mutualenergy

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

2013

Annual report & accounts

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working for **consumers**

Contents

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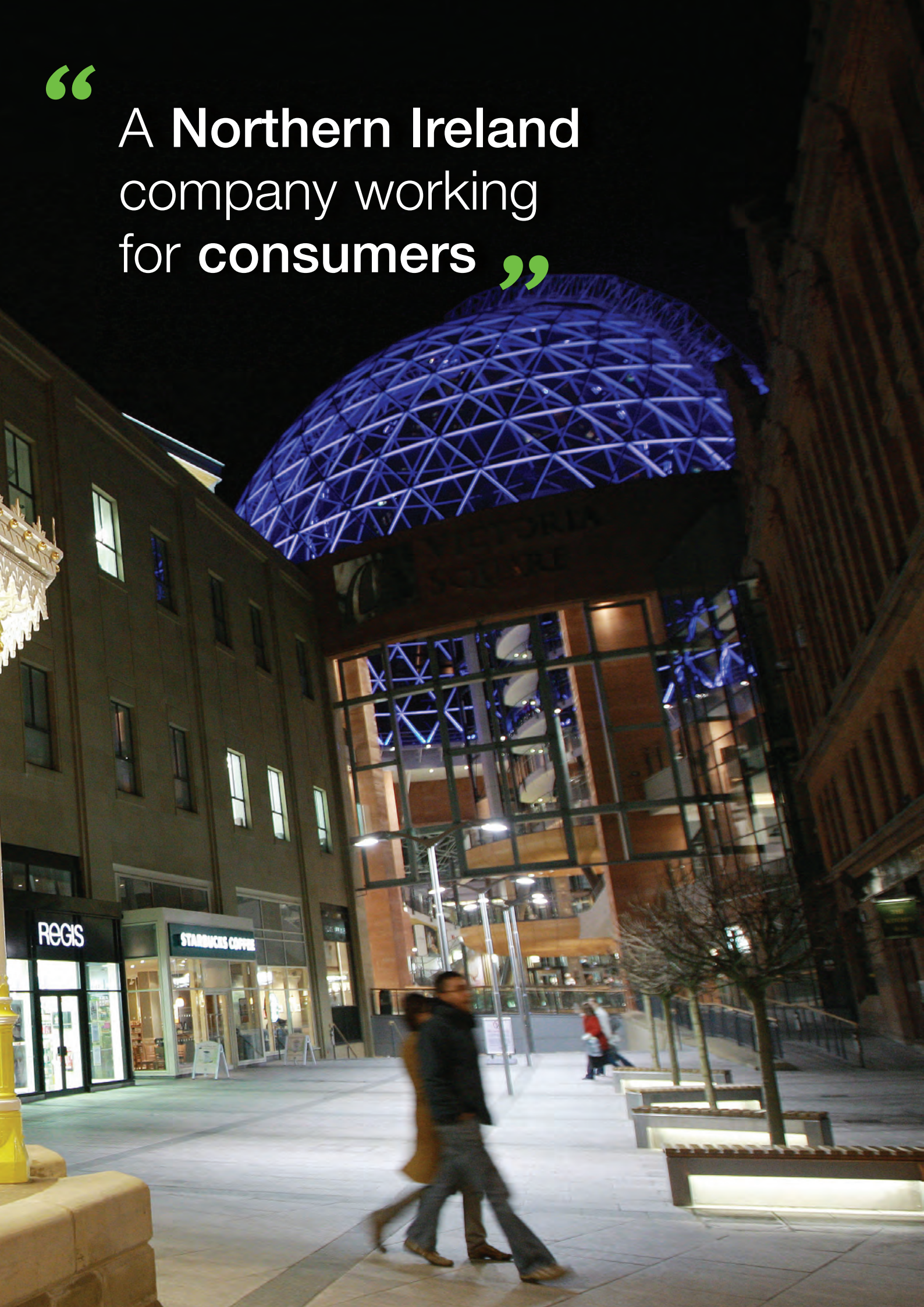


Peter Warry
Chairman

Mutual Energy's role in the energy industry in Northern Ireland is to manage the vital energy links between Northern Ireland and Great Britain. This involves the physical operation, maintenance and development of the assets and also the market arrangements which allow the energy to flow. This is an ever evolving role requiring us to change and adapt as the assets get older and the market demand changes around them. As the influence of the European Union on energy matters continues to grow, and the demands for market integration increase, so too does our role in managing these changes.

The market changes continue apace in both gas and electricity. The Irish electricity market faces a full redesign to be completed by 2016, a process we will be heavily involved in. Similarly the Northern Ireland gas market will need a radical redesign to become compliant with EU requirements. These EU requirements themselves are moving targets with many parts coming through piecemeal between now and 2017. The failure of the CAG initiative puts the Northern Ireland gas transmission system operators well behind where they need to be to become compliant. As outlined on page 6, we have explicitly adapted our business strategy to recognise the importance of managing these changes.

The major issue we have faced over the last two years is the series of electrical faults on the return conductor on the Moyle interconnector cables. Due to the unique design of our electricity cables much of the fault location and repair work has been pioneering in nature. In October 2012 the Moyle business successfully tested a stand-by mode of operation for using the existing cable assets in a different configuration, allowing 250MW transfer in the event of further faults in the return conductor. Through the last six months of the year the business also developed a revolutionary fault detection method based upon heat detection using the optical fibres embedded within the cables, culminating in May with the successful exact location of another electrical fault without the need to lift the cable from the sea bed. I have been very impressed with the way our engineering team have risen to these challenges which bodes well for the upcoming capital expenditure program which will be necessary to improve the resilience of this vital connection to Great Britain.

The current recession coupled with the rise in energy prices in Northern Ireland is an obvious concern to all consumers. In this environment we are working hard to get the Moyle interconnector brought back to full service as soon as possible to allow the benefits of lower prices to flow to the market. The timelines for the project, including consenting, design, tendering, manufacture and laying are necessarily long, expected to be some four years, but reliable interconnection to Great Britain is essential for Northern Ireland and our business is fully engaged to make these improvements.

Finally I would like to thank the members and my fellow directors. As a mutual company we cannot function without members and we are very grateful for the engagement, challenge and support given by our members.

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 four parts:

THE OBJECTIVE	HOW DO WE DELIVER?	HOW DO WE MEASURE SUCCESS?
Operate assets cost effectively on an outsourced basis	The group will provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through the competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors.	A number of measures are used to measure success: • Availability targets are set for assets (KPI 2) • Operational savings against forecast are monitored (KPI 3) • Detailed maintenance and contracting milestones are monitored at contract meetings; and • Detailed monthly budgets are monitored over a rolling five year horizon.
Manage market changes to minimise risks to the Northern Ireland consumer	Our key focus will be to ensure, so far as possible, that these changes do not impact negatively on our business, our financing arrangements or consumers in Northern Ireland. We seek to achieve this by representation at EU stakeholder meetings, active participation in the work of the EU system operator confederation and by assisting regional government and regulatory bodies such as Northern Ireland Authority for Utility Regulation (NIAUR) by identifying issues particularly relevant to Northern Ireland.	The key measure of success is the avoidance of any changes which would compromise the financing structures of the group. In addition individual projects are monitored against initial objectives and implementation plans with milestone dates.
Deliver savings to all consumers evenly over the life of the assets	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.	The electricity consumers of Northern Ireland underwrite any revenue shortfalls incurred by Moyle and the group's surpluses are used on their behalf. The measures of success therefore measure: • Cash reinvested to avoid charging consumers (KPI 4); and • Cash generated from operations (KPI 5)
Acquire stable infrastructure assets at a low cost to the consumer	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. Delivery involves: • the assessment of potential assets, both acquisition and new build, on an ongoing basis; • the development of working relationships with potential partners and developers; and • continued innovation in reviewing financing and licensing structures to ensure low cost to the consumer.	Success is measured with reference to the quality of the projects brought to the board as potential opportunities to develop. The progress of individual projects is measured against project-specific milestones. In acquiring assets the group will not overpay the going market rate. Compliance with key covenants on our existing asset base is measured as a key performance indicator for maintaining investor confidence (KPI 1).

Key Performance Indicators ("KPIs")

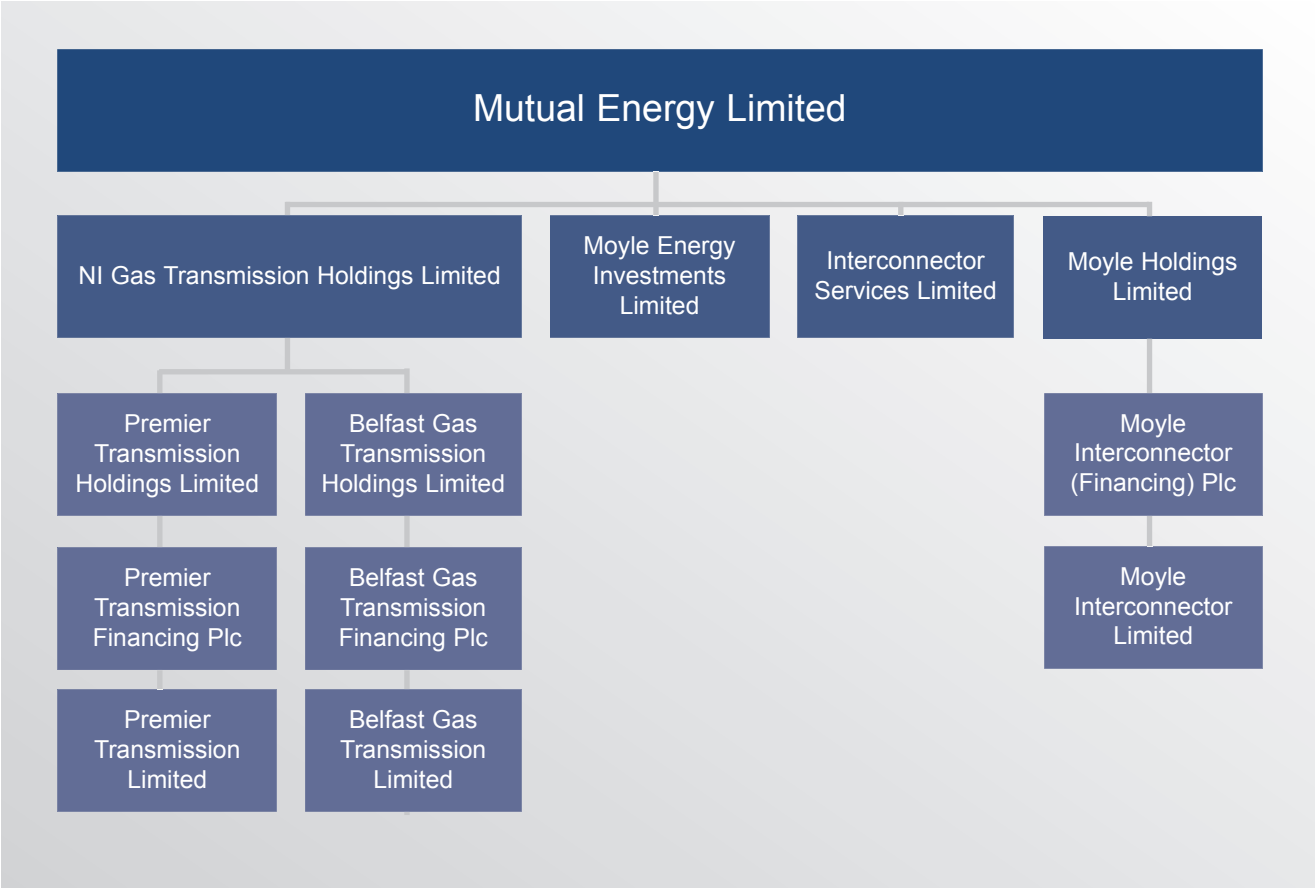
The directors have used the following identified Key Performance Indicators (KPIs) to reflect what is important to our stakeholders and to assess the group's development against its strategy and financial objectives.

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
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.	**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.
2. Unavailability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the unavailability of transmission capacity.	**Unavailability** Unavailability 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.
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.	**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.
4. Cash reinvested to avoid charging consumers Cash reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset.	**Cash reinvested to avoid charging consumers** The Moyle Interconnector can charge consumers for the benefit of the interconnector through the "use of system" charge on their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.
5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to 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:



Strategic Objective: Operate assets cost effectively on an outsourced basis

Strategic Objective: Operate assets cost effectively on an outsourced basis

Gas Business Performance

Revenue and profitability

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc recorded revenue in the year of £26.6m (2012: £20.7m) and EBITDA of £13.4m (2012: £10.7m) Under our gas business licences, each company's revenue is regulated so as to match each gas company'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 reconciliation carried out in the 2012/13 financial year the group produced a saving of £3.3m against forecast (Figure 1) of which Premier Transmission produced a saving of £2.05m against forecast. Following discussions with the Northern Ireland Authority for Utility Regulation, Premier Transmission Limited was entitled to retain £1.88m of this saving, to be applied for the benefit of consumers at a later date. It is the companies' intention to apply this against the costs of future EU compliance projects.

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 2013 reconciliation, Belfast Gas' costs were £1.24m below forecast. Being regulated in this way, the Belfast Gas Transmission group collects only the cash required to meet its costs. As a result, although the business is cash generative and able to meet its debt service obligations, it is not expected to be profitable for some years.

In terms of the Annual Debt Service Cover (ADSCR) both gas groups will tend to average towards 2.0. Over-performance by Premier Transmission above 2.0 in the 2006 to 2009 period and again in 2013 (Figure 2), when cash was retained, will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. In particular the 2014 ADCSR is expected to be below 2.0 as we anticipate the cash retained in 2013 will be applied to the costs of EU compliance projects.

