of the group.

Regina Finn
Chairman
Remuneration
Committee

Total Board remuneration including pensions £,000



Performance related pay

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

As outlined in last year's remuneration committee report, in 2010/11 the annual bonus scheme was split into two categories, essential/baseline targets and strategic targets. These targets were set over three categories: electricity business targets, gas business targets and corporate targets. Under their employee service contracts the variable performance related pay element of the executive directors is 33.33% of the total potential pay (calculated excluding any salary sacrifice).

The weighting of the targets for 2011/12 is shown below:

	Baseline targets	Strategic targets		Total	
	Common	CEO	FD	CEO	FD
Gas	2.5%	6.7%	6.0%	9.2%	8.5%
Electricity	4.5%	6.6%	4.0%	11.1%	8.5%
Business development / corporate targets	1.0%	12.0%	15.3%	13.0%	16.3%
Totals	8.0%	25.3%	25.3%	33.3%	33.3%

Baseline targets

Baseline targets include targets on availability, health and safety, in year costs and revenue and compliance with funding covenants. The baseline targets relate to both the year in question and future years. In year targets are specific numerical targets informed and set by metrics such as analysis carried out by technical consultants acting for the financiers, past cost history and business plan targets. The targets that cover a period of more than one year have milestones identified towards achieving such targets. These targets include such things as long term projects to improve cost effectiveness and asset availability and long term improvements in the health and safety and asset management systems. The baseline corporate targets are in relation to covenant compliance.

Strategic targets

Strategic targets are wider and encompass both the current assets and the development of the business. Gas strategic targets include items such as the protection of customers from adverse impacts from the implementation of EU directives, meeting our obligations under the CAG program and identifying the potential to extend the mutual model savings over additional assets. Electricity strategic targets include items such as introducing new IT auction systems, positioning the business for the market changes derived from the commissioning of the East West interconnector and the new EU regulations. Business development strategic targets include the reshaping of our finances over time to adapt to the market changes as well as specific projects which will benefit Northern Ireland consumers, such as construction of gas storage in Northern Ireland.

All performance related payments are non pensionable and are included in this report based upon the figures accrued. Any difference between the accrued amount and the actual is accounted for in the following year.

Impact of the Moyle fault upon targets

On assessing the executives' achievements against the targets the committee gave particular consideration to the impact of the cable faults upon the Moyle business. Whilst some good progress was made against the electricity strategic targets and the committee was pleased with both the response to the fault, the ability of the business to meet such an immense challenge and the measures in place to mitigate losses, the committee believed it was appropriate that no performance related pay be awarded in respect of the electricity business.

Targets for 2012/13

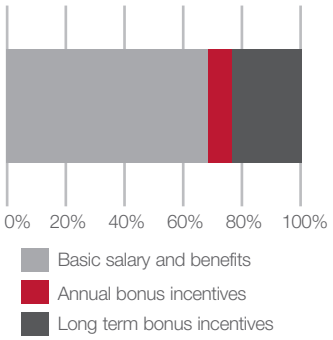
The committee has retained the approach adopted for 2011/12 in setting the targets for 2012/13. The strategic targets, include most of the items alluded to above but have been expanded to include a strategic response to the availability problems experienced over the last 18 months on Moyle.

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.

Executive Directors Remuneration Analysis



Remuneration in 2011-12

Audited information

The following information has been audited by the group's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 2006.

The following table sets out an analysis of the remuneration in 2011-12 and the previous year, excluding pensions, for individual directors of the group:

Table 1: directors' remuneration

	Regular payroll remuneration						Variable remuneration		Total payroll remuneration	
Directors	Basic salary 2011/12	Basic salary 2010/11	Benefits in kind for 2011/12	Benefits in kind for 2010/11	Total Regular remuneration 2011/12	Total Regular remuneration 2010/11	Performance bonus 2011/12	Performance bonus 2010/11	Salary and benefits paid 2011/12	Salary and benefits paid 2010/11
Executive Directors	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Paddy Larkin	**114***	124	**1**	1	**115**	125	**38**	53	**153**	178
Gerard McIlroy	**97***	92	**1**	1	**98**	93	**-***	43	**98**	136
Non-Executive Directors										
Clarke Black	**34**	8	**-**	-	**34**	8	**-**	-	**34**	8
Regina Finn	**34**	34	**-**	-	**34**	34	**-**	-	**34**	34
Stephen Kirkpatrick	**34**	34	**-**	-	**34**	34	**-**	-	**34**	34
Gerry Walsh	**34**	34	**-**	-	**34**	34	**-**	-	**34**	34
Peter Warry	**77**	77	**-**	-	**77**	77	**-**	-	**77**	77
Retired directors										
Felicity Huston	**-**	21	**-**	-	**-**	21	**-**	-	**-**	21
	424	424	**2**	2	**426**	427	**38**	96	**464**	522

**reduced by way of salary sacrifice included in pensions table*

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. Any amounts paid as pension via the salary sacrifice scheme are included in the table in the Pensions contribution section below.

The remuneration for Clarke Black in 2010/11 is from his appointment as a director on 1 January 2011. The remuneration for Felicity Huston for 2010/11 is from 1 April 2010 to her resignation as a director on 21 September 2010.

Non-executive directors did not receive any pay rises in the 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.

Pension contributions

During the year Gerard McIlroy elected to take £8,390 of salary and £35,091 of bonus by way of pension and Paddy Larkin elected to take £16,000 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.

Table 2 pension contributions

	Company contributions to money purchase pension plan pension		Company contributions arising from salary sacrifice scheme		Pension contributions in lieu of bonus		Total	
	2011/12	2010/11	**2011/12**	2010/11	**2011/12**	2010/11	**2011/12**	2010/11
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Paddy Larkin	**19**	18	**18**	-	**-**	-	**37**	18
Gerard McIlroy	**16**	15	**9**	9	**40**	-	**65**	24
Totals	**35**	**33**	**27**	**9**	**40**	**0**	**102**	**42**

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 once during the year ended 31 March 2012 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 2011/12

During the year the Committee:

- Considered the policies which should be in place to address risk, recommending improvements where applicable;
- Reviewed the risk registers for both the gas and electricity businesses;
- Considered and reviewed the method statements and project risk assessment for the Moyle repair program;
- Considered and reviewed the risk registers for major engineering projects such as the marine survey and online inspection of the Belfast Transmission Pipeline; and
- 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;

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

The Committee was chaired by Stephen Kirkpatrick throughout the year, with Regina Finn, and Clarke Black joining him to form the Committee. 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. Members receive no additional remuneration for their service on the Committee.

The Committee invites the executive directors and the company chairman 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.

Activities

The Committee met four times in the year ended 31 March 2012 with attendance as listed in the Corporate Governance Statement.

In late 2011 the Committee carried out a tender for the external audit and specified non audit services of the group. The group policy is to tender the audit contract on an approximate 5 year cycle, with consideration on the exact timing taking into account other business activities ongoing at the time. The audit tender includes other services pre-approved by the audit Committee as a matter of policy, namely the audit of regulatory accounts and routine tax compliance work. Based on their assessment of the independence, effectiveness and cost of the external auditors, the Committee recommended to the Board that PricewaterhouseCoopers LLP (PwC) be reappointed at the Annual General Meeting. As part of the tender process PwC agreed to rotate the audit engagement partner in line with APB Ethical standards.

In accordance with its terms of reference and in response to business and accounting developments during the year, other matters considered by the Committee are set out on the following page.

Auditors

- approving the outcome of 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:
  - 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;
  - 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; and
  - without management present so that any matters can be raised in confidence;
- monitoring of the statutory audit of the annual financial statements;

Audit committee essential part of cost efficient operation

- 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 above a de-minimis level of £5,000, taking into account any relevant ethical guidance on the matter. In the year a total of £13,000 was paid in respect of non audit services, all in relation to routine tax compliance (see note 3 in the financial statements). 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.

Financial reporting

- monitoring the integrity of the financial statements of the group and reviewing the significant financial reporting issues and judgements which they contain;
- 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 control 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: health and safety compliance, staff education and training, and reporting to financiers;
- reviewing the outcome of the group's risk register process;
- reviewing and approving the policy on business continuity and disaster recovery; and
- reviewing the company's risk assessment on bribery risk and considering the systems and controls for the prevention of bribery and receiving reports on non compliance.

Members

Mark Beattie
Mark Beattie 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 CBI NI Council.

Ashley Boreland
Ashley Boreland has been employed in the public sector for over thirty years, twenty-four of which have been with Ards Borough Council where he has held the post of Chief Executive since 2004. He currently serves on the Executive Committees of the Society of Local Authority Chief Executives (being Chair in 2011) and is Chair of ALACE the Association of Local Authority Chief Executives. He is Chair of the Local Government Training Group, is a member of the Local Government Staff Commission and is a Professional Advisor to NILGA (The Northern Ireland Local Government Association). Ashley 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.

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 is a Board member of Crimestoppers NI and a Trustee of Simply Serving Ministries a charity that provides humanitarian support to Eastern Europe.

John Campbell
John Campbell 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 Management, 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

Members attending AGM, September 2011.

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.

Bill Cherry

Bill is the Managing Director of Fusion Heating Ltd, a specialist mechanical and electrical maintenance provider for the social housing sector within Northern Ireland. Bill is also a member of the Chartered Institute of Management.

John Cherry

John is currently an external investigator for a major financial institution and a leading risk management company. Prior to this John was a programme manager managing the delivery of European Regional Development Funding. John also worked 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 Emery holds an MSc in supply chain management and business development from the University of Ulster, an Advanced Diploma in Management Practice from UUJ and a Diploma in agriculture. Malcolm is currently Business Development Director with Carillion Energy Services, the energy division of Carillion Plc. Prior to the Carillion appointment, Malcolm was Managing Director and founder shareholder of theoneswitch Ltd. Previous to that he was CEO of Rural Support. He was also MD LB Meats from 1997-2002. He is currently a business mentor for the Princes Trust.

Members' Day, Mutual Energy offices, June 2012.

Andy Frew
Andy Frew is a registered architect and domestic energy specialist, with a BSc in Applied Science from Queen's University Belfast. He has worked as an energy consultant, advising on policies to provide affordable energy services for local householders, and has advised the General Consumer Council and housing associations on cost effective refurbishment and renewable energy systems. He has also worked in product development and training.

Nicholas McCourt
Nicholas McCourt 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. Nicholas is a member of the Institution of Mechanical Engineers.

Colm McGarry
Colm McGarry has a MSc Social Policy Planning & Admin, FCIPD. He recently retired as Chief Executive of 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).

Brendan Milligan
Brendan Milligan 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
Gordon Millington 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 a past president of the Irish Academy of Engineering. He is retired and was formerly Senior Partner at Kirk McClure & Morton, now RPS. Having since retirement been involved in several property companies he has left that scene and is now involved with HALO at the Northern Ireland Science Park and is deputy Chairman of the Institution of Civil Engineers disciplinary board in London. He has past experience in working on power station design using coal, oil, gas and waves as the primary source of energy.

Members' Day, Mutual Energy offices, June 2012.

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.

Robert Richmond
Robert is a retired 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.