Figure 1

Gas business operational savings forecast (£)

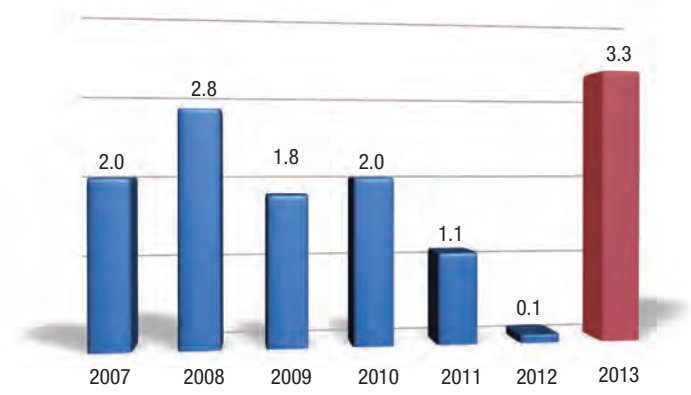


Figure 2

Premier Transmission ADSCR

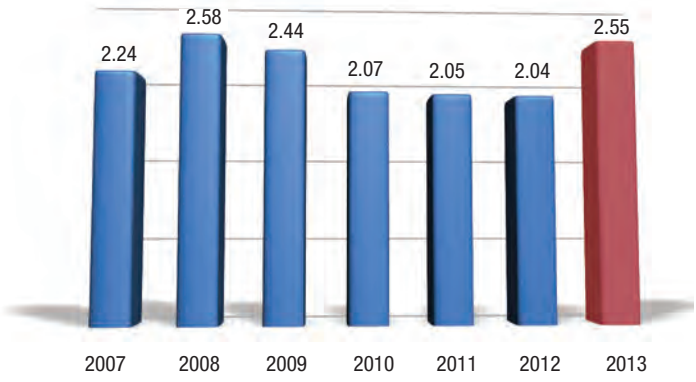
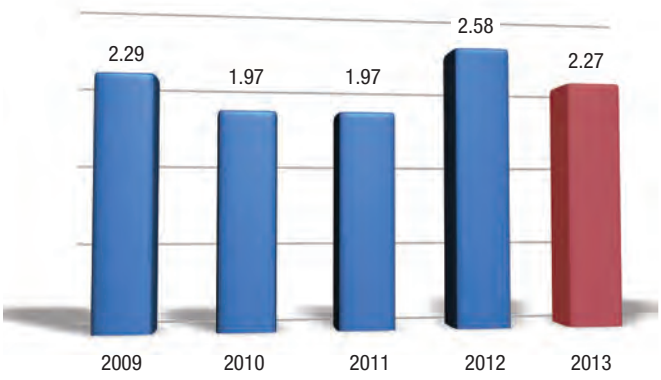


Figure 3

Belfast Gas Transmission ADSCR



Physical operation

The gas business maintained its consistent record of 100% availability throughout the year (Figures 4 and 5). The recent trend of declining annual volumes continued, as the lower gas demand from energy generation outweighed the increase in the domestic sector demand driven by new connections. A total volume of 13,717GWh flowed through the Scotland Northern Ireland pipeline in the 2012/13 financial year, which is lower than the prior year, and overall booked capacity remained static at 7.09mscm. Whilst the Northern Ireland gas network system is experiencing lower annual consumption, the peaks remain high. The Northern Ireland system experienced a peak day gas usage of 6.5mscm, which is 92% of the total current booked capacity on the pipeline. This compares to a peak day of 6.3mscm last year.

Over 500 routine maintenance jobs were recorded on the newly implemented MAXIMO work scheduling system, and a comprehensive program of assessment of the pipeline condition below covered surfaces commenced. The latter program is ongoing with the assessments informing the preventative remedial action maintenance on the relevant sites.

A number of compliance projects were completed including the review and development of the offshore emergency response plan, the review and adoption of new corrosion protection and monitoring standards and the biannual survey of the offshore section of SNIP and the Belfast and Larne Lough Crossings.

In response to indications from BGE(UK) that the pressure they provide from the South West Scotland pipeline system may fall, a program to implement procedures which effectively match the rate at which PTL Shippers input gas at Moffat and offtake gas at Twynholm was completed.

Future development

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. Upstream of the SNIP, BGE(UK) operates the network in the South West of Scotland, having taken the gas in from National Grid at Moffat. BGE (UK), have a contractual obligation to reserve 8.08 mscm per day for the transportation of natural gas to Northern Ireland.

All contractual arrangements in this chain between National Grid, BGE UK, and Premier Transmission are based upon designated minimum pressures. In practice all Transmission Systems Operators (TSOs) have consistently provided higher pressure, referred to as the normal operating pressure. As noted last year, in October 2011 BGE(UK) indicated that they may not be able to achieve the anticipated normal operating pressure in high demand periods. In the future shippers may expect gas to be provided at levels closer to their contracted pressures than has historically been the case.

Figure 4

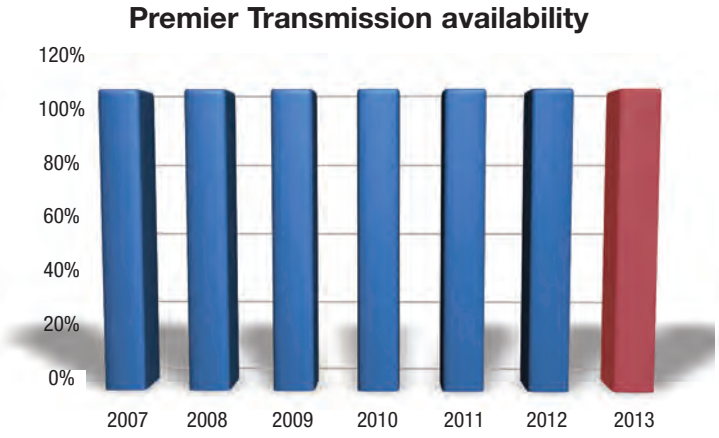
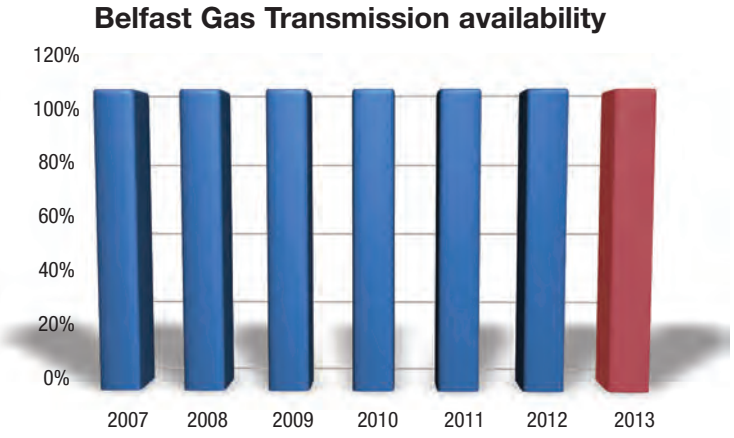


Figure 5

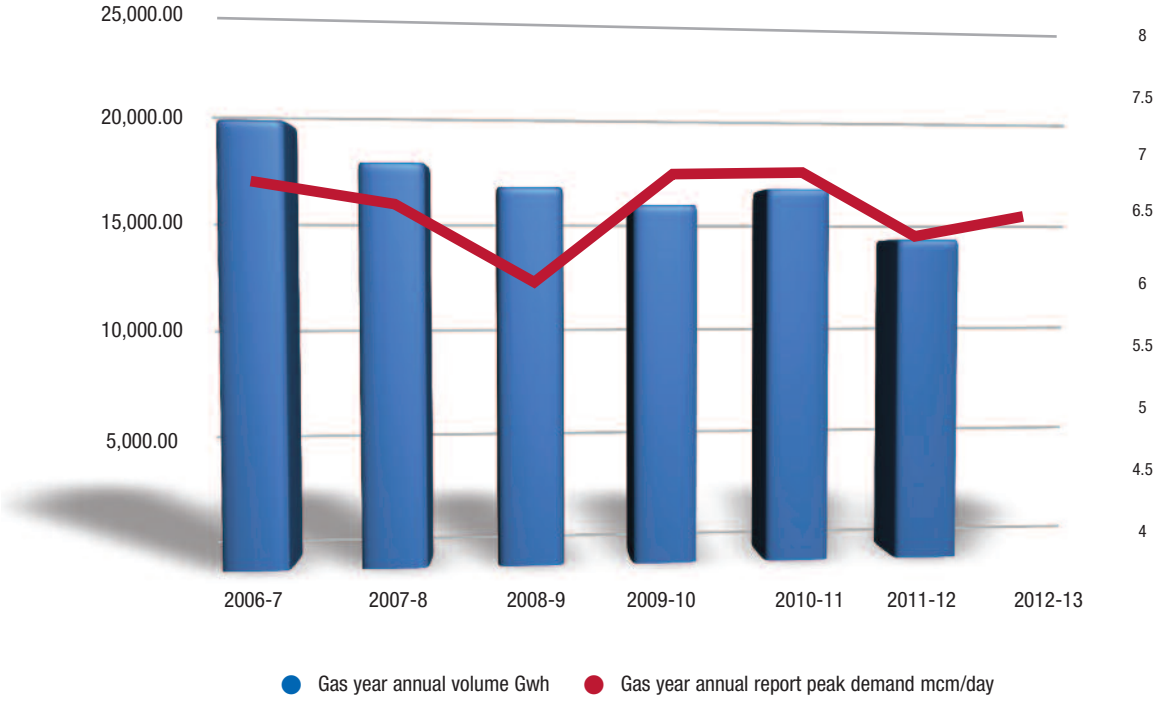


Gas Business Performance (continued)

Total annual gas demand has fallen for four of the last five years in Northern Ireland (Figure 6). 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 falling total volume transported will lead to an increase in tariffs per unit. While the total gas transported is expected to fall, the daily peaks are actually forecast to rise with the increased use of gas generation on the no-wind days and the growth of the domestic gas sector. The changing needs of the power generation shippers, married with upstream pressure reductions is likely to require investment in the network over the next 10 years.

Figure 6

Northern Ireland gas year annual demand and peak day demand



The Corrib gas field is now expected to land supplies in Ireland within the next 2 years. This could seriously reduce the gas flowed from Great Britian 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 Great Britian to the Republic of Ireland, IC1 and particularly IC2 are likely to operate at reducing capacity when the Corrib gas field comes on stream.

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.

Electricity Business Performance

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. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use.

Moyles' revenues are collected from Northern Ireland electricity customers via the system operator to enable it to meet its costs. This charge to the electricity customer can be reduced by the income from capacity auctions. It is by this mechanism that Moyle has been able to secure low cost borrowing on the asset. The 2012/13 year was the first one where Moyle did not fully waive its entitlement to collect income from the customer, making a call for £14.5m, some 83% of the costs incurred in the year, the remaining 17% met by the use of reserves from previous capacity auctions.

Prior to 2012/13 Moyle had accumulated sufficient revenue from its capacity auctions to fully cover all its operating costs and use of system charges were waived. Lower availability due to the cable faults and expected lower unit prices in capacity auctions as a result of the newly commissioned East West Interconnector led to the tariff charge in the 2012/13 year.

Moyle capacity is sold to electricity traders in annual, bi-annual, quarterly and monthly and daily explicit auctions. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% (east-west) (2012: 100%) and 100% (west-east) (2012: 56%) of offered transmission capacity. Long term capacity auctions in the 2012/13 financial year resulted in some £5.45 per MWh contracted sales revenue for 2012/13 and future years. This compares with the long term capacity auctions in the 2011/12 financial year, which realised £4.22 per MWh for 2011/12 and future years. Additional revenue was earned from capacity sales to the system operators in Ireland for system reserve.

A fault on the Moyle North cable reduced revenue by an estimated £6m, and incurred some £1.7m on fault location costs.

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation, amortisation and cable repair costs (Adjusted EBITDA) of £24.4m (2012: £6.5m). The group made an operating profit of £19.0m (2012: £28.3m loss). Strong cash revenues enabled the business to maintain its ADSCR comfortably over 2.0 (Figure 7).

Physical operation

Operational performance was materially affected by a sub-sea outage on the North cable in June 2012, resulting in this cable being out of service for the remainder of the financial year. Availability in the year to 31 March 2013 was hence

Figure 7

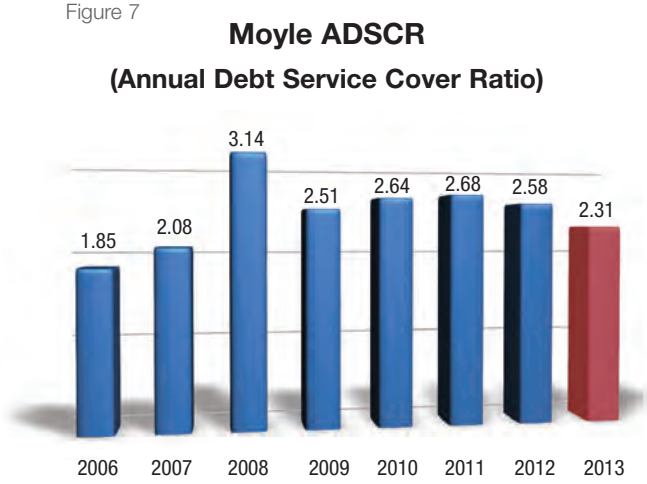
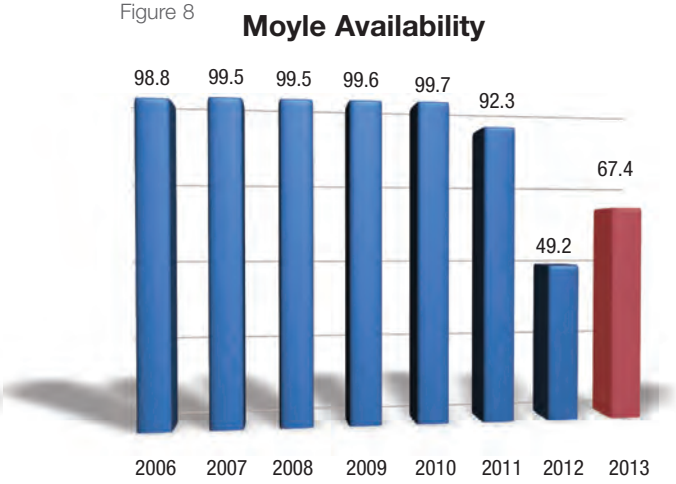


Figure 8



constrained to 67.4% (2012: 49.18%) (Figure 8).

The fault was a similar type of fault to those encountered the previous year, namely the insulation of the integrated return conductor. As a priority the group built upon the research carried out in 2011 on an alternative mode of operating the interconnector, and developed this to a permanent standby state. This work was completed in November 2012 with successful grid tests. The standby running method uses the High Voltage cables in a bi-pole configuration, removing the need for a return conductor and avoiding relying upon the insulation of the return conductor. The capacity of the standby mode is 250MW, a 200MW reduction on our current connection into Northern Ireland. This can now be activated within hours if there is a return conductor insulation failure on the currently running south cable.

During the year approximately 2.14 Terawatt hours (1.44TWh 2011/12) of power was imported across Moyle into Northern Ireland with 0.0039 Terawatt hours (0.00068TWh 2011/12) physically exported. The load factor on available capacity was 86% (2012 75.6%), well above the long term average. Moyle operated throughout the year with no lost time injuries or environmental incidents.

Future developments

After extensive analysis the group has decided that the best long term solution to improve the resilience of the interconnector is to introduce two additional low voltage cables to work in tandem with our existing high voltage cables. The design, procurement, and installation of the additional return conductors is forecast to take between four and five years.

From a market perspective the East West interconnector has had no discernible impact upon the proceeds of Moyle auctions, which remain high compared to the long term average. As both the East West interconnector and the Moyle interconnector have suffered technical difficulties in the last year it is difficult to surmise that this will be the long term position, but at a high level the addition of the extra capacity from the East West has encouraged more traders to enter the market for GB–Ireland capacity, reducing any negative impact. The key determinant of auction prices is expected to remain the price differential between GB prices and those in Ireland.

The impact of the proposed Electricity Market Reform in the UK is hard to predict. However the prospective abolition of the Renewable Obligations Certificates (ROCs) scheme may reduce the incentive for renewable development in Northern Ireland. The exemption of Northern Ireland from the carbon tax will prevent the otherwise forecast displacement of Northern Irish generation by Republic of Ireland plant, not subject to the tax. It will also, however, reduce the GB to NI price differential and so may adversely affect the auction prices for Moyle capacity.

Our partners and contractors

The Mutual Energy group companies carefully assess the level of both work carried out internally and 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.

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 main contractor is Scotia Gas Networks ('SGN') who carry out routine maintenance and emergency response. Following a competitive tender process for control room services it is planned that from mid 2013 SGN will also monitor our system from their gas control centre in London.