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 Northern Ireland. He sought to address the damaging effects of climate change, reducing Northern Ireland's greenhouse gas emissions and tackle fuel poverty. He continues to maintain relationships with key Northern Ireland partners such as Government Departments, PowerNI (formerly NIE Energy), Phoenix Natural Gas, Firmus Energy, NI Housing Executive, housing associations, the oil industry, Northern Ireland local authorities and other stakeholders through the NI Fuel Poverty Forum. He is currently the Head of Operations for the Alliance Party East Antrim Constituency.

John Woods
John is an independent advisor on sustainable development and Visiting Research Associate at the School of Law at Queen's University Belfast. He is currently organiser of the Schumacher Ireland Summer School and project leader of the Northern Ireland Green New Deal Group. John has an MSc in Social and Public Policy and a background in both business and the voluntary sector, most recently as NI 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, June 2012.

Mutual Energy Limited

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

Annual report for the year ended

31 March 2012

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Directors

Peter Warry	Chairman
Patrick Larkin	Executive Director
Gerry Walsh	Senior Independent Director
Regina Finn	Non-executive Director
Gerard McIlroy	Executive Director
Stephen Kirkpatrick	Non-executive Director
Clarke Black	Non-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 5GB

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 2012

The directors present their report and the audited financial statements of the group and parent company for the year ended 31 March 2012.

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.

Results

The group's loss for the year is £34,641,000 (2011: £2,590,000).

Directors

The directors, who served the group during the year, and up to the date of signing the financial statements, were: Patrick Larkin; Regina Finn; Gerry Walsh; Peter Warry; Gerard McIlroy; Stephen Kirkpatrick; Clarke Black

Political and charitable donations

No political or charitable donations have been made during the year (2011: £nil).

Policy and practice on 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 10 days at 31 March 2012 (2011: 18 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 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.

Directors' report for the year ended 31 March 2012

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
10 August 2012

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 2012 which comprise the group statement of comprehensive income, the group and parent company balance sheets, 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 Statement of directors' responsibilities set out on page 55, 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 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 annual report, which comprise the Chairman's statement, Operating and financial review, Corporate governance statement, Remuneration committee report, Risk committee report and Audit committee 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 2012 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 matter 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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Belfast
13 August 2012

Group statement of comprehensive income for the year ended 31 March 2012

		2012			2011		
	Note	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		**31,025**	**-**	**31,025**	38,917	-	38,917
Operating costs	3	**(55,469)**	**-**	**(55,469)**	(25,685)	-	(25,685)
Earnings before depreciation and amortisation of intangible assets and cable repair costs (adjusted "EBITDA")		**17,229**	**-**	**17,229**	23,853	-	23,853
Amortisation of intangible assets		**(5,550)**	**-**	**(5,550)**	(5,549)	-	(5,549)
Depreciation (net of amortisation of government grants)		**(5,075)**	**-**	**(5,075)**	(5,072)	-	(5,072)
Exceptional item – cable repair costs	4	**(31,048)**	**-**	**(31,048)**	-	-	-
Operating (loss)/profit		**(24,444)**	**-**	**(24,444)**	13,232	-	13,232
Finance income	6	**2,286**	**-**	**2,286**	2,771	-	2,771
Finance costs	6	**(23,353)**	**-**	**(23,353)**	(22,649)	-	(22,649)
Finance costs - fair value adjustment on derivative financial instruments	6	**-**	**(5,797)**	**(5,797)**	-	(5,283)	(5,283)
Finance costs – net	6	**(21,067)**	**(5,797)**	**(26,864)**	(19,878)	(5,283)	(25,161)
Loss before income tax		**(45,511)**	**(5,797)**	**(51,308)**	(6,646)	(5,283)	(11,929)
Income tax credit	7	**15,943**	**724**	**16,667**	8,528	811	9,339
(Loss)/profit for the year attributable to the owners of the parent	16	**(29,568)**	**(5,073)**	**(34,641)**	1,882	(4,472)	(2,590)

The notes on pages 61 to 87 are an integral part of these consolidated 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 at 31 March 2012

		Group		Company	
	Note	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets					
Non current assets					
Property, plant and equipment	9	216,703	224,394	67	12
Intangible assets	10	174,260	179,810	-	-
Investments	11	-	-	10,250	10,250
Other investments	12	10,436	7,069	-	-
Trade and other receivables	13	-	10,577	-	-
Deferred income tax assets	20	17,373	8,677	20	5
		418,772	430,527	10,337	10,267
Current assets					
Trade and other receivables	13	7,491	8,817	2,076	2,409
Cash and cash equivalents	14	74,170	92,830	461	570
		81,661	101,647	2,537	2,979
Total assets		500,433	532,174	12,874	13,246
Equity and liabilities					
Equity					
Ordinary shares	15	-	-	-	-
Retained earnings	16	(28,404)	6,237	(1,542)	(704)
Total equity		(28,404)	6,237	(1,542)	(704)
Liabilities					
Non-current liabilities					
Borrowings	17	321,392	322,333	14,078	13,289
Provisions	18	3,507	2,377	-	-
Deferred income tax liabilities	19	62,590	70,561	-	-
Government grants	20	73,583	76,291	-	-
Derivative financial instruments	24	39,172	33,375	-	-
		500,244	504,937	14,078	13,289
Current liabilities					
Trade and other payables	21	14,080	7,454	338	661
Borrowings	17	11,805	10,838	-	-
Government grants	20	2,708	2,708	-	-
		28,593	21,000	338	661
Total liabilities		528,837	525,937	14,416	13,950
Total equity and liabilities		500,433	532,174	12,874	13,246

The notes on pages 61 to 87 are an integral part of these consolidated financial statements.

The group financial statements on pages 58 to 87 were authorised for issue by the Board of Directors on 10 August 2012 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 2012

		Group		Company	
	Note	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash flows from operating activities					
(Loss)/ profit before income tax and finance costs		(24,444)	13,232	95	93
Adjustments for:					
Depreciation of property, plant and equipment		7,783	7,780	11	9
Amortisation of government grants		(2,708)	(2,708)	-	-
Amortisation of intangible assets		5,550	5,549	-	-
Movement in trade and other receivables		1,309	(2,048)	333	(1,343)
Movement in trade and other payables		6,364	(60)	(1,137)	1,262
Income tax received/(paid)		193	(1,694)	587	-
Net cash (used in)/generated from operating activities		(5,953)	20,051	(111)	21
Cash flows from investing activities					
Interest received		1,564	2,155	2	6
Purchase of property, plant and equipment		(23)	-	-	-
Purchase of other investment		(3,367)	(3,530)	-	-
Proceeds from sale of investments		10,577	1,880	-	-
Net cash generated from investing activities		8,751	505	2	6
Cash flows from financing activities					
Interest paid		(9,354)	(10,908)	-	-
Repayment of borrowings		(12,104)	(9,018)	-	-
Net cash used in financing activities		(21,458)	(19,926)	-	-
Movement in cash and cash equivalents		(18,660)	630	(109)	27
Cash and cash equivalents at the beginning of the year	14	92,830	92,200	570	543
Cash and cash equivalents at the end of the year	14	74,170	92,830	461	570

Effect of exceptional items on net cash generated from operating activities:

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Net cash generated from/(used in) operating activities before exceptional items	19,166	20,051	(111)	21
Cash flows in respect of exceptional items	(25,119)	-	-	-
Net cash (used in)/generated from operating activities	(5,953)	20,051	(111)	21

The notes on pages 61 to 87 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2012

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 10 August 2012 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 69.

Going concern

The group has suffered accounting losses over the past two years. These losses arise as a result of i) two faults on the Moyle cables (note 4); ii) the mis-match that arises in the accounting for the group's interest rate swaps - as explained in the directors' report; and iii) 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 is expected to reverse within the next decade.

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 £74m. 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 2012

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

Standards, amendments and interpretations effective in the year ended 31 March 2012 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 2012 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures'
(effective 1 January 2011)

IFRS 1 (amendment) 'First time adoption on financial instrument disclosures' (effective 1 July 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement' (effective 1 January 2011)

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union 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 group have yet to assess the full impact of these amendments:

International Accounting Standards (IAS/IFRSs)

IAS 1 (amendment)),'Presentation of financial statements' on OCI *	(effective 1 July 2012)
IAS 12 (amendment) ,'Income taxes' on deferred tax	(effective 1 January 2012)
IAS 19 (revised) 'Employee benefits' *	(effective 1 January 2013)
IAS 27 (revised) 'Separate financial statements' *	(effective 1 January 2013)
IAS 28 (revised) 'Associates and joint ventures' *	(effective 1 January 2013)
IFRS 1 (amendment) on hyperinflation and fixed dates *	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on fair value hierarchy' *	(effective 1 July 2011)
IFRS 9, 'Financial instruments' *	(effective 1 January 2015)
IFRS 10, 'Consolidated financial statements' *	(effective 1 January 2013)
IFRS 11, 'Joint arrangements'	(effective 1 January 2013)
IFRS 12, 'Disclosures of interests in other entities' *	(effective 1 January 2013)
IFRS 13, 'Fair value measurement' *	(effective 1 January 2013)

(*) not yet adopted by the European Union.

Notes to the financial statements for the year ended 31 March 2012

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

Basis of consolidation

The group financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2012. 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 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.

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.

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.

Notes to the financial statements for the year ended 31 March 2012

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

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic 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 economic lives. The estimated remaining useful economic life of the licences is 22 years for the Scotland Northern Ireland pipeline, 25 years for the Moyle Interconnector and 40 years for the Belfast Gas Transmission pipeline.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated 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 useful economic lives of each major class of depreciable asset are as follows:

Gas Pipelines	31 to 43 years
Electricity Interconnector assets	40 years
Control and protection equipment	20 years
Office and computer equipment	3 years
Plant and machinery	15 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.

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.

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, and are not designated as hedges.

Notes to the financial statements for the year ended 31 March 2012

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

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.

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.

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.

Notes to the financial statements for the year ended 31 March 2012

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

(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 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.

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

Notes to the financial statements for the year ended 31 March 2012

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

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.

Current 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.

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

These groups operate the gas pipelines which link 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.

Notes to the financial statements for the year ended 31 March 2012

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

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.

Financial risk management (continued)

(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, loss and equity during the year by £2,530,000.

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).

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

Notes to the financial statements for the year ended 31 March 2012

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

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 the 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 Scotland Northern Ireland pipeline was determined as approximately 28.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 29.5 years, depreciation would have decreased by £106,000 and if the remaining useful economic life had been assessed at 27.5 years, depreciation would have increased by £114,000.

The remaining useful economic life of the interconnector was determined as approximately 31 years at the beginning of the year. If the remaining useful economic life had been assessed at 32 years depreciation would have decreased by £99,000 and if the remaining useful economic life had been assessed at 30 years depreciation would have increased by £105,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 28 years at the beginning of the year. If the remaining useful economic life had been assessed at 29 years depreciation would have decreased by £43,000 and if the remaining useful economic life had been assessed at 27 years depreciation would have increased by £46,000.

(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 4.17%. The decommissioning provision has been discounted using a rate of 3.33%. 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%	1,164
Decrease in inflation factor by 1%	(881)
Increase in discount rate by 1%	(880)
Decrease in discount rate by 1%	1,188

(c) Insurance claim

The group has not recognised a contingent asset in respect of the insurance claim in relation to the cable faults in the year. This asset has not been recognised as the claim is in its early stages, the insurers have not yet admitted liability, and the insurance receipt cannot be reliably measured.