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.

Strategic Objective:
Manage market changes to minimise risks to the Northern Ireland consumer

Strategic Objective: Manage market changes to minimise risks to the Northern Ireland consumer

Electricity Business Performance (continued)

A changing business landscape

Perhaps one of the fundamental changes over the last two years has been the predominance of the influence of European wide regulation on the energy industry. Progress towards creating European wide rules in both electricity and gas, known as the "target models", has accelerated with widespread changes scheduled over the next 5 years, particularly at "interconnection points" where EU countries or different asset owners interface. In our case both the Premier Transmission Pipeline and the Moyle Interconnector are regarded as interconnection points and many of the changes apply to the commercial and physical operation of our assets.

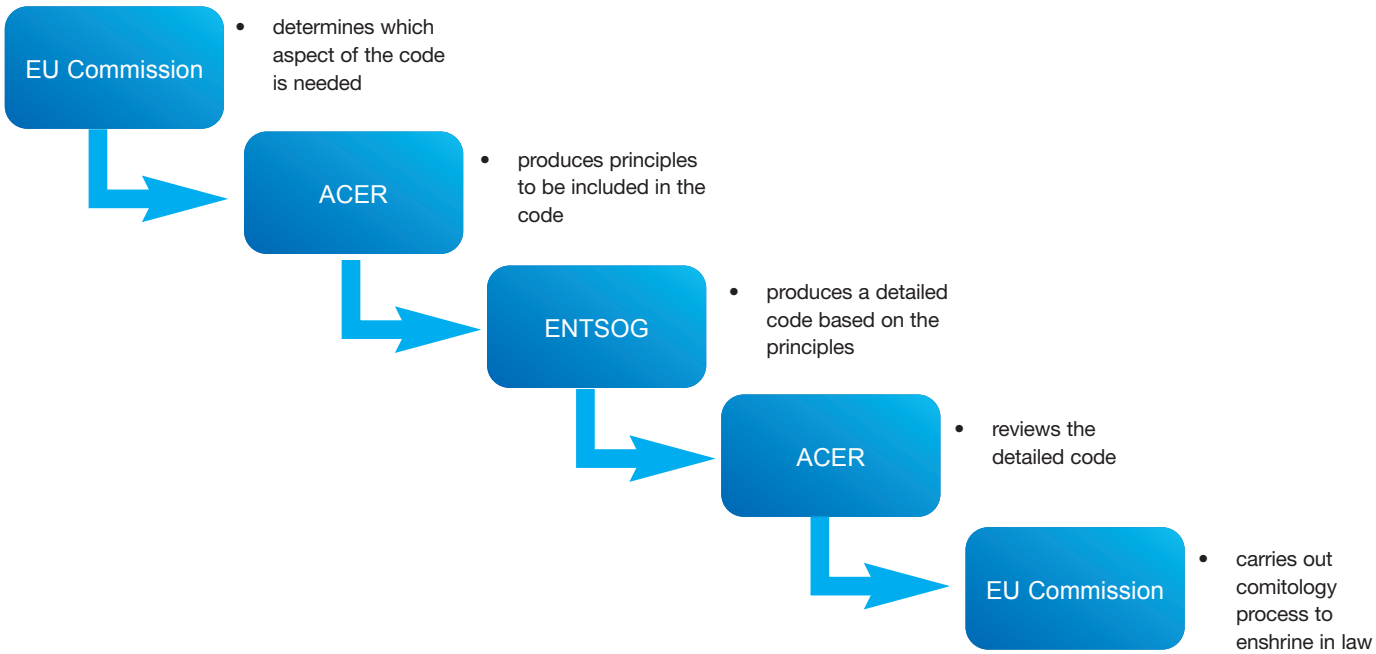
Under the new arrangements the contracts between network operators and shippers who use gas or electricity infrastructure, must be based upon the detailed, prescriptive and centrally produced model. Indeed the Commission has ambitions towards auctioning of capacity at interconnection points on single platforms for the entire region.

A number of new bodies have been set up, have been empowered, and are actively enforcing the move towards the new models including the Agency for the Co-operation of Energy Regulators ("ACER"), the European Network of Transmission Operators for Gas ("ENTSOG") and the European Network of Transmission Operators for Electricity ("ENTSOE") for gas and electricity respectively.

The process of change is illustrated (for gas) in Figure 9.

Figure 9

Process for creation of EU "target model":



Implications for Mutual Energy businesses

Electricity business

During the year Intra-Day Trading ("IDT") was introduced to the Single Electicity Market (SEM) in order to comply with EU Regulation 714/2009 which requires the establishment of mechanisms for Intra-Day congestion management of Interconnector capacity in order to maximise trade opportunities and cross border balancing. The impact of this change is to release unused interconnector capacity to market participants during the trading day (as well as capacity released through superposition in the opposite direction to prevailing flows). While this development does not have a direct impact on Moyle's revenues it has resulted in increased trade across the interconnector with capacity that would have previously been unused being utilised in the Intra-Day market.

EU energy legislation continues to dominate market development activity and development of compulsory network codes to govern how electricity markets and systems interact with each other has progressed significantly.

From the work carried out to date it is clear the form of the target model will not be compatible with the existing all-island single electricity market and it will have to be significantly modified or replaced by 2016 to allow for compliance with EU law. The SEM Committee has commenced a project to implement the target model "in the SEM by 2016 in a coherent and stable manner" and their initial decisions on this include a commitment to maintain the current structure of the SEM until 2016.

The EU requirements have specific obligations for interconnectors as they are designed to improve their utilisation so that prices converge and a single European market is a reality. Much work has been carried out on Moyle commercial arrangements to allow for compliance to date and this work will increase as the EU requirements and the new form of SEM crystallise.

In the near future ACER is pushing for harmonisation of interconnector Access Rules across Europe to facilitate the migration of capacity auctions to a single European platform. Access Rules include the terms, conditions, processes and eligibility for purchasing interconnector capacity and so are a key document for asset owners. This harmonisation process has recently commenced. It will involve 9 regions/countries with multiple interconnectors in each. This is a major task and is expected to take several years to be fully completed. The aim is for "quick wins" to be harmonised in the short term and the more complex rules areas by 2016.

Gas business

EU "Second and Third Packages" and the Common Arrangements for Gas

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 from the regulatory authorities.

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 was the case last year, all these issues remain on hold awaiting the regulatory decisions.

The implication of the apparent failure of CAG is that it leaves Northern Ireland at a very poor starting point to achieve compliance with the upcoming European changes. The structure of the Northern Ireland code is very different from the European standard and we have the added complication of a bespoke transportation arrangement through the south west of Scotland owned and effectively regulated by the Republic of Ireland.

During the year the gas businesses have embarked on a series of measures to catch up on compliance with the EU regulations. Regulation (EC) No 1775/2005 required Transportation System Operators ("TSO") to offer network users short-term services and offer the maximum capacity available. The Northern Ireland TSOs were consequently directed by the Utility Regulator to comply with these requirements as quickly as possible. In conjunction with BGE (NI), MEL successfully developed and implemented Daily Capacity and Virtual Reverse Flow products. The approach taken delivered the products in a short time scale, minimised development costs and maintained streamlining across the Northern Ireland system.

Future challenges

The gas businesses will be faced with a period of change stretching into the foreseeable future. Already the EU has approved the Capacity Allocation Mechanisms ("CAM") network code and it is expected to be adopted into law in August 2013. The CAM network code will require significant changes notably the introduction of bundled capacity products and capacity auctions. The successful implementation of this network code will require migration to an entry exit code and adoption of a new capacity booking platform. Prior to these changes, the current Network Code shall be adapted to incorporate additional procedures to manage potential capacity congestion.

The EU is continuing to work on the Balancing, Tariffs, and Interoperability and Data Exchange network codes. One of the areas that the Interoperability and Data Exchange network codes focus on is interconnection agreements, which require modification of the Transportation Agreement with BGE (UK). Further changes will include the harmonisation of units and likely non-odourisation at transmission level.

One of the fundamental changes that the Balancing network code will introduce is a change to the definition of the gas day which results in changes to operational procedures, systems and the Network Code. A further challenge shall be the introduction of short term balancing products and associated trading platform.

The Tariffs network code will require separate charging for entry and exit points in contrast to the existing methodology. The network code will impose rules on the tariff and cost allocation methodologies.

The implementation of the EU network codes affect all areas of the gas businesses and are required to be delivered within tight timescales. Successful implementation will require close collaboration with the Utility Regulator, adjacent TSOs, and Shippers.

Strategic Objective: deliver savings to all consumers evenly over the life of the assets

Strategic Objective:
Deliver savings to all consumers evenly over the life of the assets

Cost of capital savings

The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The licence structures of the business have been designed to be attractive to long term stable investors such as pension funds and enable the companies to operate without equity investors, so allowing a much lower cost of capital than would otherwise be the case. The sum of the value of the savings to consumers was calculated at the inception of each of our transactions at some £81m. This was based upon an assumption of what the alternative cost of capital of an equity model would be.

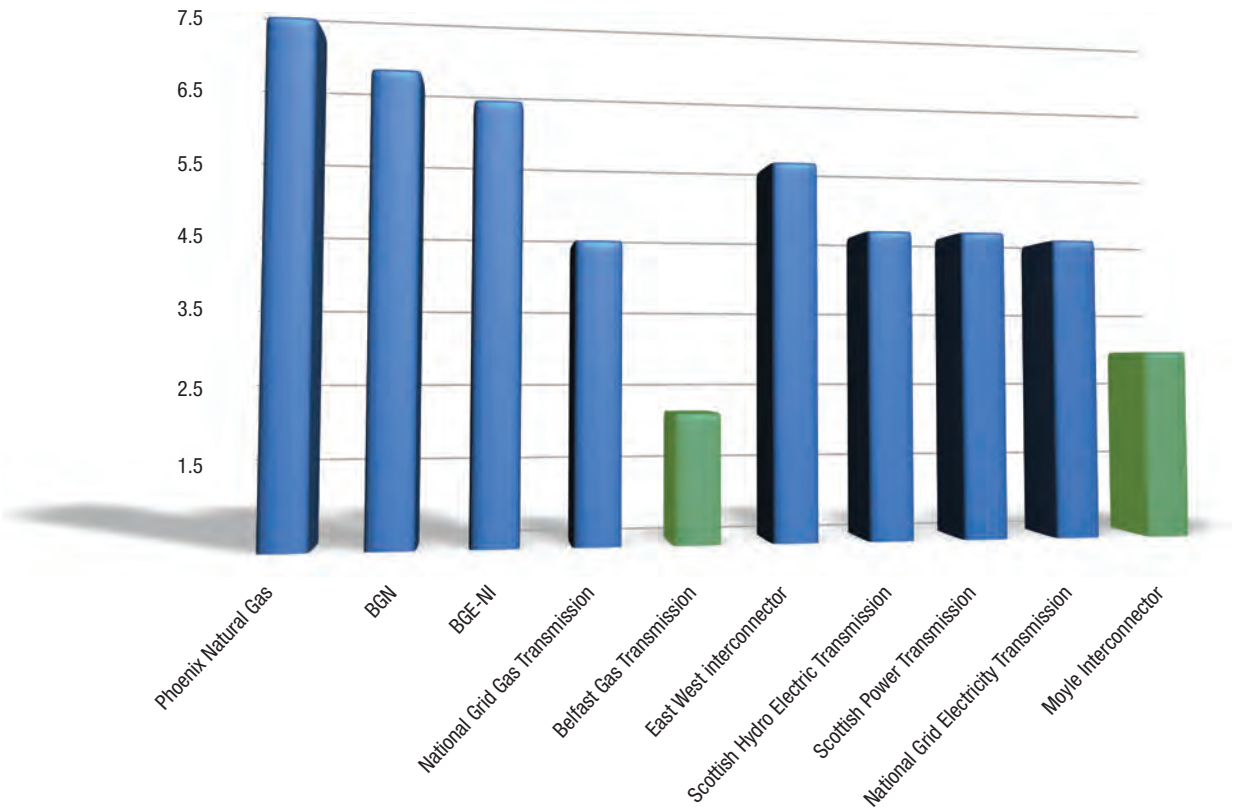
Figure 10 below illustrates the current prevailing costs of capital allowed on a number of companies with similar types of assets. Comparing these to the annual costs of the 100% debt financing of our asset base, the combined gas business ranges from £8.3m p.a. cheaper to £18.8m p.a. cheaper and the electricity interconnector from £3.5m p.a. cheaper. These are striking savings, particularly against the major GB companies with both a scale and markets much more inherently attractive to investors than Northern Ireland.

Costs charged to consumers

The electricity and gas businesses were both expected to charge the respective shippers on their assets through the relevant "use of system charge". For gas shippers this happens automatically via the postalised transmission system, with these shippers getting the benefit of the low mutual energy costs through these charges being lower than they otherwise would have been. These lower costs on shippers allow them to charge the end consumers less for their gas or in the case of power generation shippers for their electricity.

Figure 10

Cost of capital to consumer (%)

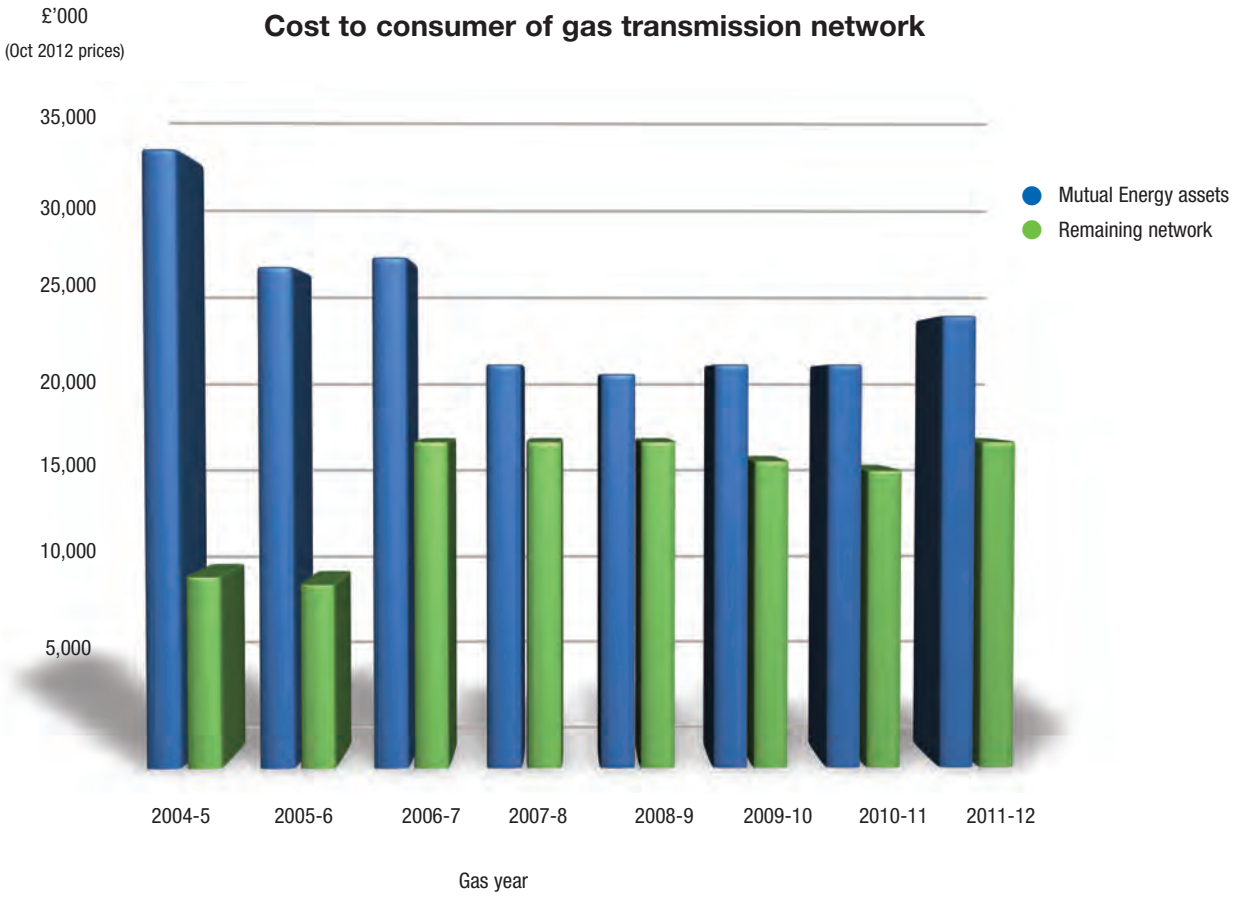


Gas business

Figure 11 shows the total Northern Ireland transmission costs charged through to gas shippers each gas year, in 2012 prices, for the current Mutual Energy assets and the remaining transmission network from the first year of postalisation onwards. The 2004-5 year itself benefited from £4m saving from the mutualisation of PTL (not shown on the graph). The largest fall in charges is in 2007-8, with the cost reductions from the savings in Belfast Gas becoming a mutual. These cost savings from Mutual Energy allowed consumers to avoid a large increase in costs to fund the expansion of the remaining network in 2006-7 when BGE built the South North pipeline. The increase in costs in 2011-12 was largely through the costs allowed for CAG. Costs unspent will instead be used in the current year to contribute to meeting the costs of EU compliance projects in the 2012-13 year.

Overall our gas business charges recovered from shippers in the gas year 2011-12 are 28% lower in real terms than in 2003-4 leaving total market charges broadly flat. We continually seek to achieve operational savings and efficiencies. Over the last 7 years the gas business has made significant strides in this regard through bringing a number of contracts together with the electricity business, such as sub-sea surveys and site security, and the ending of the very long term contracts for control room services, maintenance and emergency response which have been opened up to retendering every 5 to 7 years. These tender processes aim to bring benefits to the consumer through a combination of better services and/or lower costs for the services. Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the KPI in Figure 12.

Figure 11



Electricity business

The electricity business has a different charging mechanism to gas. Rather than automatically charge through the use of system charges to supply companies, and hence on to end customers, the interconnector business has the ability to waive these charges. The alternative source of income for the Moyle business is the auction revenue it can gain by auctioning the access to the interconnector. To the extent this reduces the profit otherwise made by shippers, this is a direct benefit to customers. Over the 10 years of operation Moyle has waived over £80m in use of system revenue it was otherwise entitled to collect, as the first use of system charge was only made in the current year. Year on year this is monitored by way of KPI on cash reinvested as part of the tariff calculation process to avoid charging consumers (Figure 13). Whilst all initial modeling and expectations forecast auction revenue to be immaterial, the prevalent market conditions and active management of the auction opportunities have resulted in this being a major source of income, able to provide the considerable benefits of the interconnector to the Northern Ireland market free of any use of system charge.

Investing to smooth costs

A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cashflows before they are passed through in charges to consumers.

This approach enabled the Moyle business to absorb the cost of last years' sub-sea repairs without passing the costs through into use of system tariffs. Within year cash is managed in the business and the subsidiary Moyle Energy Investments Ltd manages the longer term cash reserves of the business.

The only realised investment of Moyle Energy Investments is a £10m investment in loan notes which, at the request of Moyle Interconnector Ltd were sold early to provide extra contingent liquidity for the Moyle business. This investment was sold in January 2012 which returned interest above our cost of borrowing and a final sale realising 15% profit on the face value of the loan notes. The benefit of the ability to reintroduce cash from investments into the business is to allow the business to minimise sudden rises in tariffs.

The remaining investment is a £10m investment in a Platina III renewable energy fund. This fund invests in renewable energy, spread across Europe to diversify the risk profile. 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. The fund is entering the "hold period" when the renewable assets finish construction and start to generate cash flows. 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 target is now a 6% return per annum.

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 NI consumers.

Figure 12

Gas business operational savings forecast (£m)

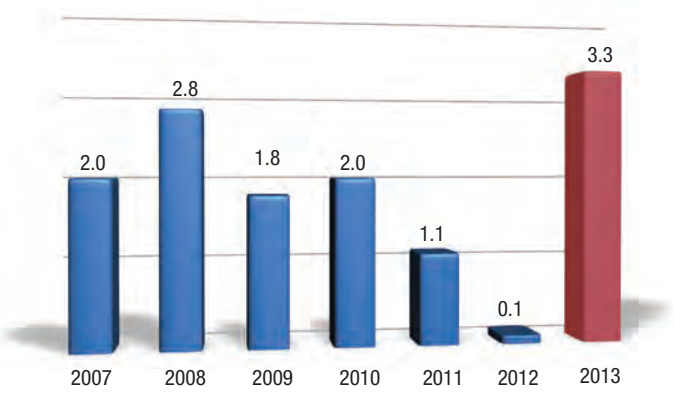
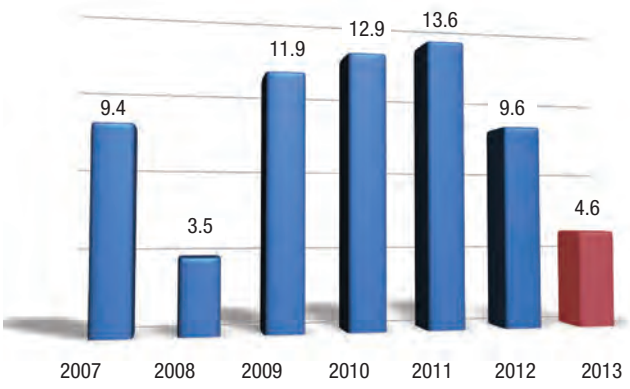


Figure 13

Cash reinvested to reduce charge to consumers (£m)



Strategic Objective:
Acquire stable infrastructure assets at a low cost to the consumer

Strategic Objective: Acquire stable infrastructure assets at a low cost to the consumer

Ownership change in the market

The ownership of a number of companies in the market is forecast to change in the coming years. The Irish Government announced its intention to sell off parts of BGE, likely to include the Firmus distribution and supply businesses in Northern Ireland. In addition Phoenix distribution business is likely to change hands as its private equity owners exit. Mutual Energy will monitor these processes to examine if any sales meet our criteria for investment.

Gas to the West

In a follow up to last years' consultation by DETI on the possibility of extending the gas network to the west of Northern Ireland, the Utility regulator commenced a process to determine who the licence would be awarded to. The project has two potential licence areas, transmission and distribution. The transmission licence will cover a pipeline route to the towns of Dungannon, Coalisland, Cookstown, Magherafelt, Enniskillen, Derrylin, Omagh and Strabane. The distribution licence covers the delivery of gas to the customers in each of these towns. In January 2013 the Northern Ireland Executive Committee agreed to provide subvention of up to £32.5m of the estimated £93m or so estimate for the transmission project. The Mutual Energy Group continues to monitor developments on how the competition is going to be run with a view to determining the feasibility of a bid to provide a mutualised solution.

Gas Storage

Northern Ireland is wholly reliant upon gas imported from Great Britain. The heavy reliance upon gas as the main fuel for electricity generation, combined with the steady decline of the nearby North Sea gas, make this a precarious security of supply situation. Simultaneously the increase in electricity generation from wind, with the gas plant as the main backup if the wind falls away, is forecast to put increasing pressure on the existing gas infrastructure. In this context Mutual Energy has been closely involved in a project to develop a 500 million cubic metres natural gas salt cavity storage facility beneath Larne Lough. The main development partner is Infrastrata plc and the project has been developed with the support of BP Gas Marketing Ltd, who have an option to acquire a controlling stake, which, if exercised, will dilute Mutual Energy's interest to just over 17%.

In October of 2012 the project passed a major milestone with the granting of planning permission. The project team continues to progress a number of other licensing requirements but fundamentally require decision on the key tariffing arrangements which would allow the project to proceed on a level playing field to GB storage facilities.

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

Financial Highlights

Revenue, profitability and reserves

Group revenue in the period to 31 March 2013 was £56.4m (2012: £31.0m). Group operating profit before interest and tax was £25.9m, after the inclusion of cable repair costs of £1.7m (2012: £24.4m loss after £31.0m cable repair costs). After accounting for debt service, the group made an after-tax profit of £0.2m (2012: loss of £34.6m).

Revenue from the gas businesses was £26.6m, made up of £6.0m from Belfast Gas and £20.6m from Premier Transmission. This revenue included an allowance of £1.9m which was expected to have been spent on EU compliance projects in 2012/13, but the costs of which are now expected in 2013/14. The group has agreed to apply the cash already received towards the expected EU compliance costs in 2013/14.

Revenue from the electricity business was £29.8m, with £14.5m collected via the system operator (through the 'use of system' charge) and £15.3m from capacity sales.

Adjusted EBITDA has increased considerably from £17.2m in 2011/12 to £38.3m, reflecting the increased revenue streams and the much smaller fault related costs.

Finance charges

Included within finance costs is £19.4m (2012: £22.2m) 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 £9.2m (2012: £9.1m);
- £8.9m (2012: £11.9m) required to restate bond liabilities to latest applicable Retail Price Index; and
- Bond fees, liquidity facility fees and other charges £1.3m (2012: £1.2m)

The actual interest charge is a cash amount and the restatement on the outstanding bond liability a non cash item. In the current 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. Had the requirement to fair value this financial liability not been required the group's reported profit for the year would have been £8,588,000 (2012: loss of £29,568,000) instead of a profit of £198,000 (2012: loss of £34,641,000).

Cash flow and liquidity position

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.

Overall, the group was cash generative during the year. All three subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. Cash reserves in Premier Transmission group amounted to £26.6m at year end and Belfast Gas Transmission held £9.5m. At the year-end Moyle held operating cash reserves of £38.4m, of which Moyle's Distributions Account held £17m. This £17m is expected to be applied to improve the ongoing reliability of the interconnector by contributing to a capital project to lay additional low voltage return cables between Scotland and Northern Ireland. A further £9.6m of the cash has been designated to cover expected operating deficits in the current year, including the initial costs of the low voltage cable project, so as to reduce the cash call made on electricity consumers. £3.1m is held by the group's investment company, Moyle Energy Investments Limited, pending its drawdown by the Platina III Renewable Energy Fund as already approved by the Utility Regulator. Total cash holdings by the group at year end amounted to £78.4m (2012: £74.2m).

Our Customers and Stakeholders

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.

During the year one more customer, Danske Commodities signed up to be able to acquire capacity on the Moyle Interconnector. Moyle's other customers include Bord Gáis Eireann, Endesa, ESB Independent Energy, Electroroute Energy Trading, Scottish Power Energy Management Ltd, SSE Energy Supply Ltd, RWE Supply and Trading and Viridian Energy Supply Ltd. Regular communication is undertaken with the electricity suppliers and traders to try to ensure that their expectations regarding the type and quantity of capacity on offer are satisfied.

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.

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.

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.

The group monitors a number of employee related KPI's, as noted below;

Employee Key Performance Indicators (KPIs)

KPI	2013	2012
Training days per employee	2.6	3
Sickness absence days per employee	1	2.6
Cycle to work take up	54%	78%
Personal Pension take up	100%	92%

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 2013 and up to the date of approval of the annual report and financial statements.

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

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

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

Operational Risk

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

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

The risk of failure by subcontractors is managed through the contractual process, frequent performance monitoring and maintaining a high standard of eligibility for tendered work.

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 align the financing costs to the income allowances.

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. 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 £27m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission.

Business Environment and Market Risk

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

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

Regulatory Risk

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

Corporate strategy and communication risk

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

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

Environment and Safety

The group continues to put a high value on the health and safety associated with its operations and recognises 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-ordinator (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 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.

No Improvement Notices, Prohibition Notices have been issued by HSE or HSENI and there are no known investigations by any Health and Safety enforcing body.

Forward looking statements

The Directors report (including the Chairman's statement) contains 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.

KPI	2013	2012
Corporate Responsibility		
Lost time and reportable accidents	0	0
Usage of gas in operations (MWh)	4,399	4,039
Electricity consumption at convertor stations (MWh)	2,612	2,761

The Mutual Energy Board

Peter Warry (63) 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 (44) 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 (44) 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 (60) Senior Independent Director

Gerry Walsh served as Chief Executive and Member of the Board of Bord Gáis from 2000 until 2007, during which time the equity value of the company increased by 100% to €1.6 billion. He joined Bord Gáis in 1984 and held a number of senior management roles in utility operations, including General Manager, Director of Strategy and Director of New Business Development before taking over as Chief Executive.

Whilst CEO he oversaw an all-island investment programme of over €1.5 billion and the setting up of a new energy company in Northern Ireland in competition with the local incumbent with an investment of €200 million.

Gerry now runs Spruce Consulting Ltd., which provides strategic support to a portfolio of corporate clients.

Regina Finn (46)

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 set up and ran the regulatory regime for electricity, post and telecommunications.

Stephen Kirkpatrick (49)

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 the Bank's 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. Stephen was appointed as a Non Executive Director and Chair of the Audit Committee of UTV Media plc in September 2012.

Clarke Black (59)

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 2013, 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 UK Corporate Governance Code 2010 (the Code). 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, is responsible for the overall conduct of the Group's business and has powers and duties pursuant to the relevant laws of Northern Ireland and our articles of association.

The Board:

- is responsible for setting the Group strategy and for the management,direction and performance of our businesses;
- is responsible for the long-term success of the Company, having regard to the wider interests of energy consumers in Northern Ireland;
- is responsible for ensuring the effectiveness of and reporting on our system of corporate governance; and
- is accountable to members for the proper conduct of the business.

The Board has a formal schedule of matters reserved for its decision and these include:

- 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; and
- corporate governance.

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.

The executive and non-executive directors are equal members of the Board and have collective responsibility for the group's direction.

Directors and meetings attended	Board	Nominations Committee	Remuneration Committee	Audit Committee	Risk Committee
Clarke Black	9/9	4/4	-	4/4	-
Regina Finn	9/9	4/4	2/2	4/4	-
Stephen Kirkpatrick	9/9	4/4	-	4/4	-
Paddy Larkin	9/9	-	-	-	3/3
Gerard McIlroy	9/9	-	-	-	-
Gerry Walsh	9/9	4/4	2/2	-	3/3
Peter Warry	9/9	4/4	2/2	-	-

In particular, non-executive directors are responsible for:

- bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance, and risk management;
- constructively challenging the strategy proposed by the executive directors; and
- scrutinising and challenging performance across the group's business.

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.

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 annually. 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 process for recruiting directors is co-ordinated by the nominations committee (see below).