Notes to the financial statements for the year ended 31 March 2012

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 and cable repair costs (adjusted "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 2012 is as follows:

Year ended 31 March 2012	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	10,251	15,627	5,116	31	31,025
Segment expenses	(3,789)	(8,679)	(1,396)	68	(13,796)
Segment results (Adjusted EBITDA*)	6,462	6,948	3,720	99	17,229
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,045)	(2,052)	(954)	(24)	(5,075)
Exceptional item - Cable repair costs	(31,048)	-	-	-	(31,048)
Finance income	2,653	354	36	(757)	2,286
Finance costs	(11,947)	(3,852)	(7,554)	-	(23,353)
Fair value adjustment on derivative financial instruments	-	(5,797)	-	-	(5,797)
Loss before income tax	(37,586)	(5,801)	(7,239)	(682)	(51,308)
Income tax credit/(charge)	10,037	2,712	4,058	(140)	16,667
Loss for the year	(27,549)	(3,089)	(3,181)	(822)	(34,641)
Assets					
Segment assets	182,884	159,955	143,191	14,403	500,433

*Adjusted EBITDA is calculated as EBITDA before cable repair costs

Notes to the financial statements for the year ended 31 March 2012

2 Segment information (continued)

Year ended 31 March 2011	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from 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
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,046)	(2,047)	(953)	(25)	(5,071)
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

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 £20,743,000 (2011: £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:

	2012 £'000	2011 £'000
Customer A	**5,125**	8,397
Customer B	**1,598**	2,589
Customer C	**969**	1,826
Customer D	**1,177**	2,039
	8,869	14,851

Notes to the financial statements for the year ended 31 March 2012

3 Expenses by nature – operating costs

Group	2012 £'000	2011 £'000
Employee benefit expense (note 5)	1,066	1,046
Depreciation and amortisation	13,333	13,329
Amortisation of deferred government grants	(2,708)	(2,708)
Operating lease payments	230	217
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	50	45
Fees payable to the company's auditor in respect of taxation services	13	26
Other expenses	12,437	13,730
Exceptional item – cable repair costs (note 4)	31,048	-
Total operating costs	**55,469**	**25,685**

Other expenses includes costs payable for capacity on the South West of Scotland pipeline owned by BGE(UK), maintenance and emergency response costs and licence fees, together with general administrative costs.

4 Exceptional item

Cable repair costs totalling £31,048,000 comprise the costs directly incurred to address two separate subsea faults which occurred on 26 June 2011 (south cable) and 24 August 2011 (north cable). The cable repair costs include the cost of locating and repairing the faults and insuring the repair. On 14 May 2012 a formal claim was lodged with the insurers for substantially all of the costs. Work is ongoing on the analysis of the fault causes.

The tax impact of this exceptional item was a tax credit of £7,452,000 which resulted in deferred tax assets being recognised.

5 Employee benefit expense

Group	2012 £'000	2011 £'000
Wages and salaries	827	880
Social security costs	99	102
Pension costs – defined contribution pension scheme	140	64
	1,066	1,046

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 15 (2011: 15).

Notes to the financial statements for the year ended 31 March 2012

5 Employee benefit expense (continued)

Directors' emoluments	2012 £'000	2011 £'000
Aggregate emoluments	249	312
Contributions paid to defined contribution pension scheme	103	42
	352	354

	Number	Number
Members of defined contribution pension scheme	9	7

Directors' emoluments represent the remuneration of the group's executive directors. The remaining directors of the group received £213,000 (2011: £208,000) 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 £153,000 (2011: £178,000) and the contributions paid to his defined contribution pension scheme were £37,000 (2011: £18,000).

Company

The company's employee benefits expense during the year was £872,000 (2011: £864,000). Included in this amount is £80,000 (2011: £85,000) of social security costs and £132,000 (2011: £55,000) in respect of pension costs.

6 Finance income and costs

Group	2012 £'000	2011 £'000
Interest expense:		
Borrowings (including borrowing fees)	22,223	22,649
Unwinding of discount on decommissioning provision	1,130	-
Fair value adjustment in respect of derivative financial instruments (note 24)*	5,797	5,283
Finance costs	29,150	27,932
Interest income:		
Short-term bank deposits	(1,200)	(1,396)
Movement of discount on decommissioning provision	-	(159)
Financial assets	(1,086)	(1,216)
Finance income	(2,286)	(2,771)
Finance costs – net	26,864	25,161

*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. The group has swaps that are designed to hedge the inflation risk in revenue, however under IAS 39 this economic hedging strategy does not 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.

Notes to the financial statements for the year ended 31 March 2012

7 Income tax credit

Group	2012 £'000	2011 £'000
Current income tax:		
Adjustment in respect of previous periods	-	(394)
Total current income tax	-	(394)
Deferred income tax:		
Origination and reversal of temporary differences	(15,930)	(8,376)
Arising on derivative financial instruments	(724)	(811)
Adjustments in respect of previous periods	(13)	242
Total deferred income tax (note 19)	(16,667)	(8,945)
Income tax credit	(16,667)	(9,339)

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 26% (2010: 28%). The differences are reconciled below:

Group	2012 £'000	2011 £'000
Loss before income tax	(51,308)	(11,929)
Tax calculated at the UK standard rate of corporation tax of 26% (2011: 28%)	(13,340)	(3,340)
Effects of:		
Expenses not deductible/Income not taxable	367	(18)
Reduction in corporation tax rate on deferred tax assets/liabilities	(3,834)	(4,734)
Tax losses arising for which no deferred tax asset is recognised	1,392	213
Treatment of indexation of borrowings	(1,239)	(1,308)
Adjustments in respect of previous periods	(13)	(152)
Income tax credit	(16,667)	(9,339)

Future tax changes

During the year, as a result of the changes in the UK main corporation tax rate to 24% that was substantively enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The proposed reductions in the corporation tax rate, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes in the corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The impact of this proposed reduction in the main rate of corporation tax will reduce the deferred income tax assets by £1,448,000 and will reduce the deferred income tax liabilities by £5,216,000.

Notes to the financial statements for the year ended 31 March 2012

8 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 £838,000 (2011: £232,000).

9 Property, plant and equipment

Group	Gas pipelines £'000	Electricity inter-connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Total £'000
Cost						
At 1 April 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**
Additions	**-**	**-**	**-**	**26**	**66**	**92**
At 31 March 2012	**147,064**	**127,899**	**3,785**	**26**	**450**	**279,224**
Accumulated depreciation						
At 1 April 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**
Provided during the year	**4,389**	**3,179**	**189**	**1**	**25**	**7,783**
At 31 March 2012	**26,917**	**33,329**	**1,917**	**1**	**357**	**62,521**
Net book amount						
At 31 March 2012	**120,147**	**94,570**	**1,868**	**25**	**93**	**216,703**
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

Depreciation expense of £7,783,000 (2011: £7,780,000) 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 2012

9 Property, plant and equipment (continued)

Company	Office and computer equipment £'000
Cost	
At 1 April 2010	76
Additions	4
At 31 March 2011	**80**
Additions	**66**
At 31 March 2012	**146**
Accumulated depreciation	
At 1 April 2010	59
Provided during the year	9
At 31 March 2011	**68**
Provided during the year	**11**
At 31 March 2012	**79**
Net book amount	
At 31 March 2012	**67**
At 31 March 2011	12
At 31 March 2010	17

Depreciation expense of £11,000 (2011: £9,000) 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 2012

10 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2010	-	23,611	23,611
Provided during the year	-	5,549	5,549
At 31 March 2011	-	**29,160**	**29,160**
Provided during the year	-	**5,550**	**5,550**
At 31 March 2012	**-**	**34,710**	**34,710**
Net book amount			
At 31 March 2012	**2,435**	**171,825**	**174,260**
At 31 March 2011	2,435	177,375	179,810
At 31 March 2010	2,435	182,924	185,359

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 22 years, 40 years and 25 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 £5,550,000 (2011: £5,549,000) has been fully charged to operating costs.

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 discounted cash flow forecasts. The cash flow projections are over a period of 18 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement. The key assumptions and judgements, 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 discount rate of 3.32% used is based on Bank of England gilt yield curve UK yield curve data for a debt with a remaining maturity of 18 years. The inflation rate assumption used by the group in these calculations of 4.22% has been obtained from Bank of England yield curves over an 18 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 2012

11 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**10,250**

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

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	100%	Investing
	Preference shares	100%	
Interconnector Services 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

Notes to the financial statements for the year ended 31 March 2012

12 Other investments

Group	£'000
Cost	
At 1 April 2010	3,539
Additions	3,530
At 31 March 2011	**7,069**
Additions	**3,367**
At 31 March 2012	**10,436**

Other investments are 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.

13 Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Trade receivables	**1,211**	2,015	**-**	-
Prepayments and accrued income	**3,785**	3,188	**29**	18
Loan notes receivable	**-**	10,577	**-**	-
Other receivables	**2,495**	3,614	**20**	9
Amounts owed by subsidiary undertakings	**-**	-	**2,027**	2,382
	7,491	19,394	**2,076**	2,409
Less: loan notes receivable (non-current)	**-**	(10,577)	**-**	-
	7,491	8,817	**2,076**	2,409

All of the group's and company's trade and other receivables are denominated in sterling.

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 were disposed of in January 2012.

Notes to the financial statements for the year ended 31 March 2012

14 Cash and cash equivalents

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	58,868	59,772	461	570
Short-term bank deposits	15,302	33,058	-	-
	74,170	92,830	461	570

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 Ordinary Shares

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 2010	8,827
Total comprehensive income for the year	(2,590)
At 31 March 2011	6,237
Total comprehensive income for the year	(34,641)
At 31 March 2012	(28,404)

Company	£'000
At 1 April 2010	(472)
Total comprehensive income for the year	(232)
At 31 March 2011	(704)
Total comprehensive income for the year	(838)
At 31 March 2012	(1,542)

Notes to the financial statements for the year ended 31 March 2012

17 Borrowings

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non-current				
5.2022% Guaranteed secured bond	**83,650**	86,497	-	-
2.9376% Index linked guaranteed secured bond	**117,644**	119,469	-	-
2.207% Index linked guaranteed secured bond	**120,094**	116,367	-	-
Amounts owed to group undertakings	-	-	**14,078**	13,289
Other borrowings	4	-	-	-
	321,392	322,333	**14,078**	13,289
Current				
5.2022% Guaranteed secured bond	**2,842**	2,666	-	-
2.9736% Index linked guaranteed secured bond	**8,083**	7,410	-	-
2.207% Index linked guaranteed secured bond	**880**	762	-	-
	11,805	10,838	-	-
Total borrowings	**333,197**	333,171	**14,078**	13,289

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 2012

18 Provisions

Group	Decommissioning provision £'000
At 1 April 2010	2,536
Movement on discount during the year	(159)
At 31 March 2011	2,377
Unwinding of discount during the year	1,130
At 31 March 2012	3,507

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 30 years, at the end of its useful economic life. This provision is expected to be utilised within 30 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 3.33% (2011: 4.32%) that reflects the maturity profile of the group's provisions.

19 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Deferred income tax assets	17,373	8,677	20	5
Deferred income tax liabilities	(62,590)	(70,561)	-	-
Deferred income tax liabilities – net	(45,217)	(61,884)	20	5

The company's deferred tax asset relates to accelerated capital allowances and carried forward tax losses.

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

	Group £'000	Company £'000
At 1 April 2010	(70,829)	8
Income statement credit/(charge) for the year	8,945	(3)
At 31 March 2011	(61,884)	5
Income statement credit for the year	16,667	15
At 31 March 2012	(45,217)	20

Notes to the financial statements for the year ended 31 March 2012

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 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)
Income statement credit for the year	7,942	3,122	4,879	724	16,667
At 31 March 2012	7,942	(21,323)	(41,237)	9,401	(45,217)

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 £39,905,000 (2011: £44,673,000). 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 £20,105,000 (2011: £23,150,000).

20 Government grants

Group	£'000
At 1 April 2010	81,707
Amortised during the year	(2,708)
At 31 March 2011	78,999
Amortised during the year	(2,708)
At 31 March 2012	76,291

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 (2011: £2,708,000), and the non-current portion is £73,583,000 (2011: £76,291,000).

Notes to the financial statements for the year ended 31 March 2012

21 Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	759	686	87	17
Accruals and deferred income	12,113	5,393	173	256
Amounts owed to subsidiary undertakings	-	-	78	388
Other tax and social security	1,204	1,375	-	-
Other payables	4	-	-	-
	14,080	7,454	338	661

The fair value of trade and other payables is not materially different from their carrying value.

22 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 4, 23, 39 and 88 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Not later than one year	232	218	40	40
After one year but not more than five years	861	843	93	133
After more than five years	10,326	9,614	-	-
	11,419	10,675	133	173

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 €15 million, of which €12.4 million has been invested to date, to the partnership during the next three years.

Notes to the financial statements for the year ended 31 March 2012

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	2012 £'000	2011 £'000
Subsidiary undertakings – current assets	**2,027**	2,382
Subsidiary undertakings – current liabilities	**(78)**	(388)
Subsidiary undertakings – non-current liabilities	**(14,078)**	(13,289)

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	2012 £'000	2011 £'000
Subsidiary undertakings	Interest payable	**789**	742
Subsidiary undertakings	Group relief surrendered	**(162)**	-
Subsidiary undertakings	Charges receivable	**1,186**	1,249

Compensation of key management (consisting of executive directors and non-executive directors):

Group	2012 £'000	2011 £'000
Short term employee benefits	**464**	519
Post-employment benefits	**102**	42

Notes to the financial statements for the year ended 31 March 2012

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-hedging 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
Liability at 1 April 2010	28,092
Fair value adjustment	5,283
Liability at 31 March 2011	33,375
Fair value adjustment	5,797
Liability at 31 March 2012	**39,172**

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 2012

24 Financial instruments (continued)

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

At 31 March 2012 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	11,778	11,611	11,354	11,096	10,805	104,998	161,642
5.2022% Bond and associated derivatives	6,654	6,787	6,922	7,057	7,199	107,670	142,289
2.207% Index linked bond	3,546	3,617	3,689	3,764	3,838	165,919	184,373
Trade and other payables	12,876	-	-	-	-	-	12,876
	34,854	22,015	21,965	21,917	21,842	378,587	501,180

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	6,216	6,339	6,466	6,594	6,723	109,436	141,774
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
	26,789	20,972	21,007	20,959	20,915	383,057	493,699

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 £122,815,000 (2011: £114,928,000), the 5.2022% bond which has a fair value of £131,431,000 (2011: £118,149,000) and the 2.207% index linked bond which has a fair value of £95,282,000 (2011: £78,051,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 3.50% (2011: 4.53%) for the 2.9376% index linked bond, a discount rate of 3.32% (2011: 4.49%) for the 5.2022% bond and a discount rate of 3.64% (2011: 4.52%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings.

25 Post balance sheet events

On 23rd June 2012 the north cable of the Moyle Interconnector experienced a fault close to the area of the 2011 fault. The cause of the fault remains under investigation. The Moyle Interconnector remains a fundamental part of the electricity system in Northern Ireland and the company is assessing the various options to improve the resilience of the Interconnector asset. As well as the current approach of repairing faults as they occur, the company is exploring the benefit of reconfiguring the interconnector to work with separate low voltage return cables in conjunction with the existing cables or replacing the control systems earlier than planned and run the system as a single 500MW facility. The only financial implication to the group is the cost of reconfiguration or repair of the asset.

Moyle Interconnector convertor station, Islandmagee.

Moyle Interconnector (Financing) plc

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31 March 2012

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Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

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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 2012

The directors present their report and the audited financial statements of the group and parent company for the year ended 31 March 2012.

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.

Results and dividends

The group's loss for the year is £27,549,000 (2011: £2,653,000 profit). The directors do not recommend the payment of a dividend (2011: £nil).

Directors

The directors, who served the group during the year, and up to the date of signing the financial statements, were:
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 (2011: £nil).

Policy and practice on 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 2012 (2011: 25 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.

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.

Directors' report for the year ended 31 March 2012

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
15 June 2012

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 2012 which comprise the group statement of comprehensive income, the group and parent company balance sheets, 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 Statement of directors' responsibilities set out on page 91, 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 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 annual 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 2012 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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
29 June 2012

Group statement of comprehensive income for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Revenue – continuing operations		**10,251**	16,511
Operating costs	2	**(38,543)**	(6,754)
Earnings before depreciation and amortisation of intangible assets and cable repair costs (adjusted "EBITDA")		**6,462**	13,464
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(2,045)**	(2,046)
Exceptional item – cable repair costs	3	**(31,048)**	-
Operating profit		**(28,292)**	9,757
Finance income	5	**2,653**	2,691
Finance costs	5	**(11,947)**	(10,596)
Finance costs – net	5	**(9,294)**	(7,905)
(Loss)/profit before income tax		**(37,586)**	1,852
Income tax credit	6	**10,037**	801
(Loss)/profit for the year attributable to the owners of the parent	15	**(27,549)**	2,653

The notes on pages 97 to 117 are an integral part of these consolidated 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 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets					
Non-current assets					
Property, plant and equipment	8	96,463	99,832	-	-
Intangible assets	9	41,528	43,189	-	-
Investment in subsidiary undertaking	10	-	-	20,950	20,950
Deferred income tax asset	18	7,942	-	-	-
Trade and other receivables	11	15,003	24,241	99,963	101,669
		160,936	167,262	120,913	122,619
Current assets					
Trade and other receivables	12	2,066	3,377	6,924	6,359
Cash and cash equivalents	13	35,027	54,172	54	60
		37,093	57,549	6,978	6,419
Total assets		198,029	224,811	127,891	129,038
Equity and liabilities					
Equity					
Ordinary shares	14	50	50	50	50
Retained earnings	15	5,463	33,012	1,479	1,594
Total equity		5,513	33,062	1,529	1,644
Liabilities					
Non-current liabilities					
Borrowings	16	117,644	119,469	117,644	119,469
Provisions	17	3,507	2,377	-	-
Deferred income tax liabilities	18	14,766	16,950	-	-
Government grant	19	37,083	38,407	-	-
		173,000	177,203	117,644	119,469
Current liabilities					
Trade and other payables	20	10,109	5,812	635	515
Borrowings	16	8,083	7,410	8,083	7,410
Government grant	19	1,324	1,324	-	-
		19,516	14,546	8,718	7,925
Total liabilities		192,516	191,749	126,362	127,394
Total equity and liabilities		198,029	224,811	127,891	129,038

The notes on pages 97 to 117 are an integral part of these consolidated financial statements.

The group financial statements on pages 94 to 117 were authorised for issue by the Board of Directors on 15 June 2012 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 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash flows from operating activities					
(Loss)/profit before income tax and finance costs		(28,292)	9,757	10,704	10,513
Adjustments for:					
Depreciation of property, plant and equipment		3,369	3,370	-	-
Amortisation of government grant		(1,324)	(1,324)	-	-
Amortisation of intangible assets		1,661	1,661	-	-
Movement in trade and other receivables		(242)	1,857	1,698	(7,823)
Movement in trade and other payables		5,807	(3,141)	(12,211)	(2,720)
Income tax liabilities paid		(1,599)	(1,477)	(224)	-
Net cash (used in)/generated from operating activities		(20,620)	10,703	(33)	(30)
Cash flows from investing activities					
Interest received		2,459	955	-	4,954
Amounts received from related parties		10,577	-	11,904	3,105
Dividends received		-	-	-	2,523
Net cash generated from investing activities		13,036	955	11,904	10,582
Cash flows from financing activities					
Interest paid (including borrowing fees)		(3,877)	(5,543)	(4,193)	(5,488)
Repayment of borrowings		(7,684)	(5,090)	(7,684)	(5,090)
Net cash used in financing activities		(11,561)	(10,633)	(11,877)	(10,578)
Movement in cash and cash equivalents		(19,145)	1,025	(6)	(26)
Cash and cash equivalents at the beginning of the year	13	54,172	53,147	60	86
Cash and cash equivalents at the end of the year	13	35,027	54,172	54	60

Effect of exceptional items on net cash generated from operating activities:

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Net cash generated from/(used in) operating activities before exceptional items		4,499	10,703	(33)	(30)
Cash flows in respect of exceptional items		(25,119)	-	-	-
Net cash (used in)/generated from operating activities		(20,620)	10,703	(33)	(30)

The notes on page 97 to 117 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2012

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 15 June 2012 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 104.

Going concern

The group has net liabilities in the year as a result of the cable fault costs in the year however, the group has strong cash reserves and is expected to be cash generative and profitable going forward.

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.

Notes to the financial statements for the year ended 31 March 2012

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

Standards, amendments and interpretations effective in the year ended 31 March 2012 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 2012 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)
IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011)
IFRS 1 (amendment) 'First time adoption on financial instrument disclosures' (effective 1 July 2010)

International Financial Reporting Interpretation Committee (IFRICs)
IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement' (effective 1 January 2011)
IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

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 group has yet to assess the full impact of these amendments:

International Accounting Standards (IAS/IFRSs)

IAS 1 (amendment)), 'Presentation of financial statements' on OCI*	(effective 1 July 2012)
IAS 12 (amendment), 'Income taxes' on deferred tax	(effective 1 January 2012)
IAS 19 (revised) 'Employee benefits'*	(effective 1 January 2013)
IAS 27 (revised) 'Separate financial statements'*	(effective 1 January 2013)
IAS 28 (revised) 'Associates and joint ventures'*	(effective 1 January 2013)
IFRS 1 (amendment) on hyperinflation and fixed dates*	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on fair value hierarchy'*	(effective 1 July 2011)
IFRS 9, 'Financial instruments'*	(effective 1 January 2015)
IFRS 10, 'Consolidated financial statements'*	(effective 1 January 2013)
IFRS 11, 'Joint arrangements'	(effective 1 January 2013)
IFRS 12, 'Disclosures of interests in other entities'*	(effective 1 January 2013)
IFRS 13, 'Fair value measurement'*	(effective 1 January 2013)

(*) not yet adopted by the European Union

Notes to the financial statements for the year ended 31 March 2012

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 2012. 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 25 years.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated 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 useful economic 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 2012

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

Property, plant and equipment (continued)

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.

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 2012

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 2012

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.

Current 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 2012

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, loss and equity during the year by £1,330,000.

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 23.