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 are 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.

During the year the committee appointed the Curzon Partnership to assist in the succession planning and non executive recruitment process. The committee considered succession planning in respect of the expected tenure of the current directors and assessed the skills required of new directors. After discussion the board and committee determined that they would not institute a gender target on board recruitment and would recruit solely on merit. Curzon Partnership conducted a recruitment exercise advertising for prospective non executives in the later part of the financial year, a process which attracted a strong field from across the British Isles.

Stephen Kirkpatrick led the process on behalf of the committee. The initial long list determined by the Curzon Partnership was reduced to a shortlist in consultation with the Nominations Committee. The interview panel delegated by the committee then interviewed the prospective candidates. The process is currently ongoing with a view of making an appointment in early 2013/14.

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.

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:

(a) requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and

(b) an open and transparent recruitment process similar to that used for public appointments.

Mutual Energy Members during 2012/13	
Mark Beattie (resigned June 2012)	Gillian Hughes
Clarke Black	Alan Jeffers
Ashley Boreland	Geraldine Kelly
David Brown	Stephen Kirkpatrick
Margaret Butler	Nicolas McCourt
John Campbell	Colm McGarry
Bill Cherry	Brendan Milligan
John Cherry	Gordon Millington
Robin Davey	Allister Murphy
Joe Doherty	Niall Rafferty
Seamus Downey	Robert Richmond
Malcolm Emery	Ben Robinson
Regina Finn	Georges Senniger
Andrew Frew	Gerry Walsh
Trevor Greene	Peter Warry
Wesley Henderson	Noel Williams
Chris Horner	John Woods

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 one member resigned from the company and ten new members were approved.

Bondholders

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

Internal control and risk management

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

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

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

Any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. Management is required to apply judgement in

Paddy Larkin making a point during the members' day, June 2013.

evaluating the risks we face in achieving our objectives; in determining the risks that are considered acceptable to bear; in assessing the likelihood of the risks concerned materialising, in identifying our ability to reduce the incidence and impact on the business of risks that do materialise; and in ensuring that the costs of operating particular controls are proportionate to the benefit.

Going concern

The group has net liabilities resulting from losses in the previous years. These losses and net liabilities arise as a result of (i) the 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 Belfast Gas Transmission Financing plc group where this group incurs significant non-cash costs in respect of indexation on outstanding bond liabilities which are only recovered by the group, under its licence agreement, when the cash is required to meet the bond liability payments. This is a situation which will prevail for potentially 20 years.

However, the group continues to be cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £78m. 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

21 June 2013

Members visit to Moyle Convertor Station 2013.

Remuneration Committee Report

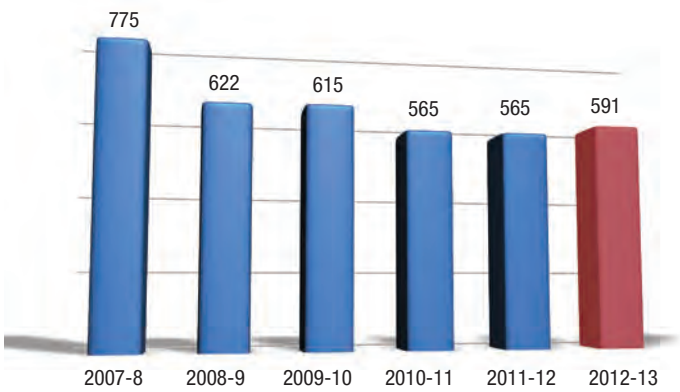
Regina Finn
Chairman
Remuneration
Committee

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

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

Figure 13

Total board remuneration including pensions £'000



Remuneration Policy

The group's objective for executive directors' remuneration for the year ended 31 March 2013 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.

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.

The annual bonus scheme was split into two categories, essential or baseline targets and strategic targets. These targets were set over three sections: 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 2012/13 is shown below:

Executive Directors' target analysis

	Baseline targets	Strategic targets		Total	
	Common	CEO	FD	CEO	FD
Gas	3.33%	3.33%	2.0%	6.67%	5.33%
Electricity	6.33%	5.33%	3.33%	11.67%	9.67%
Business development / corporate targets	4.33%	10.67%	14.0%	15.0%	18.33%
Totals	14.0%	19.33%	19.33%	33.33%	33.33%

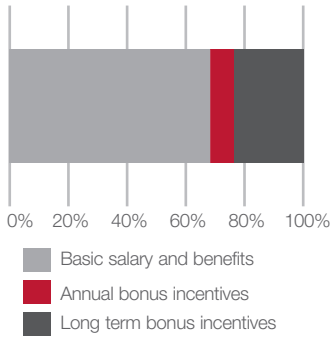
Baseline targets

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 will 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 and identifying the potential to extend the mutual model savings over additional assets. Electricity strategic targets include delivering a strategy for managing the reduced capacity in the interconnector business, and 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.

Executive Directors Remuneration Analysis



Moyle interconnector resilience

As noted in last year's annual report, the targets were set for the year in the knowledge that a major part of the effort in the electricity business would be on determining a long term strategy and technical solution to deal with reliability questions on the cable systems. These are multi-year targets to reflect the nature of the solutions on resilience.

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.

Changes for 2013/14

As part of its remit to regularly review both the structure and quantum of executive directors remuneration, the remuneration committee appointed Towers Watson, a specialist consultancy in this area, to produce a benchmarking report on executive pay. Taking account of the benchmarking exercise, the changed business environment in which the business operates (including strategic long term challenges) and the development of the roles of the executive (particularly the increased emphasis on operational and regulatory delivery), the committee has decided to reshape the remuneration structure for the executive directors. Looking particularly at the retention of the key staff in what will be a critical period for the group, the committee has decided to reduce the in year bonus potential by 2/3 and rebase the basic salary upwards by a similar amount. A longer term bonus regime will also be instigated. The bonus removed from the current scheme (28.6% of total remuneration) will move to this regime, deferred on a three year rolling basis and be linked to longer term goals and objectives. A maximum of half of the rolling pot would be payable in year 3 of the cycle and the second half payable in year 4 of the cycle.

The Committee is confident that this retention targeted bonus structure will meet the objectives of encouraging long term focus in the business and ensuring continuity in the key executive team.

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.

Pensions

Until January 2013 the group did not run its own pension scheme but instead made defined contributions to the employees' personal pension plans. Since February 2013 the group has operated a group personal pension plan for all employees, including directors, in order to ease the administrative burden of having several pension providers. The group pension scheme is a defined contribution scheme. Employees may elect to take their bonuses by way of pension contribution.

Remuneration in 2012-13

Audited information

The following information has been audited by the group's auditors, PricewaterhouseCoopers LLP.

The following table sets out an analysis of the remuneration in 2012-13 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 2012/13	Basic salary 2011/12	Benefits in kind for 2012/13	Benefits in kind for 2011/12	Total Regular remuneration 2012/13	Total Regular remuneration 2011/12	Performance bonus 2012/13	Performance bonus 2011/12	Salary and benefits paid 2012/13	Salary and benefits paid 2011/12
Executive Directors	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Paddy Larkin	**116***	114	**1**	1	**117**	115	**35***	38*	**152**	153
Gerard McIlroy	**99***	97*	**1**	1	**100**	98	**17***	-	**117**	98
Non-Executive Directors										
Clarke Black	**34**	34	**-**	-	**34**	34	**-**	-	**34**	34
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
	428	424	**2**	2	**430**	426	**52**	38	**482**	464

**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 overleaf.

Remuneration in 2012-13

During the year Gerard McIlroy elected to take £8,390 (2012: £8,390) of salary and £25,699 (2012: £35,091) of bonus by way of pension and Paddy Larkin elected to take £18,000 (2012: £16,000) of salary and £15,000 (2012: £nil) of bonus 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 with no net cost to the company.

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	
	2012/13	2011/12	**2012/13**	2011/12	**2012/13**	2011/12	**2012/13**	2011/12
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Paddy Larkin	**18**	19	**20**	18	**17**	0	**55**	37
Gerard McIlroy	**16**	16	**10**	10	**29**	40	**55**	65
Totals	**34**	**35**	**30**	**28**	**46**	**40**	**110**	**102**

Risk Committee Report

The Risk Committee is a committee established by the Board of Directors of Mutual Energy Limited to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to business and operational risks (other than financial risks) and compliance with applicable requirements (other than financial compliance matters).

The terms of reference of the Committee determine that its duties 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;
- Oversight of the operational risk management system and its implementation;
- Reporting to the Board on all major incidents, 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.

The Committee is chaired by Gerry Walsh, non-executive director, and also comprises Paddy Larkin, Chief Executive, Roy Coulter, Health and Safety Manager and Stephen Hemphill, Group Operations Manager.

The Committee met three times during the year ended 31 March 2013 in order to review risk registers, review health and safety Policies being submitted to the Board for approval and addressing specific issues of operational and environmental risk including the Moyle repair and the online inspection of the Belfast Transmission Pipeline. Attendance was as listed in the Corporate Governance Statement.

Gerry Walsh
Chairman
Risk Committee

Activities in 2012/13

During the year the Committee:

- Instigated an external audit of the Health and Safety Management System;
- Recommended and approved the appointment of a dedicated Health and Safety resource to the Group;
- Provided oversight and review of the development of the Health and Safety Policy, Health and Safety Management System and the 2012/13 Health and Safety Plan and recommended these documents to the board for approval;
- Reviewed the risk registers for both the gas and electricity businesses;
- Reviewed the improvement plan for the gas businesses, incorporating both health and safety and asset performance improvement; and
- Carried out a post project analysis of the operational aspects of the Moyle repair program.

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

Stephen Kirkpatrick
Chairman
Audit Committee

Audit Committee Report

Principal responsibilities

The role of the audit Committee is to:

- review the effectiveness of the group's financial reporting and internal controls;
- monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements contained in them;
- 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, a qualified accountant, throughout the year. The remainder of the committee was comprised of Regina Finn, an experienced regulator with a background in economics and Clarke Black, the Chief Executive of the Ulster Farmers' Union with a background in banking. 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 three times in the year ended 31 March 2013 with attendance as listed in the Corporate Governance Statement.

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. The last tender was carried out in 2011 and PricewaterhouseCoopers LLP (PwC) were appointed.

Auditors

A key role of the Committee is to monitor and manage the relationship with the Auditor. The duty to assess the effectiveness of the audit process including the qualifications, expertise and resources of the external auditors is fundamental to the committee's work. The committee discharges this responsibility in two stages. Firstly, as part of the audit tender process, the committee investigates the approach of the firm, the quality of the staff and expected level of effort, comparing these to the rival firms who put forward a proposal. Then, throughout the period of appointment, the committee reviews the audit planning documentation for each audit, ensuring its consistency with the initial proposal and its ongoing suitability.

Other audit related matters considered by the Committee included:

- meeting with the external auditor to confirm their independence and objectivity;
- 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;
- 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 £37,000 was paid in respect of non audit services, in relation to routine tax compliance and recruitment services (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

The committee considers the significant issues in relation to the financial statements both in advance of their preparation as part of the audit planning, and after the financial statements have been drafted in advance of signing by the board. Any fundamental issues identified during an audit are considered by the committee as the audit progresses to ensure timely resolution. As a matter of course the auditor puts forward a number of risks and their approach to auditing them during the planning stage, and then at completion stage a review of the material judgements and issues.

The majority of the matters identified are effectively routine and consistent year on year. In the current year the issues the committee considered significant were as follows:

The assessments of asset impairment

The accounting policy on this is outlined on page 62. The ability of the assets, both physical assets such as the gas pipelines or interconnectors and financial assets such as investments or licences, to generate cash is fundamental to their value and is therefore considered closely by the committee. The ability to generate cash is derived from market conditions, asset performance and the integrity of the licence arrangements. In the specific case of the Moyle Interconnector the committee reviewed the asset in light of the reduced asset performance. By considering the cash flows from the licence the committee was able to conclude the asset did not require any impairment.

The treatment of potential insurance receipts

Due to the significant nature of the insurance claim the committee considered the treatment in light of the board opinion that the claim is valid. The committee regarded the absence of an admission of liability from the insurer as a key factor in not recognising any potential claim income.

Other key judgements and policies are included in note 1 on pages 57-65.

The other financial reporting matters which the committee considered included:

- reviewing and challenging where necessary the consistency of accounting policies; the methods used to account for significant transactions; whether the group has followed appropriate accounting standards and made appropriate estimates and judgements;
- reviewing the clarity of disclosure in the group's financial reports and all material information presented with the financial statements; and
- making recommendations to the Board on the areas within its remit where action or improvement were needed.

Internal controls and risk management systems

During the year the committee oversaw the groups' internal controls and risk management systems, with work including:

- 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 treasury and supplier payment policies; 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

Ashley Boreland

Ashley Boreland has been employed in the public sector for over thirty years, twenty-five of which have been with Ards Borough Council where he has held the post of Chief Executive since 2004. He was elected Chair of ALACE (the Association of Local Authority Chief Executives) in February 2012, is Chair of the Local Government Training Group and is a member of the Local Government Staff Commission.

Ashley has an LLB from the University of London, has Fellowships from of the Institute of Chartered Secretaries and Administrators and the Royal Society of Arts. He is a Member of the Institute of Directors and is a Justice of the Peace.

David Brown

David Brown has an MA in International Marketing and is currently a non-executive director at the Probation Board for NI. Formerly David held the positions of Commercial and Services Director at Translink, Sales & Marketing Director at Airtricity, Business Development Director at Yates TR (NI) Ltd and Managing Director at Simentra Ltd.

David is a Board member at Crimestoppers NI and a co-founder and Trustee at Simply Serving Ministries, a charity that provides humanitiarain support to Eastern Europe.

Margaret Butler

Margaret Butler is a Retail Banker with multinational experience and a career spanning 42 years in the Financial Services Industry. She has worked in Banking in Northern Ireland, England, Scotland and Australia. Margaret has leadership experience across a wide range of discipline. She has an MBA from the University of Ulster. She is a Governor of Kensington and Chelsea College, London and a member of their Finance Committee. Margaret is also a Trustee and Honorary Treasurer of the Northern Ireland Hospice.

John Campbell

John Campbell is a Chartered Director and a Fellow of the Institute of Directors. He is qualified with a BA Tech in Electrical & Electronic Engineering, a Certificate in Applied Economics, Diploma in Management Studies, Diploma in Marketing, MBA, MA in Human Resource Management, Certified Diploma in Accounting and Finance, and a Certificate in Executive Leadership from Cornell University. John presently is Commercial Director in Ireland of a US Fortune 500 company. He previously served as UK Director of Teletech also a Fortune 500 company, Chief Executive of Dungannon & South Tyrone Borough Council, Head of Commercial Services in Translink, Group Business Development and Improvement Director at Lamont Holdings PLC, and a variety of positions in British Telecom. John was

Members presentation, Ballycronanmore Convertor Station June 2013.

previously a Board Member of the Central Services Agency, and 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 NI. Bill is also a member of the Chartered Institute of Management, and is the current Secretary of the Northern Ireland Natural Gas Association

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 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.

Robin Davey

Robin is a Carbon Trust accredited energy management consultant with experience working with industrial and commercial companies, local government, colleges and hospital trusts. Robin is the chairman of the Northern Ireland Branch of the Energy Institute.