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 2012

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 31 years at the beginning of the year. If the remaining useful economic life had been assessed at 32 years depreciation would have decreased by £99,000 and if the remaining useful economic life had been assessed at 30 years depreciation would have increased by £105,000.

(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 4.17%. The decommissioning provision has been discounted using a rate of 3.33%. 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%	1,164
Decrease in inflation factor by 1%	(881)
Increase in discount rate by 1%	(880)
Decrease in discount rate by 1%	1,188

(c) Insurance claim

The company has not recognised a contingent asset in respect of the insurance claim in relation to the cable faults in the year. This asset has not been recognised as the insurance company has not yet admitted liability and the insurance receipt cannot be reliably measured.

Notes to the financial statements for the year ended 31 March 2012

2 Expenses by nature

Group	2012 £'000	2011 £'000
Employee benefit expense (note 4)	**56**	39
Depreciation and amortisation	**5,030**	5,031
Amortisation of deferred government grants	**(1,324)**	(1,324)
Operating lease payments	**101**	94
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**19**	13
Other expenses	**3,613**	2,901
Exceptional item – cable repairs costs (note 3)	**31,048**	-
Total operating costs	**38,543**	6,754

Other expenses include costs incurred for converter station maintenance, rates, insurance and group overheads, together with administrative expenses.

3 Exceptional item

Cable repair costs totalling £31,048,000 comprise the costs directly incurred to address two separate subsea faults which occurred on 26 June 2011 (south cable) and 24 August 2011 (north cable). The cable repair costs include the cost of locating and repairing the faults and insuring the repair.

On 14 May 2012 a formal claim was lodged with the insurers in respect of the faults. This claim is expected to recover substantially all of these costs. Work is ongoing on the analysis of the fault causes.

The tax impact of this exceptional item was a tax credit of £7,452,000 which resulted in deferred tax assets being recognised.

4 Employee benefit expense

Group	2012 £'000	2011 £'000
Wages and salaries	**50**	34
Social security costs	**5**	3
Pension costs	**1**	2
	56	39

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 1 (2011: 1).

The company had no employees other than its directors (2011: none)

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.

Notes to the financial statements for the year ended 31 March 2012

5 Finance income and costs

Group	2012 £'00	2011 £'000
Interest expense:		
Borrowings (including borrowing fees)	**10,817**	10,596
Unwinding of discount on decommissioning provision	**1,130**	-
Finance costs	**11,947**	10,596
Interest income:		
Short-term bank deposits	**(778)**	(877)
Amounts owed by related parties	**(1,875)**	(1,655)
Movement of discount on decommissioning provision	**-**	(159)
Finance income	**(2,653)**	(2,691)
Finance costs – net	**9,294**	7,905

6 Income tax credit

Group	2012 £'000	2011 £'000
Current income tax:		
Group relief claimed	**89**	1,512
Adjustments in respect of previous periods	**-**	18
Total current income tax	**89**	1,530
Deferred income tax:		
Origination and reversal of temporary differences	**(10,126)**	(2,331)
Total deferred income tax (note 18)	**(10,126)**	(2,331)
Income tax credit	**(10,037)**	(801)

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 26% (2011: 28%). The differences are reconciled in the next table:

Notes to the financial statements for the year ended 31 March 2012

6 Income tax credit (continued)

	2012 £'000	2011 £'000
(Loss)/ profit before income tax	**(37,586)**	1,852
Tax calculated at the UK standard rate of corporation tax of 26% (2011: 28%)	**(9,772)**	519
Effects of:		
Reduction in rate of corporation tax on deferred tax assets/liabilities	**(566)**	(1,293)
Expenses not deductible/(income not taxable)	**301**	(45)
Adjustments in respect of previous periods	**-**	18
Income tax credit	**(10,037)**	(801)

Future tax changes

During the year, as a result of the changes in the UK main corporation tax rate to 24% that was substantively enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The proposed reductions in the corporation tax rate, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes in the corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The impact of this proposed reduction in the main rate of corporation tax will reduce the deferred income tax assets by £662,000 and reduce deferred income tax liabilities by £1,231,000.

7 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 loss dealt with in the financial statements of the parent company is £115,000 (2011: £1,816,000 profit).

Notes to the financial statements for the year ended 31 March 2012

8 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**127,899**	**3,785**	**16**	**131,700**
Accumulated depreciation				
At 1 April 2010	26,969	1,514	15	28,498
Provided during the year	3,180	189	1	3,370
At 31 March 2011	**30,149**	**1,703**	**16**	**31,868**
Provided during the year	**3,180**	**189**	**-**	**3,369**
At 31 March 2012	**33,329**	**1,892**	**16**	**35,237**
Net book amount				
At 31 March 2012	**94,570**	**1,893**	**-**	**96,463**
At 31 March 2011	97,750	2,082	-	99,832
At 31 March 2010	100,930	2,271	1	103,202

Depreciation expense of £3,369,000 (2011: £3,370,000) 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 2012

9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2010, 31 March 2011 and at **31 March 2012**	**56,477**
Accumulated amortisation	
At 1 April 2010	11,627
Provided during the year	1,661
At 31 March 2011	**13,288**
Provided during the year	**1,661**
At 31 March 2012	**14,949**
Net book amount	
At 31 March 2012	**41,528**
At 31 March 2011	43,189
At 31 March 2010	44,850

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 25 years.

Amortisation expense of £1,661,000 (2011: £1,661,000) has been fully charged to operating costs.

10 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**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 2012

11 Trade and other receivables (non-current)

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Amounts owed by subsidiary undertaking	-	-	106,714	107,858
Amounts owed by related parties	15,003	24,241	-	-
	15,003	24,241	106,714	107,858
Amounts owed by subsidiary undertaking (current assets)	-	-	(6,751)	(6,189)
	15,003	24,241	99,963	101,669

All of the group's and company's loans and receivables are denominated in sterling.

None of the group's and company's loans and receivables are not 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 group's non-current trade and other receivables is £14,974,000 (2011: £24,420,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.79% (2011: 1.39% to 2.66%). The fair value of the company's loans and receivables is £107,079,000 (2011: £100,462,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.5% (2011: 4.53%) that reflects the maturity profile of the company's loans and receivables.

12 Trade and other receivables (current)

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	663	1,543	-	-
Prepayments and accrued income	1,001	575	169	169
Other receivables	260	482	4	1
Amounts owed by related parties	142	777	6,751	6,189
	2,066	3,377	6,924	6,359

All of the group's and company's trade and other receivables are denominated in sterling.

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 2012

13 Cash and cash equivalents

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	32,027	29,050	54	60
Short-term bank deposits	3,000	25,122	-	-
	35,027	54,172	54	60

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%.

14 Ordinary shares

Group and company	2012 £'000	2011 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	50	50

15 Retained earnings

Group	£'000
At 1 April 2010	30,359
Total comprehensive income for the year	2,653
At 31 March 2011	33,012
Total comprehensive income for the year	(27,549)
At 31 March 2012	5,463

Company	£'000
At 1 April 2010	(222)
Total comprehensive income for the year	1,816
At 31 March 2011	1,594
Total comprehensive income for the year	(115)
At 31 March 2012	1,479

Notes to the financial statements for the year ended 31 March 2012

16 Borrowings

Group and company	2012 £'000	2011 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**117,644**	119,469
Current		
2.9376% Index linked guaranteed secured bond	**8,083**	7,410
Total borrowings	**125,727**	126,879

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 are 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 £122,815,000 (2011: £114,928,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.5% (2011: 4.53%) 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 23.

17 Provisions

Group	Decommissioning provision £'000
At 31 March 2010	2,536
Movement on discount during the year	(159)
At 31 March 2011	**2,377**
Movement on discount during the year	**1,130**
At 31 March 2012	**3,507**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 30 years, at the end of its useful economic life. This provision is expected to be utilised within 30 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 3.33% (2011: 4.32%) that reflects the maturity profile of the group's provision.

Notes to the financial statements for the year ended 31 March 2012

18 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	2012 £'000	2011 £'000
Deferred income tax assets	7,942	-
Deferred income tax liabilities	(14,766)	(16,950)
Deferred income tax liabilities – net	**(6,824)**	(16,950)

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

Group	£'000
At 1 April 2010	19,281
Income statement credit for the year	(2,331)
At 31 March 2011	16,950
Income statement credit for the year	(10,126)
At 31 March 2012	**6,824**

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 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
Income statement credit for the year	(7,942)	(922)	(1,262)	(10,126)
At 31 March 2012	**(7,942)**	**4,799**	**9,967**	**6,824**

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 £9,568,000 (2011: £10,799,000). 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 £4,308,000 (2011: £5,198,000).

Notes to the financial statements for the year ended 31 March 2012

19 Government grant

Group	£'000
At 1 April 2010	41,055
Amortised during the year	(1,324)
At 31 March 2011	**39,731**
Amortised during the year	**(1,324)**
At 31 March 2012	**38,407**

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 (2011: £1,324,000). The non-current portion is £37,083,000 (2011: £38,407,000).

20 Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Trade payables	**249**	192	**10**	-
Accruals and deferred income	**9,169**	2,690	**3**	3
Amounts owed to related parties	**262**	2,396	**622**	512
Other tax and social security	**429**	534	**-**	-
	10,109	5,812	**635**	515

The fair value of trade and other payables is not materially different from their carrying value.

21 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 88 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	**2012 £'000**	2011 £'000
Not later than one year	**101**	94
After one year but not more than five years	**404**	376
After more than five years	**8,480**	7,813
	8,985	8,283

Notes to the financial statements for the year ended 31 March 2012

22 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	2012 £'000	2011 £'000
Parent undertakings – non-current assets	14,079	12,918
Fellow subsidiary undertakings – non-current assets	924	11,323
Fellow subsidiary undertakings – current assets	118	777
Parent undertakings – current assets	24	-
Parent undertakings – current liabilities	(60)	-
Fellow subsidiary undertakings – current liabilities	(202)	(2,396)

		Amount of transaction	
Group	Nature of transaction	2012 £'000	2011 £'000
Fellow subsidiary undertakings	Group relief claimed	(74)	(1,512)
Parent undertakings	Group relief claimed	(15)	-
Fellow subsidiary undertakings	Survey and security costs payable	(31)	(235)
Parent undertakings	Charges payable	(444)	(530)
Parent undertakings	Interest receivable	789	743
Fellow subsidiary undertakings	Interest receivable	1,086	912

	Amount owed (to)/from related party	
Company	2012 £'000	2011 £'000
Subsidiary undertakings – current liabilities	(533)	(284)
Subsidiary undertakings – non-current assets	99,963	101,601
Subsidiary undertakings – current assets	6,751	6,257
Fellow subsidiary undertakings – current assets	-	3
Fellow subsidiary undertakings – current liabilities	(74)	(113)
Parent undertaking – current liabilities	(15)	(115)

		Amount of transaction	
Company	Nature of transaction	2012 £'000	2011 £'000
Parent undertakings	Group relief claimed	(15)	-
Fellow subsidiary undertakings	Group relief claimed	(74)	(635)
Subsidiary undertaking	Interest receivable	10,729	10,535

Notes to the financial statements for the year ended 31 March 2012

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

At 31 March 2012 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	11,778	11,611	11,354	11,096	10,805	104,998	161,642
Trade and other payables	9,680	-	-	-	-	-	9,680
	21,458	11,611	11,354	11,096	10,805	104,998	171,322

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 2012 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	11,778	11,611	11,354	11,096	10,805	104,998	161,642
Trade and other payables	635	-	-	-	-	-	635
	12,413	11,611	11,354	11,096	10,805	104,998	162,277

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

Notes to the financial statements for the year ended 31 March 2012

24 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 2012

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Directors and advisers

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 5GB

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 2012

The directors present their report and the audited financial statements of the group and parent company for the year ended 31 March 2012.

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.

Results and dividends

The group's loss for the year is £3,089,000 (2011: £1,377,000). The directors do not recommend the payment of a dividend (2011: £nil).

Directors

The directors who served the group during the year, and up to the date of signing the financial statements, were:

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 (2011: £nil).

Policy and practice on 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 13 days at 31 March 2012 (2011: 18 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 21 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 £39,172,000 as at 31 March 2012 (2011: £33,375,000). 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 £39,172,000 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 £1,984,000 (2011: £3,095,000) instead of a loss of £3,089,000 (2011: £1,377,000).

Directors' report for the year ended 31 March 2012

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.

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
15 June 2012

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 2012 which comprise the group statement of comprehensive income, the group and parent company balance sheets, 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 Statement of directors' responsibilities set out on page 122, 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 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 annual 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 2012 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 matter 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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast, 23 July 2012

Group statement of comprehensive income for the year ended 31 March 2012

		2012			2011		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement of derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement of derivatives £'000	Total £'000
Revenue – continuing operations		**15,627**	**-**	**15,627**	17,031	-	17,031
Operating costs	2	**(12,133)**	**-**	**(12,133)**	(13,642)	-	(13,642)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**6,948**	**-**	**6,948**	6,838	-	6,838
Amortisation of intangible assets		**(1,402)**	**-**	**(1,402)**	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		**(2,052)**	**-**	**(2,052)**	(2,047)	-	(2,047)
Operating profit		**3,494**	**-**	**3,494**	3,389	-	3,389
Finance income	4	**354**	**-**	**354**	370	-	370
Finance costs	4	**(3,852)**	**-**	**(3,852)**	(3,564)	-	(3,564)
Finance costs - fair value adjustment on derivative financial instruments	4	**-**	**(5,797)**	**(5,797)**	-	(5,283)	(5,283)
Finance costs – net	4	**(3,498)**	**(5,797)**	**(9,295)**	(3,194)	(5,283)	(8,477)
(Loss)/profit before income tax		**(4)**	**(5,797)**	**(5,801)**	195	(5,283)	(5,088)
Income tax credit	5	**1,988**	**724**	**2,712**	2,900	811	3,711
Profit/(loss) for the year attributable to the owners of the parent	14	**1,984**	**(5,073)**	**(3,089)**	3,095	(4,472)	(1,377)

The notes on pages 127 to 147 are an integral part of these consolidated 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 sheet as at 31 March 2012

		Group		Company	
	Note	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	86,641	89,780	-	-
Intangible assets	8	33,266	34,668	-	-
Investment in subsidiary undertaking	9	-	-	51,307	51,307
Trade and other receivables	10	-	-	48,863	46,553
Deferred income tax assets	16	9,401	8,677	9,401	8,677
		129,308	133,125	109,571	106,537
Current assets					
Trade and other receivables	11	4,858	5,565	530	895
Cash and cash equivalents	12	26,026	24,873	398	803
		30,884	30,438	928	1,698
Total assets		160,192	163,563	110,499	108,235
Equity and liabilities					
Equity					
Ordinary shares	13	13	13	13	13
Retained earnings	14	(18,581)	(15,492)	(19,196)	(14,332)
Total equity		(18,568)	(15,479)	(19,183)	(14,319)
Liabilities					
Non-current liabilities					
Borrowings	15	83,654	86,497	83,650	86,497
Deferred income tax liabilities	16	19,468	22,007	-	-
Government grant	17	29,008	30,104	-	-
Derivative financial instruments	21	39,172	33,375	39,172	33,375
		171,302	171,983	122,822	119,872
Current liabilities					
Trade and other payables	18	3,520	3,298	4,018	17
Borrowings	15	2,842	2,665	2,842	2,665
Government grant	17	1,096	1,096	-	-
		7,458	7,059	6,860	2,682
Total liabilities		178,760	179,042	129,682	122,554
Total equity and liabilities		160,192	163,563	110,499	108,235

The notes on pages 127 to 147 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 124 to 147 were authorised for issue by the Board of Directors on 15 June 2012 and were signed on its behalf by:

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

Premier Transmission Financing plc Registered Number: NI 053751

Group and parent cash flow statements for the year ended 31 March 2012

		Group		Company	
		2012	2011	2012	2011
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit before income tax and finance costs		3,494	3,389	3,777	3,521
Adjustments for:					
Depreciation of property, plant and equipment		3,148	3,143	-	-
Amortisation of government grants		(1,096)	(1,096)	-	-
Amortisation of intangible assets		1,402	1,402	-	-
Movement in trade and other receivables		904	758	(1,945)	(2,688)
Movement in trade and other payables		289	(1,774)	(1,757)	(862)
Income tax (paid)/received		(621)	(216)	545	-
Net cash generated from/(used in) operating activities		7,520	5,606	620	(29)
Cash flows from investing activities					
Interest received		84	413	3	1,435
Amounts received from/(paid to) from related parties		-	-	5,417	(4,482)
Proceeds from the sale of financial asset		-	1,880	-	-
Purchase of property, plant and equipment		(6)	-	-	-
Dividend received		-	-	-	6,279
Net cash generated from investing activities		78	2,293	5,420	3,232
Cash flows from financing activities					
Interest paid		(2,812)	(2,800)	(2,812)	(2,757)
Repayment of borrowings		(3,633)	(3,255)	(3,633)	(3,255)
Net cash used in financing activities		(6,445)	(6,055)	(6,445)	(6,012)
Movement in cash and cash equivalents		1,153	1,844	(405)	(2,809)
Cash and cash equivalents at the beginning of the year	12	24,873	23,029	803	3,612
Cash and cash equivalents at the end of the year	12	26,026	24,873	398	803

The notes on pages 127 to 147 are an integral part of these consolidated financial statements

Notes to the financial statements for the year ended 31 March 2012

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 15 June 2012 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 is expected to reverse within the next decade. However the group is cash generative and is forecast to remain cash positive. 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 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 2012 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 2012 but they are not relevant to the group's or parent company's operations:

Notes to the financial statements for the year ended 31 March 2012

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011)

IFRS 1 (amendment) 'First time adoption on financial instrument disclosures' (effective 1 July 2010)

International Financial Reporting Interpretation Committee (IFRICs).

IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement' (effective 1 January 2011)

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union, 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 group have yet to assess the full impact of these amendments:

International Accounting Standards (IAS/IFRSs)

IAS 1 (amendment)),'Presentation of financial statements' on OCI *	(effective 1 July 2012)
IAS 12 (amendment) ,'Income taxes' on deferred tax	(effective 1 January 2012)
IAS 19 (revised) 'Employee benefits' *	(effective 1 January 2013)
IAS 27 (revised) 'Separate financial statements' *	(effective 1 January 2013)
IAS 28 (revised) 'Associates and joint ventures' *	(effective 1 January 2013)
IFRS 1 (amendment) on hyperinflation and fixed dates *	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on fair value hierarchy' *	(effective 1 July 2011)
IFRS 9, 'Financial instruments' *	(effective 1 January 2015)
IFRS 10, 'Consolidated financial statements' *	(effective 1 January 2013)
IFRS 11, 'Joint arrangements'	(effective 1 January 2013)
IFRS 12, 'Disclosures of interests in other entities' *	(effective 1 January 2013)
IFRS 13, 'Fair value measurement' *	(effective 1 January 2013)

(*) not yet adopted by the European Union.

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 2012. 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 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 2012

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

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.

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 22 years.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated 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 useful economic lives of each major class of depreciable asset are as follows:

Pipelines	43 years
Property, plant and equipment	15 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.

Notes to the financial statements for the year ended 31 March 2012

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

Investments

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

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, and are not designated as hedges.

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.

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 2012

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 2012

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.

Current 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 2012

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 21.

Notes to the financial statements for the year ended 31 March 2012

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 are the group's derivative financial instruments. 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 28.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 29.5 years, depreciation would have decreased by £106,000 and if the remaining useful economic life had been assessed at 27.5 years, depreciation would have increased by £114,000.

Notes to the financial statements for the year ended 31 March 2012

2 Expenses by nature

Group	2012 £'000	2011 £'000
Employee benefit expense (note 3)	139	143
Depreciation and amortisation	4,550	4,545
Amortisation of deferred government grant	(1,096)	(1,096)
Operating lease payments	75	71
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	18	21
Other expenses	8,447	9,958
Total operating costs	12,133	13,642

Other expenses include costs payable for capacity on the South West of Scotland pipeline owned by BGE(UK), grid control costs, engineering works, IT system costs, rates, insurance and licence fees, together with general administrative costs.

3 Employee benefit expense

Group	2012 £'000	2011 £'000
Wages and salaries	118	122
Social security costs	14	14
Pension costs - defined contribution pension scheme	7	7
	139	143

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 2 (2011: 2).

The company had no employees other than its directors (2011: none).

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.

Notes to the financial statements for the year ended 31 March 2012

4 Finance income and costs

Group	2012 £'000	2011 £'000
Interest expense:		
Borrowings (including borrowing fees)	3,852	3,564
Fair value adjustment in respect of derivative financial instruments (note 21)	5,797	5,283
Finance costs	9,649	8,847
Interest income:		
Short-term bank deposits	(354)	(370)
Finance income	(354)	(370)
Finance costs – net	9,295	8,477

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. The group has swaps that are designed to hedge the inflation risk in revenue, however under IAS 39 this economic hedging strategy does not 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.

5 Income tax credit

Group	2012 £'000	2011 £'000
Current income tax:		
Group relief claimed/(surrendered)	724	(227)
Adjustments in respect of previous periods	(173)	(50)
Total current income tax	551	(277)
Deferred income tax:		
Origination and reversal of temporary differences	(2,520)	(2,637)
Arising on derivative financial instruments	(724)	(811)
Adjustments in respect of previous periods	(19)	14
Total deferred income tax (note 16)	(3,263)	(3,434)
Income tax credit	(2,712)	(3,711)

Notes to the financial statements for the year ended 31 March 2012

5 Income tax credit (continued)

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 26% (2011: 28%). The differences are reconciled below:

	2012 £'000	2011 £'000
Loss before income tax	**(5,801)**	(5,088)
Tax calculated at the UK standard rate of corporation tax of 26% (2011: 28%)	**(1,508)**	(1,425)
Effects of:		
Expenses not deductible for tax purposes	**17**	23
Reduction in rate of corporation tax on deferred tax assets and liabilities	**(839)**	(1,003)
Treatment of indexation of borrowings	**(1,239)**	(1,308)
Tax losses carried forward for which no deferred tax asset is recognised	**1,049**	38
Adjustments in respect of previous periods	**(192)**	(36)
Income tax credit	**(2,712)**	(3,711)

Future tax changes

During the year, as a result of the changes in the UK main corporation tax rate to 24% that was substantively enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The proposed reductions in the corporation tax rate, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes in the corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The impact of this proposed reduction in the main rate of corporation tax will reduce the deferred income tax assets by £783,000 and reduce the deferred income tax liabilities by £1,622,000.