Joseph Doherty

Joseph is currently a Curriculum Manager in Technology Department of Southwest College

This work involves aligning the curriculum offer to the needs of local and regional industries (such as developments within the renewable energies fields). He is also an associate Inspector with the Employment and Training Inspectorate (ETI) which reviews and evaluates the quality and standards of teaching within various educational and training organisations.

Seamus Downey

Seamus has an M.Eng in Electrical & Electronic Engineering from Queens 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.

Members' Day, Ballycronanmore, June 2013.

Malcolm Emery

Malcolm 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 Crowley Carbon. Prior to the Crowley Carbon 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.

Andy Frew

Andy 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.

Trevor Greene

Before his retirement in 2012, Trevor worked for the NI Housing Executive. He worked in personnel management until the late 1990's when he took up post as Business Planning Manager dealing with corporate & business planning; performance and risk management; along with equality of opportunity. He also dealt with governance and compliance issues. He has been involved in a wide range of voluntary / charitable organisations. He is currently a director of Hostelling International NI, Habinteg Housing Association, the Open College Network NI and acts as an adviser to Employers for Disability NI.

Wesley Henderson

Wesley Henderson is a retired Director of the Consumer Council for Northern Ireland where his responsibilities included energy policy and corporate services. He currently serves as a Lay Representative on the Northern Ireland Medical and Dental Training Agency and is an Independent Assessor with the Commissioner for Public Appointments for Northern Ireland. He is a Public Director with the Lagan Canal Trust.

Christopher Horner

Christopher Horner is a Chartered Civil Engineer with over 20 years' experience in the industry. Following graduation from Queens University he worked for local engineering consultancy, Ferguson & McIlveen, before transferring to the Civil Service where he worked in Water Service, Construction Service (CPD) and Roads Service. Christopher was appointed as Capital Projects & Engineering Manager of George Best Belfast City Airport in 2007 and his responsibilities include major and minor airport developments,

Members' Day, June 2013.

the airport facilities department and airfield engineering including the radar and aircraft landing systems. Christopher has a young family and sits on the Board of Governors of his local primary school.

Gillian Hughes

Gillian Hughes is a Compliance Officer at a leading Financial Services Company advising on Financial Conduct Authority Regulation. She has an MSc in Management and Corporate Governance from the University of Ulster and is a graduate of the Institute of Chartered Secretaries and Administrators.

Alan Jeffers

Alan Jeffers is a local government officer. He holds both Masters of Business Administration and MA in Marketing degrees and is a Fellow of the Institute of Place Management.

Geraldine Kelly

Geraldine Kelly is a professional executive with 25 years' experience in growing knowledge-based companies in the software, technology and energy sectors. She has held executive and non-executive director positions at international level with Apple, Visio, Gartner, Thomson-NETg and ESB International. Geraldine serves as a non-executive director on a number of public and private sector boards including Aura Leisure Ltd, Micro Finance Ireland and Tyndall. A graduate of University College Galway (Maths & Economics) and postgraduate of University College Dublin (MA Economics) she is also a Chartered Director with the Institute of Directors.

Nicholas McCourt

Nicholas McCourt is currently a mechanical engineer within the engineering support team at AES Kilroot where he was involved in the planning, construction and commissioning of a 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 Nothern Ireland Housing Executive from 1973 to 1998 latterly as assistant director (Corporate Services).

Mutual Energy Chairman, Peter Warry on Members' Day, June 2013.

Brendan Milligan

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

Gordon Millington

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

Allister Murphy

Allister Murphy is semi-retired and works part-time as a consultant, having previously worked for Hays IT, NIGEN and NIE. He has recently completed a course in Solar & Alternate Energy at Belfast Metropolitan College. He is also a member of the Northern Ireland Cancer Research Consumer Forum.

Niall Rafferty

Niall has an ACMA and is Managing Director, SCA Packing 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.

Ben Robinson

Ben Robinson has a corporate career in the food and drink processing industry in Europe and internationally. He was a main Board Director of Gilbeys of Ireland (DIAGEO) and a member of their European Board. He went on to take the reins at Ballymoney Foods for the Irish Farmer shareholders. He moved on as Chief Executive of a major Dutch Food processor. Ben also heads up a busy agri-food management consultancy business working with food SME's in Ireland and the EU helping them develop competitive growth business - central to this is a core skill in cost of energy savings with major clients in manufacturing, hospitality and finance sectors.

Mutual Energy AGM, 2012.

Mutual Energy AGM, 2012.

Georges Senniger

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

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland for seven years, where his remit was to maximise the effectiveness of EST's programmes and oversee its strategy in NI. He sought to address the damaging effects of climate change, reducing NI's greenhouse gas emissions and tackle fuel poverty. He was also the Chair of the NI Fuel Poverty Advisory Group. He is currently the Head of Operations for the Alliance Party East Antrim Constituency and is a Councillor on Carrickfergus Borough Council where he is the Alliance Party Group Leader.

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.

Mutual Energy Limited

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

Annual report for the year ended

31 March 2013

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 2013

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2013.

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 profit for the year is £198,000 (2012: £34,641,000 loss).

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 (2012: £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 25 days at 31 March 2013 (2012: 10 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefit of its directors during the year and it remained in force at the date of this report.

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 2013

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
21 June 2013

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 2013 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 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and 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 2013 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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
4th July 2013

Group statement of comprehensive income for the year ended 31 March 2013

		2013			2012		
	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		**56,441**	**-**	**56,441**	31,025	-	31,025
Operating costs	3	**(30,514)**	**-**	**(30,514)**	(55,469)	-	(55,469)
Earnings before depreciation and amortisation of intangible assets and cable repair costs (adjusted "EBITDA")		**38,254**	**-**	**38,254**	17,229	-	17,229
Amortisation of intangible assets		**(5,550)**	**-**	**(5,550)**	(5,550)	-	(5,550)
Depreciation (net of amortisation of government grants)		**(5,093)**	**-**	**(5,093)**	(5,075)	-	(5,075)
Exceptional item – cable repair costs	4	**(1,684)**	**-**	**(1,684)**	(31,048)	-	(31,048)
Operating profit/(loss)		**25,927**	**-**	**25,927**	(24,444)	-	(24,444)
Finance income	6	**847**	**-**	**847**	2,286	-	2,286
Finance costs	6	**(19,367)**	**-**	**(19,367)**	(23,353)	-	(23,353)
Finance costs - fair value adjustment on derivative financial instruments	6	**-**	**(10,387)**	**(10,387)**	-	(5,797)	(5,797)
Finance costs – net	6	**(18,520)**	**(10,387)**	**(28,907)**	(21,067)	(5,797)	(26,864)
Profit/(loss) before income tax		**7,407**	**(10,387)**	**(2,980)**	(45,511)	(5,797)	(51,308)
Income tax credit	7	**1,181**	**1,997**	**3,178**	15,943	724	16,667
Profit/(loss) for the year attributable to the owners of the parent	16	**8,588**	**(8,390)**	**198**	(29,568)	(5,073)	(34,641)

The notes on pages 57 to 83 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 for the group and company has not been presented.

Group and parent company balance sheets at 31 March 2013

		Group		Company	
	Note	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Assets					
Non current assets					
Property, plant and equipment	9	**209,131**	216,703	**79**	67
Intangible assets	10	**168,710**	174,260	**-**	-
Investments	11	**-**	-	**10,250**	10,250
Other investments	12	**10,187**	10,436	**-**	-
Deferred income tax assets	19	**16,271**	17,373	**16**	20
		404,299	418,772	**10,345**	10,337
Current assets					
Trade and other receivables	13	**14,015**	7,491	**2,424**	2,076
Cash and cash equivalents	14	**78,383**	74,170	**420**	461
		92,398	81,661	**2,844**	2,537
Total assets		**496,697**	500,433	**13,189**	12,874
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	15	**-**	-	**-**	-
Retained earnings	16	**(28,206)**	(28,404)	**(1,936)**	(1,542)
Total equity		**(28,206)**	(28,404)	**(1,936)**	(1,542)
Liabilities					
Non-current liabilities					
Borrowings	17	**317,054**	321,392	**14,911**	14,078
Provisions	18	**3,504**	3,507	**-**	-
Deferred income tax liabilities	19	**58,310**	62,590	**-**	-
Government grants	20	**70,875**	73,583	**-**	-
Derivative financial instruments	24	**49,559**	39,172	**-**	-
		499,302	500,244	**14,911**	14,078
Current liabilities					
Trade and other payables	21	**10,649**	14,080	**214**	338
Borrowings	17	**12,244**	11,805	**-**	-
Government grants	20	**2,708**	2,708	**-**	-
		25,601	28,593	**214**	338
Total liabilities		**524,903**	528,837	**15,125**	14,416
Total equity and liabilities		**496,697**	500,433	**13,189**	12,874

The notes on pages 57 to 83 are an integral part of these consolidated financial statements.

The group financial statements on pages 54 to 83 were authorised for issue by the Board of Directors on 21 June 2013 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 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash flows from operating activities					
Loss before income tax		(2,980)	(51,308)	(639)	(691)
Adjustments for:					
Finance costs - net		28,907	26,864	832	786
Depreciation of property, plant and equipment		7,801	7,783	32	11
Amortisation of government grants		(2,708)	(2,708)	-	-
Amortisation of intangible assets		5,550	5,550	-	-
Movement in trade and other receivables		(6,848)	1,309	(94)	333
Movement in trade and other payables		(4,287)	6,364	(58)	(1,137)
Income tax received		-	193	-	587
Net cash generated from/(used in) operating activities		25,435	(5,953)	73	(111)
Cash flows from investing activities					
Interest received/(paid)		670	1,564	(4)	2
Purchase of property, plant and equipment		(295)	(23)	(110)	-
Purchase of other investment		(1,396)	(3,367)	-	-
Repayment of investment		1,647			
Proceeds from sale of investments		-	10,577	-	-
Net cash generated from/(used in) investing activities		626	8,751	(114)	2
Cash flows from financing activities					
Interest paid		(9,611)	(9,354)	-	-
Repayment of borrowings		(13,157)	(12,104)	-	-
Collateral receipt		920	-	-	-
Net cash used in financing activities		(21,848)	(21,458)	-	-
Movement in cash and cash equivalents		4,213	(18,660)	(41)	(109)
Cash and cash equivalents at the beginning of the year	14	74,170	92,830	461	570
Cash and cash equivalents at the end of the year	14	78,383	74,170	420	461

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Net cash generated/(used in) from operating activities before exceptional items	33,047	19,166	73	(111)
Cash flows in respect of exceptional items	(7,612)	(25,119)	-	-
Net cash generated from/(used in) operating activities	25,435	(5,953)	73	(111)

The notes on 57 to 83 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2013

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 (SNIP) 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 21 June 2013 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 65.

Going concern

The group has net liabilities resulting from losses in the previous years. These losses and net liabilities arise as a result of (i) 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 will prevail for potentially 20 years.

However, the group continues to be cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £78m. 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.

Notes to the financial statements for the year ended 31 March 2013

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

Standards, amendments and interpretations effective in the year ended 31 March 2013 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 2013 but they are not relevant to the group's or parent company's operations:

IFRS 7 (amendment), 'Financial instruments: Disclosures on de-recognition' (effective 1 July 2011)

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 accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application:

International Accounting Standards (IAS/IFRSs)

IAS 1 Presentation of Financial Statements on OCI (effective 1 July 2012)

IAS 12 (amendment), 'Income taxes on deferred taxes' (effective 1 January 2013)

IAS 19 (revised 2011) Employee benefits (effective 1 January 2013)

IAS 27 (revised 2011) Separate financial statements (effective 1 January 2014)

IAS 28 (revised 2011) Associates and joint ventures (effective 1 January 2014)

IAS 32/IFRS 7 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IFRS 9, 'Financial instruments' (effective 1 Jan 2015)*

IFRS 10 Consolidated financial statements (effective 1 January 2014)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 12 Disclosure of interests in other entities (effective 1 January 2014)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 January 2013)

* Not yet endorsed by the EU.

Basis of consolidation

The group financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2013. 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.

Notes to the financial statements for the year ended 31 March 2013

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

Basis of consolidation (continued)

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 group 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 use of system charges levied on all users of the Northern Ireland electricity network and 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.

(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 21 years for the Scotland Northern Ireland pipeline, 24 years for the Moyle Interconnector and 39 years for the Belfast Gas Transmission pipeline.

Notes to the financial statements for the year ended 31 March 2013

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

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 purchase 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:

Gas Pipelines	31 to 43 years
Electricity Interconnector assets	40 years
Control 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 statement of comprehensive income 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 recorded at cost less provision for impairments.

Investments in unquoted funds are recorded at cost, which is the fair value of the consideration paid. The group 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. The group classifies its financial liabilities as other financial liabilities held at amortised cost.

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 interest rate SWAPs, 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.

Notes to the financial statements for the year ended 31 March 2013

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

Classification of financial instruments (continued)

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 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 re-measured 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 liabilities 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.

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 with short maturity periods with banks, other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements for the year ended 31 March 2013

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

Impairment of financial assets

(a) Assets held at amortised cost

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

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

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

The group first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(b) Available-for-sale financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Notes to the financial statements for the year ended 31 March 2013

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

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

(b) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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 current and 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.

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

Notes to the financial statements for the year ended 31 March 2013

and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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.

Moyle Interconnector (Financing) plc

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

(a) Market risk

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

The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at either fixed rates or are linked to the Retail Price Index. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs, loss and equity during the year by £2,544,000.

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 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 is 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

The following fair value measurement hierarchy has been used by the group for calculating the fair value of financial instruments:

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

Notes to the financial statements for the year ended 31 March 2013

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

Fair value estimation (continued)

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

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's 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 Scotland Northern Ireland pipeline was determined as approximately 27.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 28.5 years, depreciation would have decreased by £110,000 and if the remaining useful economic life had been assessed at 26.5 years, depreciation would have increased by £118,000.

The remaining useful economic life of the interconnector was determined as approximately 30 years at the beginning of the year. If the remaining useful economic life had been assessed at 31 years depreciation would have decreased by £102,000 and if the remaining useful economic life had been assessed at 29 years depreciation would have increased by £109,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 27 years at the beginning of the year. If the remaining useful economic life had been assessed at 28 years depreciation would have decreased by £44,000 and if the remaining useful economic life had been assessed at 26 years depreciation would have increased by £48,000.

(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 rate of 3.97%. The decommissioning provision has been discounted using a rate of 3.10%. 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%	1,121
Decrease in inflation factor by 1%	(857)
Increase in discount rate by 1%	(856)
Decrease in discount rate by 1%	1,145

(c) Insurance claim

The group has not recognised a contingent asset in respect of the insurance claim in relation to the recent cable faults. 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 2013

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 2013 is as follows:

Year ended 31 March 2013	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	29,844	20,573	6,012	12	56,441
Segment (expenses)/income	(5,445)	(11,087)	(2,118)	463	(18,187)
Segment results (Adjusted EBITDA*)	24,399	9,486	3,894	475	38,254
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,043)	(2,053)	(954)	(43)	(5,093)
Exceptional item - Cable repair costs	(1,684)	-	-	-	(1,684)
Finance income	1,164	414	99	(830)	847
Finance costs	(8,340)	(4,062)	(6,965)	-	(19,367)
Fair value adjustment on derivative financial instruments	-	(10,387)	-	-	(10,387)
Profit/(loss) before income tax	11,835	(8,004)	(6,413)	(398)	(2,980)
Income tax (charge)/credit	(2,454)	3,744	1,699	189	3,178
Profit/(loss) for the year	9,381	(4,260)	(4,714)	(209)	198
Assets					
Segment assets	179,999	161,217	140,363	15,118	496,697

*Adjusted EBITDA is calculated as EBITDA before cable repair costs.

Segment revenue from external customers includes revenue collected via the Northern Ireland use of system charge.

Notes to the financial statements for the year ended 31 March 2013

2 Segment information (continued)

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

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 (Premier Transmission and Belfast Gas Transmission) of £26,585,000 (2012: £20,743,000) 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 (Moyle Interconnector) by customer (for those exceeding 10% of external revenues) are as follows:

	2013 £'000	2012 £'000
Customer A	**5,179**	5,125
Customer B	**2,771**	1,177
Customer C	**2,555**	1,598
Customer D	**1,325**	651
	11,830	8,551

In addition the group's electricity business collected revenues of £14,500,000 from all electricity supply companies via the Northern Ireland use of system charge.

Notes to the financial statements for the year ended 31 March 2013

3 Expenses by nature – operating costs

Group	2013 £'000	2012 £'000
Employee benefit expense (note 5)	1,240	1,066
Depreciation and amortisation	13,351	13,333
Amortisation of deferred government grants	(2,708)	(2,708)
Operating lease payments	232	230
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	45	50
Fees payable to the company's auditor in respect of taxation services	13	13
Fees payable to the companies auditor in respect of other services	24	-
Other expenses	16,633	12,437
Exceptional item – cable repair costs (note 4)	1,684	31,048
Total operating costs	30,514	55,469

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

4 Exceptional item

Cable repair costs totalling £1,684,000 comprise the costs directly incurred to address the recent subsea faults.

During the year ended 31 March 2012 cable repair costs totalling £31,048,000 were 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 included the cost of locating and repairing the faults and insuring the repair.

The tax impact of this exceptional item was a current tax credit of £404,000 (2012: £7,452,000) recognition of a deferred tax asset.

The insurance claim from May 2012 in respect of the two faults in the year ended 31 March 2012 is still under discussion and is expected to recover substantially all of these costs.

5 Employee benefit expense

Group	2013 £'000	2012 £'000
Wages and salaries	1,018	827
Social security costs	127	99
Pension costs – defined contribution pension scheme	95	140
	1,240	1,066

Notes to the financial statements for the year ended 31 March 2013

5 Employee benefit expense (continued)

Directors' emoluments	2013 £'000	2012 £'000
Aggregate emoluments	269	251
Contributions paid to defined contribution pension scheme	110	102
	379	353

	Number	Number
Members of defined contribution pension scheme	13	9

Directors' emoluments represent the remuneration of the group's executive directors. The remaining directors of the group received £213,000 (2012: £213,000) 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 £152,000 (2012: £153,000) and the contributions paid to his defined contribution pension scheme were £56,000 (2012: £37,000).

6 Finance income and costs

Group	2013 £'000	2012 £'000
Interest expense:		
Borrowings (including borrowing fees)	19,367	22,223
Movement of discount on decommissioning provision	-	1,130
Fair value adjustment in respect of derivative financial instruments (note 24)*	10,387	5,797
Finance costs	29,754	29,150
Interest income:		
Short-term bank deposits	(844)	(1,200)
Movement of discount on decommissioning provision	(3)	-
Financial assets	-	(1,086)
Finance income	(847)	(2,286)
Finance costs – net	28,907	26,864

*Fair value adjustment in respect of derivative financial instruments

The statement of comprehensive income 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 2013

7 Income tax credit

Group	2013 £'000	2012 £'000
Deferred income tax:		
Origination and reversal of temporary differences	(1,168)	(15,930)
Arising on derivative financial instruments	(1,997)	(724)
Adjustments in respect of previous periods	(13)	(13)
Total deferred income tax (note 19)	(3,178)	(16,667)
Income tax credit	(3,178)	(16,667)

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 24% (2012: 26%). The differences are reconciled below:

Group	2013 £'000	2012 £'000
Loss before income tax	(2,980)	(51,308)
Tax calculated at the UK standard rate of corporation tax of 24% (2012: 26%)	(715)	(13,340)
Effects of:		
Expenses not deductible	2	367
Reduction in corporation tax rate on deferred tax assets/liabilities	(1,823)	(3,834)
Tax losses arising for which no deferred tax asset is recognised	-	1,392
Treatment of indexation of borrowings	(629)	(1,239)
Adjustments in respect of previous periods	(13)	(13)
Income tax credit	(3,178)	(16,667)

Future tax changes

The standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012 and accordingly the company's profits for the financial year were taxed at an effective rate of 24%.

During the year, as a result of the changes in the UK main corporation tax rate to 23%, that was substantively enacted on 3 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. Further reductions to the main rate are proposed to reduce the rate by a further 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes in the corporation tax rate from 23% to 20% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The overall effect of the further changes from 23% to 20%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £7,606,000 and reduce the deferred tax asset by £2,122,000.

Notes to the financial statements for the year ended 31 March 2013

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 £394,000 (2012: £838,000).

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 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**
Additions	**-**	**-**	**153**	**-**	**76**	**229**
Disposals	**-**	**-**	**-**	**-**	**(67)**	**(67)**
At 31 March 2013	**147,064**	**127,899**	**3,938**	**26**	**459**	**279,386**
Accumulated depreciation						
At 1 April 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**
Provided during the year	**4,391**	**3,180**	**189**	**1**	**40**	**7,801**
Disposals	**-**	**-**	**-**	**-**	**(67)**	**(67)**
At 31 March 2013	**31,308**	**36,509**	**2,106**	**2**	**330**	**70,255**
Net book amount						
At 31 March 2013	**115,756**	**91,390**	**1,832**	**24**	**129**	**209,131**
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

Depreciation expense of £7,801,000 (2012: £7,783,000) 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 2013

9 Property, plant and equipment (continued)

Company	Office and computer equipment £'000
Cost	
At 1 April 2011	80
Additions	66
At 31 March 2012	146
Additions	44
Disposals	(67)
At 31 March 2013	**123**
Accumulated depreciation	
At 1 April 2011	68
Provided during the year	11
At 31 March 2012	79
Provided during the year	32
Disposals	(67)
At 31 March 2013	**44**
Net book amount	
At 31 March 2013	**79**
At 31 March 2012	67
At 31 March 2011	12

Depreciation expense of £32,000 (2012: £11,000) 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 2013

10 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2011, 31 March 2012 **and at 31 March 2013**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2011	-	29,160	29,160
Provided during the year	-	5,550	5,550
At 31 March 2012	**-**	**34,710**	**34,710**
Provided during the year	**-**	**5,550**	**5,550**
At 31 March 2013	**-**	**40,260**	**40,260**
Net book amount			
At 31 March 2013	**2,435**	**166,275**	**168,710**
At 31 March 2012	2,435	171,825	174,260
At 31 March 2011	2,435	177,375	179,810

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 as at 31 March 2013, of 21 years, 39 years and 24 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 (2012: £5,550,000) 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 17 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 4.45% (2012: 3.32%) used is based on Bank of England gilt yield curve UK yield curve data for a debt with a remaining maturity of 17 years. The inflation rate assumption used by the group in these calculations of 3.87% (2012: 4.22%) has been obtained from Bank of England yield curves over a 17 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 2013

11 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2011, 31 March 2012 and **at 31 March 2013**	**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 Preference shares	100% 100%	Investing
Interconnector Services Limited	Ordinary shares	100%	Provision of shared services
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 2013

12 Other investments

Group	£'000
Cost	
At 1 April 2011	7,069
Additions	3,367
At 31 March 2012	**10,436**
Additions	**1,397**
Repayment of capital	**(1,646)**
At 31 March 2013	**10,187**

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 Limited which is carried at cost of £35.

13 Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade receivables	**3,967**	1,211	**-**	-
Prepayments and accrued income	**7,724**	4,022	**29**	29
Other receivables	**2,324**	2,258	**-**	20
Amounts owed by subsidiary undertakings	**-**	-	**2,395**	2,027
	14,015	7,491	**2,424**	2,076

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 and company's trade and other receivables is not materially different from their carrying values.

Notes to the financial statements for the year ended 31 March 2013

14 Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash at bank and in hand	75,082	58,868	420	461
Short-term bank deposits	3,301	15,302	-	-
	78,383	74,170	420	461

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%.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

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 2011	6,237
Total comprehensive income for the year	(34,641)
At 31 March 2012	(28,404)
Total comprehensive income for the year	198
At 31 March 2013	(28,206)

Company	£'000
At 1 April 2011	(704)
Total comprehensive income for the year	(838)
At 31 March 2012	(1,542)
Total comprehensive income for the year	(394)
At 31 March 2013	(1,936)

Included in the retained earnings for the group is an amount of £1,874,000 (2012: £nil) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

Notes to the financial statements for the year ended 31 March 2013

17 Borrowings

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Non-current				
5.2022% Guaranteed secured bond	**80,625**	83,650	-	-
2.9376% Index linked guaranteed secured bond	**113,406**	117,644	-	-
2.207% Index linked guaranteed secured bond	**123,019**	120,094	-	-
Amounts owed to group undertakings	-	-	**14,911**	14,078
Other borrowings	4	4	-	-
	317,054	321,392	**14,911**	14,078
Current				
5.2022% Guaranteed secured bond	**3,025**	2,842	-	-
2.9736% Index linked guaranteed secured bond	**8,215**	8,083	-	-
2.207% Index linked guaranteed secured bond	**1,004**	880	-	-
	12,244	11,805	-	-
Total borrowings	**329,298**	333,197	**14,911**	14,078

The 5.2022% Guaranteed secured bond 2030 was issued to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to owners, 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 the Viridian Group 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 2013

18 Provisions

	Decommissioning provision £'000
Group	
At 1 April 2011	2,377
Movement on discount during the year	1,130
At 31 March 2012	**3,507**
Movement of discount during the year	(3)
At 31 March 2013	**3,504**

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 3.1% (2012: 3.33%) 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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Deferred income tax assets	**16,271**	17,343	**16**	20
Deferred income tax liabilities	**(58,310)**	(62,560)	**-**	-
Deferred income tax (liabilities)/assets – net	**(42,039)**	(45,217)	**16**	20

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

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

	Group £'000	Company £'000
At 1 April 2011	(61,884)	5
Credit for the year	16,667	15
At 31 March 2012	**(45,217)**	**20**
Credit/(charge) for the year	**3,178**	**(4)**
At 31 March 2013	**(42,039)**	**16**

Notes to the financial statements for the year ended 31 March 2013

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 2011	-	(24,445)	(46,116)	8,677	(61,884)
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)**
(Charge)/credit for the year	**(3,069)**	**1,256**	**2,994**	**1,997**	**3,178**
At 31 March 2013	**4,873**	**(20,067)**	**(38,243)**	**11,398**	**(42,039)**

The group's deferred tax assets have been recognised as the group expects sufficient taxable profits to be made in the future from which these temporary differences can be deducted.

The group have £8,934,000 (2012: £7,858,000) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £2,055,000 (2012: £1,886,000) has not been recognised as it is more likely than not that the group will not make sufficient taxable profits from the same trade, from which the tax losses can be deducted.

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 £36,967,000 (2012: £39,905,000). 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 £19,708,000 (2012: £20,105,000). The deferred tax asset is expected to be utilised within the next 12 months.

20 Government grants

Group	£'000
At 1 April 2011	78,999
Amortised during the year	(2,708)
At 31 March 2012	**76,291**
Amortised during the year	**(2,708)**
At 31 March 2013	**73,583**

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 (2012: £2,708,000), and the non-current portion is £70,875,000 (2012: £73,583,000).

Notes to the financial statements for the year ended 31 March 2013

21 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade payables	**1,796**	759	**17**	87
Accruals and deferred income	**5,296**	12,113	**197**	173
Amounts owed to subsidiary undertakings	**-**	-	**-**	78
Other tax and social security	**2,623**	1,204	**-**	-
Other payables	**934**	4	**-**	-
	10,649	14,080	**214**	338

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 3, 22, 38 and 87 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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Not later than one year	**232**	232	**40**	40
After one year but not more than five years	**858**	899	**90**	130
After more than five years	**10,135**	10,326	**-**	-
	11,225	11,457	**130**	170

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 Platina III Limited Partnership' partnership agreement, the group is committed to provide funding of Euro 15 million, of which Euro 12 million has been invested to date, to the partnership during the next two years.

Notes to the financial statements for the year ended 31 March 2013

23 Related party transactions

The ultimate controlling party of the group are its 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	
Company	2013 £'000	2012 £'000
Subsidiary undertakings – current assets	**2,395**	2,027
Subsidiary undertakings – current liabilities	**-**	(78)
Subsidiary undertakings – non-current liabilities	**(14,911)**	(14,078)

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	2013 £'000	2012 £'000
Subsidiary undertakings	Interest payable	**833**	789
Subsidiary undertakings	Group relief surrendered	**(225)**	(162)
Subsidiary undertakings	Charges receivable	**1,555**	1,186

Compensation of key management consisting of executive directors and non executive directors:

Group	2013 £'000	2012 £'000
Short term employee benefits	**482**	462
Post-employment benefits	**110**	102

Notes to the financial statements for the year ended 31 March 2013

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
Other investments	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 statement of comprehensive income under net finance costs.

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

Group	£'000
Liability at 1 April 2011	33,375
Fair value adjustment	5,797
Liability at 31 March 2012	**39,172**
Fair value adjustment	**10,387**
Liability at 31 March 2013	**49,559**

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 2013

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 2013 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	11,977	11,712	11,446	11,145	10,882	97,427	154,589
5.2022% Bond and associated derivatives	7,001	7,140	7,280	7,426	7,573	103,492	139,912
2.207% Index linked bond	3,735	3,809	3,887	3,964	4,043	167,303	186,741
Trade and other payables	8,026	-	-	-	-	-	8,026
	30,739	22,661	22,613	22,535	22,498	368,222	489,268

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

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.

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 £122,270,000 (2012: £122,815,000), the 5.2022% bond which has a fair value of £134,680,000 (2012: £131,431,000) and the 2.207% index linked bond which has a fair value of £102,734,000 (2012: £95,282,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 3.1% (2012: 3.50%) for the 2.9376% index linked bond, a discount rate of 2.86% (2012: 3.32%) for the 5.2022% bond and a discount rate of 3.86% (2012: 3.64%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings.

Moyle Interconnector convertor station, Islandmagee.

Moyle Interconnector (Financing) plc

Annual report for the year ended
31 March 2013

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

PricewaterhouseCoopers LLP
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 2013

The directors present their report and the audited financial statements of the group and parent company for the year ended 31 March 2013.

Principal activity

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 profit for the year is £9,381,000 (2013: £27,549,000 loss). The directors do not recommend the payment of a dividend (2013: £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 (2012: £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 11 days at 31 March 2013 (2012: 9 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefit of its directors during the year and it remained in force at the date of this report.