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 loss dealt with in the financial statements of the parent company is £4,864,000 (2011: £2,893,000 profit).

Notes to the financial statements for the year ended 31 March 2012

7 Property, plant and equipment

Group	Pipeline £'000	Property, plant and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 April 2010	108,510	-	237	108,747
Additions	74	-	-	74
At 31 March 2011	**108,584**	**-**	**237**	**108,821**
Additions	**-**	**8**	**1**	**9**
31 March 2012	**108,584**	**8**	**238**	**108,830**
Accumulated depreciation				
At 1 April 2010	15,661	-	237	15,898
Provided during the year	3,143	-	-	3,143
31 March 2011	**18,804**	**-**	**237**	**19,041**
Provided during the year	**3,147**	**-**	**1**	**3,148**
At 31 March 2012	**21,951**	**-**	**238**	**22,189**
Net book amount				
At 31 March 2012	**86,633**	**8**	**-**	**86,641**
At 31 March 2011	89,780	-	-	89,780
At 31 March 2010	92,849	-	-	92,849

Depreciation expense of £3,148,000 (2011: £3,143,000) 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 2012

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2010, 31 March 2011 and **31 March 2012**	**2,435**	**40,645**	**43,080**
Accumulated amortisation			
At 1 April 2010	-	7,010	7,010
Provided during the year	-	1,402	1,402
At 31 March 2011	**-**	**8,412**	**8,412**
Provided during the year	**-**	**1,402**	**1,402**
At 31 March 2012	**-**	**9,814**	**9,814**
Net book amount			
At 31 March 2012	**2,435**	**30,831**	**33,266**
At 31 March 2011	2,435	32,233	34,668
At 31 March 2010	2,435	33,635	36,070

Amortisation expenses of £1,402,000 (2011: £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 22 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 18 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 discount rate of 3.32 % used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 18 years. The inflation rate assumption used by the group in these calculations of 4.22% has been obtained from Bank of England yield curves over an 18 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 2012

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**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	2012 £'000	2011 £'000
Amounts owed by related parties	**48,863**	46,553

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 £45,208,000 (2011: £37,525,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.32% (2011: 4.49%) that reflects the maturity profile of the company's loans and receivables.

11 Trade and other receivables (current)

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	**327**	326	**-**	-
Prepayments and accrued income	**2,270**	2,497	**319**	9
Other receivables	**2,024**	2,002	**6**	2
Amounts owed by related parties	**237**	740	**205**	884
	4,858	5,565	**530**	895

All of the group's and company's trade and other receivables are denominated in sterling.

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 2012

12 Cash and cash equivalents

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	13,724	18,937	398	803
Short-term bank deposits	12,302	5,936	-	-
	26,026	24,873	398	803

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 1.5%.

13 Ordinary shares

Group and company	2012 £'000	2011 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	13	13

14 Retained earnings

Group	£'000
At 1 April 2010	(14,115)
Total comprehensive income for the year	(1,377)
At 31 March 2011	(15,492)
Total comprehensive income for the year	(3,089)
At 31 March 2012	(18,581)

Company	£'000
At 1 April 2010	(17,225)
Total comprehensive income for the year	2,893
At 31 March 2011	(14,332)
Total comprehensive income for the year	(4,864)
At 31 March 2012	(19,196)

Notes to the financial statements for the year ended 31 March 2012

15 Borrowings

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non current				
5.2022% Guaranteed secured bond	**83,650**	86,497	**83,650**	86,497
Other borrowings	**4**	-	**-**	-
Current				
5.2022% Guaranteed secured bond	**2,842**	2,665	**2,842**	2,665
Total borrowings	**86,496**	89,162	**86,492**	89,162

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 £131,431,000 (2011: £118,149,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.32% (2011: 4.49%) 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 21.

16 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Deferred income tax assets	**(9,401)**	(8,677)	**(9,401)**	(8,677)
Deferred income tax liabilities	**19,468**	22,007	**-**	-
Deferred income tax liabilities/(assets) – net	**10,067**	13,330	**(9,401)**	(8,677)

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

	Group £'000	Company £'000
At 1 April 2010	16,764	(7,866)
Income statement credit for the year	(3,434)	(811)
At 31 March 2011	**13,330**	**(8,677)**
Income statement credit for the year	**(3,263)**	**(724)**
At 31 March 2012	**10,067**	**(9,401)**

Notes to the financial statements for the year ended 31 March 2012

16 Deferred income tax (continued)

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 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**
Income statement credit for the year	**(1,558)**	**(981)**	**(724)**	**(3,263)**
At 31 March 2012	**12,069**	**7,399**	**(9,401)**	**10,067**

Company	Derivative financial instruments £'000
At 1 April 2010	(7,866)
Income statement credit for the year	(811)
At 31 March 2011	**(8,677)**
Income statement credit for the year	**(724)**
At 31 March 2012	**(9,401)**

The group and company have £7,858,000 (2011: £3,000,000) of tax losses available for carry forward against future taxable profits. The related deferred tax asset of £1,886,000 (2011: £790,000) has not been recognised as it is more likely than not that the group and company will make sufficient taxable profits from which the tax losses can be deducted.

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 £7,063,000 (2011: £8,015,000). 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 £11,577,000 (2011: £13,114,000).

17 Government grant

Group	£'000
At 1 April 2010	32,296
Amortised during the year	(1,096)
At 31 March 2011	**31,200**
Amortised during the year	**(1,096)**
At 31 March 2012	**30,104**

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 (2011: £1,096,000) and the non-current portion is £29,008,000 (2011: £30,104,000).

Notes to the financial statements for the year ended 31 March 2012

18 Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	375	451	37	7
Accruals and deferred income	1,895	1,611	6	10
Amounts owed to related parties	819	791	3,975	-
Other tax and social security	431	445	-	-
	3,520	3,298	4,018	17

The fair value of trade and other payables is not materially different from its carrying value.

19 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 23 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	2012 £'000	2011 £'000
Not later than one year	78	71
After one year but not more than five years	313	284
After more than five years	1,409	1,349
	1,800	1,704

Notes to the financial statements for the year ended 31 March 2012

20 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	2012 £'000	2011 £'000
Fellow subsidiary undertaking – current liabilities	(819)	(791)
Parent undertakings – current assets	19	212
Fellow subsidiary undertaking – current assets	218	528

		Amount of transaction	
Group	Nature of transaction	2012 £'000	2011 £'000
Parent undertakings	Charges payable	(457)	(474)
Fellow subsidiary undertaking	Survey and security costs payable	(729)	(287)
Fellow subsidiary undertaking	Group relief (claimed)/surrendered	(551)	227

	Amount owed (to)/from related party	
Company	2012 £'000	2011 £'000
Fellow subsidiary undertaking – current assets	205	676
Fellow subsidiary undertaking – current liabilities	(32)	-
Subsidiary undertaking – non-current assets	48,863	46,553
Subsidiary undertaking – current liabilities	(3,943)	-
Subsidiary undertaking – current assets	-	208

		Amount of transaction	
Company	Nature of transaction	2012 £'000	2011 £'000
Fellow subsidiary undertaking	Group relief surrendered	173	227
Subsidiary undertaking	Group relief surrendered	37	850
Subsidiary undertaking	Interest receivable	3,838	3,580

Notes to the financial statements for the year ended 31 March 2012

21 Financial instruments

The group's and the 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
Liability at 1 April 2010	28,092
Fair value adjustment	5,283
Liability at 31 March 2011	33,375
Fair value adjustment	5,797
Liability at 31 March 2012	**39,172**

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 2012 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	6,654	6,787	6,922	7,057	7,199	107,670	142,289
Trade and other payables	3,089	-	-	-	-	-	3,089
	9,743	6,787	6,922	7,057	7,199	107,670	145,378

Notes to the financial statements for the year ended 31 March 2012

21 Financial instruments

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	6,216	6,339	6,466	6,594	6,723	109,436	141,774
Trade and other payables	2,853	-	-	-	-	-	2,853
	9,069	6,339	6,466	6,594	6,723	109,436	144,627

At 31 March 2012 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	6,654	6,787	6,922	7,057	7,199	107,670	142,289
Trade and other payables	4,018	-	-	-	-	-	4,018
	10,672	6,787	6,922	7,057	7,199	107,670	146,307

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	6,216	6,339	6,466	6,594	6,723	109,436	141,774
Trade and other payables	17	-	-	-	-	-	17
	6,233	6,339	6,466	6,594	6,723	109,436	141,791

The group's and the company's contractual undiscounted cash flows of its bonds are based on the agreed payments under the index-linked swaps.

22 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.

Belfast Gas Pressure Reduction Station, Knocknagoney.

belfast gas
TRANSMISSION

Belfast Gas Transmission Financing plc

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for the year ended 31 March 2012

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Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

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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 2012

The directors present their report and the audited financial statements of the group and parent company for the year ended 31 March 2012.

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 pipeline.

Results and dividends

The group's loss for the year is £3,181,000 (2011: £3,647,000). The directors do not recommend the payment of a dividend (2011: £nil).

Directors

The directors who served the group during the year, and up to the date of signing the financial statements, were:

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 (2011: £nil).

Policy and practice on 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 2 days at 31 March 2012 (2011: 9 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.

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.

Directors' report for the year ended 31 March 2012

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

15 June 2012

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 2012 which comprise the group statement of comprehensive income, the group and parent company balance sheets, 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 Statement of directors' responsibilities 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 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 annual 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 2012 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 matter 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.

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

29 June 2012

Group statement of comprehensive income for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Revenue – continuing operations		**5,116**	5,375
Operating costs	2	**(4,837)**	(5,338)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**3,720**	3,477
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(954)**	(953)
Operating profit		**279**	37
Finance income	4	**36**	54
Finance costs	4	**(7,554)**	(8,472)
Finance costs – net	4	**(7,518)**	(8,418)
Loss before income tax		**(7,239)**	(8,381)
Income tax credit	5	**4,058**	4,734
Loss for the year attributable to the owners of the parent	13	**(3,181)**	(3,647)

The notes on pages 157 to 174 are an integral part of these consolidated 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 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	33,531	34,756	-	-
Intangible assets	8	99,465	101,952	-	-
Investment in subsidiary undertaking	9	-	-	112,384	112,384
		132,996	136,708	112,384	112,384
Current assets					
Trade and other receivables	10	1,391	3,479	14,600	9,070
Cash and cash equivalents	11	9,760	7,532	116	16
		11,151	11,011	14,716	9,086
Total assets		144,147	147,719	127,100	121,470
Equity and liabilities					
Equity					
Ordinary shares	12	50	50	50	50
Retained earnings	13	(13,975)	(10,794)	5,946	4,231
Total equity		(13,925)	(10,744)	5,996	4,281
Liabilities					
Non current liabilities					
Borrowings	14	120,094	116,368	120,094	116,368
Deferred income tax liabilities	15	28,358	31,618	-	-
Government grant	16	7,486	7,774	-	-
		155,938	155,760	120,094	116,368
Current liabilities					
Trade and other payables	17	966	1,653	130	59
Borrowings	14	880	762	880	762
Government grant	16	288	288	-	-
		2,134	2,703	1,010	821
Total liabilities		158,072	158,463	121,104	117,189
Total equity and liabilities		144,147	147,719	127,100	121,470

The notes on pages 157 to 174 are an integral part of these consolidated financial statements.

The group financial statements on pages 154 to 174 were authorised for issue by the Board of Directors on 15 June 2012 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 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		279	37	6	(57)
Adjustments for:					
Depreciation of property, plant and equipment		1,242	1,241	-	-
Amortisation of government grant		(288)	(288)	-	-
Amortisation of intangible assets		2,487	2,487	-	-
Movement in trade and other receivables		2,088	(2,046)	(113)	1,343
Movement in trade and other payables		(2,189)	2,362	71	(1,513)
Income tax received		2,283	-	2,440	-
Net cash generated from/(used in) operating activities		5,902	3,793	2,404	(227)
Cash flows from investing activities					
Interest received		36	54	2	243
Amounts received from related parties		-	-	1,368	1,931
Net cash generated from investing activities		36	54	1,370	2,174
Cash flows from financing activities					
Interest paid		(2,923)	(2,565)	(2,887)	(2,565)
Repayment of borrowings		(787)	(673)	(787)	(673)
Net cash used in financing activities		(3,710)	(3,238)	(3,674)	(3,238)
Movement in cash and cash equivalents		2,228	609	100	(1,291)
Cash and cash equivalents at the beginning of the year	11	7,532	6,923	16	1,307
Cash and cash equivalents at the end of the year	11	9,760	7,532	116	16

The notes on pages 157 to 174 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2012

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 15 June 2012 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.

Notes to the financial statements for the year ended 31 March 2012

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

Standards, amendments and interpretations effective in the year ended 31 March 2012 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 2012 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures'	(effective 1 January 2011)
IFRS 1 (amendment) 'First time adoption on financial instrument disclosures'	(effective 1 July 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement'	(effective 1 January 2011)
IFRIC 19, 'Extinguishing financial liabilities with equity instruments'	(effective 1 July 2010)

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union 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 group is yet to assess the full impact of these amendments:

International Accounting Standards (IAS/IFRSs)

IAS 1 (amendment)),'Presentation of financial statements' on OCI *	(effective 1 July 2012)
IAS 12 (amendment) ,'Income taxes' on deferred tax	(effective 1 January 2012)
IAS 19 (revised) 'Employee benefits' *	(effective 1 January 2013)
IAS 27 (revised) 'Separate financial statements' *	(effective 1 January 2013)
IAS 28 (revised) 'Associates and joint ventures' *	(effective 1 January 2013)
IFRS 1 (amendment) on hyperinflation and fixed dates *	(effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on fair value hierarchy' *	(effective 1 July 2011)
IFRS 9, 'Financial instruments' *	(effective 1 January 2015)
IFRS 10, 'Consolidated financial statements' *	(effective 1 January 2013)
IFRS 11, 'Joint arrangements'	(effective 1 January 2013)
IFRS 12, 'Disclosures of interests in other entities' *	(effective 1 January 2013)
IFRS 13, 'Fair value measurement' *	(effective 1 January 2013)

(*) not yet adopted by the European Union.

Notes to the financial statements for the year ended 31 March 2012

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 2012. 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 40 years.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated 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 useful economic lives of each major class of depreciable asset are as follows:

Pipeline	31 years
Plant and machinery	15 years

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

Notes to the financial statements for the year ended 31 March 2012

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

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.

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.

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;

Notes to the financial statements for the year ended 31 March 2012

- 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.

Current 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 2012

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.

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. 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, loss and equity during the year by £1,200,000.

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.

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.

Notes to the financial statements for the year ended 31 March 2012

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 28 years at the beginning of the year. If the remaining useful economic life had been assessed at 29 years depreciation would have decreased by £43,000 and if the remaining useful economic life had been assessed at 27 years depreciation would have increased by £46,000.

Notes to the financial statements for the year ended 31 March 2012

2 Expenses by nature – operating costs

Group	2012 £'000	2011 £'000
Depreciation and amortisation	3,729	3,728
Amortisation of deferred government grant	(288)	(288)
Operating lease payments	13	12
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	10	10
Other expenses	1,373	1,876
Total operating costs	**4,837**	**5,338**

Other expenses include costs for engineering works, licence fees, maintenance and emergency response, rates, insurance, regulatory work and group overheads, together with administrative costs.

3 Employee benefit expense

The company has no employees other than its directors (2011: none). 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.

4 Finance income and costs

Group	2012 £'00	2011 £'000
Interest expense:		
Borrowing (including borrowing fees)	(7,554)	(8,472)
Finance costs	**(7,554)**	(8,472)
Interest income:		
Short-term bank deposits	36	54
Finance income	**36**	54
Finance costs – net	**(7,518)**	(8,418)

Notes to the financial statements for the year ended 31 March 2012

5 Income tax credit

Group	2012 £'000	2011 £'000
Current income tax:		
Group relief surrendered	(798)	(1,384)
Adjustments in respect of previous periods	-	(176)
Total current income tax	(798)	(1,560)
Deferred income tax:		
Origination and reversal of temporary differences	(3,260)	(3,399)
Adjustments in respect of previous periods	-	225
Total deferred income tax (note 15)	(3,260)	(3,174)
Income tax credit	(4,058)	(4,734)

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 26% (2011: 28%). The differences are reconciled below:

	2012 £'000	2011 £'000
Loss before income tax	(7,239)	(8,381)
Tax calculated at the UK standard rate of corporation tax of 26% (2011: 28%)	(1,882)	(2,347)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	(2,365)	(2,436)
Adjustments in respect of previous periods	-	49
Losses carried forward for which no deferred tax is recognised	189	-
Income tax credit	(4,058)	(4,734)

Future tax changes

During the year, as a result of the changes in the UK main corporation tax rate to 24% that was substantively enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The proposed reductions in the corporation tax rate, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes in the corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The impact of this proposed reduction in the main rate of corporation tax will reduce the deferred income tax liabilities by £2,363,000.

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 £1,715,000 (2011: £4,223,000).

Notes to the financial statements for the year ended 31 March 2012

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2010 and at 31 March 2011	38,480	-	38,480
Additions	-	17	17
At 31 March 2012	38,480	17	38,497
Accumulated depreciation			
At 1 April 2010	2,483	-	2,483
Provided during the year	1,241	-	1,241
31 March 2011	3,724	-	3,724
Provided during the year	1,241	1	1,242
At 31 March 2012	4,965	1	4,966
Net book amount			
At 31 March 2012	33,515	16	33,531
At 31 March 2011	34,756	-	34,756
At 31 March 2010	35,997	-	35,997

Depreciation expense of £1,242,000 (2011: £1,241,000) 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 2012

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2010, 31 March 2011 and **at 31 March 2012**	**109,413**
Accumulated amortisation	
At 1 April 2010	4,974
Provided during the year	2,487
At 31 March 2011	**7,461**
Provided during the year	**2,487**
At 31 March 2012	**9,948**
Net book amount	
At 31 March 2012	**99,465**
At 31 March 2011	101,952
At 31 March 2010	104,439

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 40 years.

Amortisation expense of £2,487,000 (2011: £2,487,000) has been fully charged to operating costs.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2010, 31 March 2011 **and 31 March 2012**	**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 2012

10 Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	183	145	-	-
Amounts owed by related parties	956	2,257	14,585	9,059
Prepayments and accrued income	111	97	11	11
Other debtors	141	980	4	-
	1,391	3,479	14,600	9,070

All of the group's and company's trade and other receivables are denominated in sterling.

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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	9,760	5,532	116	16
Short-term bank deposits	-	2,000	-	-
	9,760	7,532	116	16

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 0.2%

12 Ordinary shares

Group and company	2012 £'000	2011 £'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 2012

13 Retained earnings

Group	£'000
At 1 April 2010	(7,147)
Total comprehensive income for the year	(3,647)
At 31 March 2011	(10,794)
Total comprehensive income for the year	(3,181)
At 31 March 2012	(13,975)

Company	£'000
At 1 April 2010	8
Total comprehensive income for the year	4,223
At 31 March 2011	4,231
Total comprehensive income for the year	1,715
At 31 March 2012	5,946

14 Borrowings

Group and company	2012 £'000	2011 £'000
Non-current		
2.207% Index linked guaranteed secured bond	120,094	116,368
Current		
2.207% Index linked guaranteed secured bond	880	762
Total borrowings	120,974	117,130

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 £95,282,000 (2011: £78,051,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.64% (2011: 4.52%) 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 2012

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2010	34,792
Income statement credit for the year	(3,174)
At 31 March 2011	31,618
Income statement credit for the year	(3,260)
At 31 March 2012	28,358

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 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
Income statement credit for the year	-	(625)	(2,635)	(3,260)
At 31 March 2012	-	4,486	23,872	28,358

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 £23,275,000 (2011: £25,861,000). 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 £4,257,000 (2011: £4,859,000).

Notes to the financial statements for the year ended 31 March 2012

16 Government grant

Group	£'000
At 1 April 2010	8,350
Amortised during the year	(288)
At 31 March 2011	8,062
Amortised during the year	(288)
At 31 March 2012	7,774

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 (2011: £288,000) and the non-current portion is £7,486,000 (2011: £7,774,000).

17 Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	9	25	6	6
Other payables	17	-	-	-
Accruals and deferred income	420	817	16	51
Amounts owed to related parties	176	415	108	2
Other tax and social security	344	396	-	-
	966	1,653	130	59

The fair value of trade and other payables is not materially different from their carrying value.

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 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	13	13
After one year but not more than five years	51	51
After five years	438	451
	502	515

Notes to the financial statements for the year ended 31 March 2012

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	2012 £'000	2011 £'000
Parent undertakings – current assets	50	-
Fellow subsidiary undertakings – current assets	906	2,257
Parent undertakings – current liabilities	(16)	(347)
Fellow subsidiary undertakings – current liabilities	(160)	(68)

		Amount of transaction	
Group	Nature of transaction	2012 £'000	2011 £'000
Parent undertakings	Charges payable	(198)	(216)
Fellow subsidiary undertakings	Group relief surrendered	798	1,384
Fellow subsidiary undertakings	Charges payable	(705)	(177)

	Amount owed (to)/from related party	
Company	2012 £'000	2011 £'000
Subsidiary undertaking – current assets	13,629	6,568
Fellow subsidiary undertaking – current liabilities	(108)	(2)
Parent undertaking – current assets	50	50
Fellow subsidiary undertakings – current assets	906	2,441

		Amount of transaction	
Company	Nature of transaction	2012 £'000	2011 £'000
Fellow subsidiary undertakings	Group relief surrendered	1,730	1,384
Parent undertaking	Group relief surrendered	-	929
Subsidiary undertaking	Interest receivable	7,501	8,529

Notes to the financial statements for the year ended 31 March 2012

20 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
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 2012 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	3,546	3,617	3,689	3,764	3,838	165,919	184,373
Trade and other payables	622	-	-	-	-	-	622
	4,168	3,617	3,689	3,764	3,838	165,919	184,995

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 2012 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	3,546	3,617	3,689	3,764	3,838	165,919	184,373
Trade and other payables	130	-	-	-	-	-	130
	3,676	3,617	3,689	3,764	3,838	165,919	184,503

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

Notes to the financial statements for the year ended 31 March 2012

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.