Statement of directors' responsibilities

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

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

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

Directors' report for the year ended 31 March 2013

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

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

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

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Gerard McIlroy
Company secretary
21 June 2013

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 2013 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 87, 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 2013 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
4th July 2013

Group statement of comprehensive income for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Revenue – continuing operations		**29,844**	10,251
Operating costs	2	**(10,833)**	(38,543)
Earnings before depreciation and amortisation of intangible assets and cable repair costs (adjusted "EBITDA")		**24,399**	6,462
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(2,043)**	(2,045)
Exceptional item – cable repair costs	3	**(1,684)**	(31,048)
Operating profit/(loss)		**19,011**	(28,292)
Finance income	5	**1,164**	2,653
Finance costs	5	**(8,340)**	(11,947)
Finance costs – net	5	**(7,176)**	(9,294)
Profit/(loss) before income tax		**11,835**	(37,586)
Income tax (charge)/credit	6	**(2,454)**	10,037
Profit/(loss) for the year attributable to the owners of the parent	15	**9,381**	(27,549)

The notes on pages 93 to 113 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 for the group and company has not been presented.

Group and parent company balance sheets as at 31 March 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	8	93,247	96,463	-	-
Intangible assets	9	39,867	41,528	-	-
Investment in subsidiary undertaking	10	-	-	20,950	20,950
Deferred income tax asset	18	4,873	7,942	-	-
Trade and other receivables	11	15,835	15,003	96,085	99,963
		153,822	160,936	117,035	120,913
Current assets					
Trade and other receivables	12	4,198	2,066	7,187	6,924
Cash and cash equivalents	13	38,445	35,027	127	54
		42,643	37,093	7,314	6,978
Total assets		196,465	198,029	124,349	127,891
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	14	50	50	50	50
Retained earnings	15	14,844	5,463	1,280	1,479
Total equity		14,894	5,513	1,330	1,529
Liabilities					
Non-current liabilities					
Borrowings	16	113,406	117,644	113,406	117,644
Provisions	17	3,504	3,507	-	-
Deferred income tax liabilities	18	13,979	14,766	-	-
Government grant	19	35,757	37,083	-	-
		166,646	173,000	113,406	117,644
Current liabilities					
Trade and other payables	20	5,386	10,109	1,398	635
Borrowings	16	8,215	8,083	8,215	8,083
Government grant	19	1,324	1,324	-	-
		14,925	19,516	9,613	8,718
Total liabilities		181,571	192,516	123,019	126,362
Total equity and liabilities		196,465	198,029	124,349	127,891

The notes on pages 93 to 113 are an integral part of these consolidated financial statements.

The group financial statements on pages 90-113 were authorised for issue by the Board of Directors on 21 June 2013 and were signed on its behalf by:

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

Moyle Interconnector (Financing) plc

Group and parent company cash flow statements for the year ended 31 March 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash flows from operating activities					
Profit/(loss) before income tax		11,835	(37,586)	(25)	(26)
Adjustments for:					
Finance costs - net		7,176	9,294	8,256	10,730
Depreciation of property, plant and equipment		3,369	3,369	-	-
Amortisation of government grant		(1,326)	(1,324)	-	-
Amortisation of intangible assets		1,661	1,661	-	-
Movement in trade and other receivables		(2,959)	(242)	3,913	1,698
Movement in trade and other payables		(4,933)	5,807	(12,103)	(12,211)
Income tax liabilities paid/(received)		32	(1,599)	32	(224)
Net cash generated from/(used in) operating activities		14,855	(20,620)	73	(33)
Cash flows from investing activities					
Interest received		1,073	2,459	-	-
Amounts received from related parties		-	10,577	12,357	11,904
Purchases of property, plant and equipment		(153)	-	-	-
Net cash generated from investing activities		920	13,036	12,357	11,904
Cash flows from financing activities					
Interest paid (including borrowing fees)		(4,090)	(3,877)	(4,090)	(4,193)
Repayment of borrowings		(8,267)	(7,684)	(8,267)	(7,684)
Net cash used in financing activities		(12,357)	(11,561)	(12,357)	(11,877)
Net movement in cash and cash equivalents		3,418	(19,145)	73	(6)
Cash and cash equivalents at the beginning of the year	13	35,027	54,172	54	60
Cash and cash equivalents at the end of the year	13	38,445	35,027	127	54

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

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Net cash generated from/(used in) operating activities before exceptional items		22,437	4,499	73	(33)
Cash flows in respect of exceptional items		(7,582)	(25,119)	-	-
Net cash generated from/(used in) operating activities		14,855	(20,620)	73	(33)

The notes on pages 93 to 113 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2013

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 21 June 2013 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 on a going concern basis, under the historical cost convention. 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 100.

Standards, amendments and interpretations effective in the year to 31 March 2013 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 2013 but they are not relevant to the group's or parent company's operations:

IFRS 7 (amendment), 'Financial instruments: Disclosures on de-recognition' (effective 1 July 2011)

Notes to the financial statements for the year ended 31 March 2013

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

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 accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

IAS 1 Presentation of Financial Statements on OCI (effective 1 July 2012)

IAS 12 (amendment), 'Income taxes on deferred taxes' (effective 1 January 2013)

IAS 19 (revised 2011) Employee benefits (effective 1 January 2013)

IAS 27 (revised 2011) Separate financial statements (effective 1 January 2014)

IAS 28 (revised 2011) Associates and joint ventures (effective 1 January 2014)

IAS 32/IFRS 7 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IFRS 9, 'Financial instruments' (effective 1 Jan 2015)*

IFRS 10 Consolidated financial statements (effective 1 January 2013)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 12 Disclosure of interests in other entities (effective 1 January 2014)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 January 2013)

* Not yet endorsed by the EU.

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 2013. 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.

Notes to the financial statements for the year ended 31 March 2013

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 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 use of system charges levied on users of the Northern Ireland electricity network, 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. 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 company 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 24 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 purchase 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

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 2013

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

Impairment of non-financial assets

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

Investments

Investments are recorded at cost less provision for impairment.

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. The group classifies its financial liabilities as other financial liabilities held at amortised cost.

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' on 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, 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.

Notes to the financial statements for the year ended 31 March 2013

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 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 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 payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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.

Notes to the financial statements for the year ended 31 March 2013

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

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 current and 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 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.

Notes to the financial statements for the year ended 31 March 2013

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

(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 risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs, profit and equity during the year by £1,310,000.

The group does not need to actively manage its exposure to interest rate 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 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 to manage 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.

Fair value estimation

The following fair value measurement hierarchy has been used by the group for calculating the fair value of financial instruments:

- 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.

Notes to the financial statements for the year ended 31 March 2013

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

Critical accounting estimates and judgements

Estimates and judgments 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 30 years at the beginning of the year. If the remaining useful economic life had been assessed at 31 years depreciation would have decreased by £102,000 and if the remaining useful economic life had been assessed at 29 years depreciation would have increased by £109,000.

(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 rate of 3.97%. The decommissioning provision has been discounted using a rate of 3.1%. 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%	1,121
Decrease in inflation factor by 1%	(857)
Increase in discount rate by 1%	(856)
Decrease in discount rate by 1%	1,145

(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 2013

2 Expenses by nature

Group	2013 £'000	2012 £'000
Employee benefit expense (note 4)	**57**	56
Depreciation and amortisation	**5,030**	5,030
Amortisation of deferred government grants	**(1,326)**	(1,324)
Operating lease payments	**101**	101
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**15**	19
Other expenses	**5,272**	3,613
Exceptional item – cable repairs costs (note 3)	**1,684**	31,048
Total operating costs	**10,833**	38,543

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 £1,684,000 comprise the costs directly incurred to address the recent subsea faults.

During the year ended 31 March 2012 cable repair costs totalling £31,048,000 were 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 included the cost of locating and repairing the faults and insuring the repair.

The tax impact of this exceptional item was a current tax credit of £404,000 (2012: £7,452,000 recognition of a deferred tax asset).

The insurance claim from May 2012 in respect of the two faults in the year ended 31 March 2012 is still under discussion and is expected to recover substantially all of these costs.

4 Employee benefit expense

Group	2013 £'000	2012 £'000
Wages and salaries	**49**	50
Social security costs	**6**	5
Pension costs	**2**	1
	57	56

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 1 (2012: 1).

The company had no employees other than its directors (2012: 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 services 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 2013

5 Finance income and costs

Group	2013 £'00	2012 £'000
Interest expense:		
Borrowings (including borrowing fees)	8,340	10,817
Movement of discount on decommissioning provision	-	1,130
Finance costs	8,340	11,947
Interest income:		
Short-term bank deposits	(328)	(778)
Movement of discount on decommissioning provision	(3)	-
Amounts owed by related parties	(833)	(1,875)
Finance income	(1,164)	(2,653)
Finance costs – net	7,176	9,294

6 Income tax (charge)/credit

Group	2013 £'000	2012 £'000
Current income tax:		
Group relief claimed	172	89
Total current income tax	172	89
Deferred income tax:		
Origination and reversal of temporary differences	2,282	(10,126)
Total deferred income tax (note 18)	2,282	(10,126)
Income tax charge/(credit)	2,454	(10,037)

Notes to the financial statements for the year ended 31 March 2013

6 Income tax (charge)/credit (continued)

The income tax charge/(credit) in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 24% (2012: 26%). The differences are reconciled below:

	2013 £'000	2012 £'000
Profit/(loss) before income tax	**11,835**	(37,586)
Tax calculated at the UK standard rate of corporation tax of 24% (2012: 26%)	**2,840**	(9,772)
Effects of:		
Expenses not deductible	**10**	301
Reduction in rate of corporation tax on deferred tax assets/liabilities	**(396)**	(566)
Income tax charge/(credit)	**2,454**	(10,037)

Future tax changes

The standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012 and accordingly the company's profits for the financial year were taxed at an effective rate of 24%.

During the year, as a result of the changes in the UK main corporation tax rate to 23%, that was substantively enacted on 3 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. Further reductions to the main rate are proposed to reduce the rate by a further 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes in the corporation tax rate from 23% to 20% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The overall effect of the further changes from 23% to 20%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by £636,000 and reduce the deferred tax liability by £1,823,000.

7 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £199,000 (2012: £115,000 loss).

Notes to the financial statements for the year ended 31 March 2013

8 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2011 and at 31 March 2012	127,899	3,785	16	131,700
Additions	-	153	-	153
At 31 March 2013	127,899	3,938	16	131,853
Accumulated depreciation				
At 1 April 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
Provided during the year	3,180	189	-	3,369
At 31 March 2013	36,509	2,081	16	38,606
Net book amount				
At 31 March 2013	91,390	1,857	-	93,247
At 31 March 2012	94,570	1,893	-	96,463
At 31 March 2011	97,750	2,082	-	99,832

Depreciation expense of £3,369,000 (2012: £3,369,000) has been fully charged to operating costs. Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2013

9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2011, 31 March 2012 **and at 31 March 2013**	**56,477**
Accumulated amortisation	
At 1 April 2011	13,288
Provided during the year	1,661
At 31 March 2012	14,949
Provided during the year	1,661
At 31 March 2013	**16,610**
Net book amount	
At 31 March 2013	**39,867**
At 31 March 2012	41,528
At 31 March 2011	43,189

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 33 years. The group has concluded that these assets have a remaining useful economic life as at 31 March 2013, of 24 years. Amortisation expense of £1,661,000 (2012: £1,661,000) has been fully charged to operating costs.

10 Investment in subsidiary undertaking

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2011, 31 March 2012 and **at 31 March 2013**	**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 2013

11 Trade and other receivables (non-current)

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Amounts owed by subsidiary undertaking	**-**	-	**103,111**	106,714
Amounts owed by related parties	**15,835**	15,003	**-**	-
	15,835	15,003	**103,111**	106,714
Amounts owed by subsidiary undertaking (current assets)	**-**	-	**(7,026)**	(6,751)
	15,835	15,003	**96,085**	99,963

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

None of the group and company's loans and receivables are 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 not materially different from their carrying value. The fair value of the company's loans and receivables is £106,359,000 (2012: £107,079,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.1% (2012: 3.5%) that reflects the maturity profile of the company's loans and receivables.

12 Trade and other receivables (current)

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade receivables	**3,063**	663	**-**	-
Amounts owed by related parties	**63**	142	**7,026**	6,751
Prepayments and accrued income	**1,011**	1,001	**161**	169
Other receivables	**61**	260	**-**	4
	4,198	2,066	**7,187**	6,924

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 2013

13 Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash at bank and in hand	**38,445**	32,027	**127**	54
Short-term bank deposits	**-**	3,000	**-**	-
	38,445	35,027	**127**	54

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 2.4%. The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

14 Ordinary shares

Group and company	**2013 £'000**	2012 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

15 Retained earnings

Group	**£'000**
At 1 April 2011	33,012
Total comprehensive income for the year	(27,549)
At 31 March 2012	**5,463**
Total comprehensive income for the year	**9,381**
At 31 March 2013	**14,844**

Company	**£'000**
At 1 April 2011	1,594
Total comprehensive income for the year	(115)
At 31 March 2012	**1,479**
Total comprehensive income for the year	**(199)**
At 31 March 2013	**1,280**

Notes to the financial statements for the year ended 31 March 2013

16 Borrowings

Group and company	2013 £'000	2012 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**113,406**	117,644
Current		
2.9376% Index linked guaranteed secured bond	**8,215**	8,083
Total borrowings	**121,621**	125,727

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 the Viridian Group 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 £122,270,000 (2012: £122,815,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.1% (2012: 3.5%) 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 2011	2,377
Movement on discount during the year	1,130
At 31 March 2012	**3,507**
Movement on discount during the year	(3)
At 31 March 2013	**3,504**

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 3.1% (2012: 3.33%) that reflects the maturity profile of the group's provision.

Notes to the financial statements for the year ended 31 March 2013

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	2013 £'000	2012 £'000
Deferred income tax assets	4,873	7,942
Deferred income tax liabilities	(13,979)	(14,766)
Deferred income tax liabilities – net	**(9,106)**	(6,824)

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

Group	£'000
At 1 April 2011	16,950
Income statement credit for the year	(10,126)
At 31 March 2012	6,824
Income statement charge for the year	2,282
At 31 March 2013	**9,106**

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 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
Income statement charge/(credit) for the year	3,069	11	(798)	2,282
At 31 March 2013	**(4,873)**	**4,810**	**9,169**	**9,106**

The group's deferred tax assets have been recognised as the group expects sufficient taxable profits to be made in the future from which these temporary differences can be deducted.

The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £8,767,000 (2012: £9,568,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £5,020,000 (2012: £4,308,000). We expect the deferred tax asset to be utilised within 12 months.

Notes to the financial statements for the year ended 31 March 2013

19 Government grant

Group	£'000
At 1 April 2011	39,731
Amortised during the year	(1,324)
At 31 March 2012	**38,407**
Amortised during the year	**(1,326)**
At 31 March 2013	**37,081**

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 (2012: £1,324,000). The non-current portion is £35,757,000 (2012: £37,083,000).

20 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade payables	**355**	249	**10**	10
Amounts owed to related parties	**759**	262	**1,385**	622
Accruals and deferred income	**2,523**	9,169	**3**	3
Other tax and social security	**1,749**	429	**-**	-
	5,386	10,109	**1,398**	635

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 87 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	**2013 £'000**	2012 £'000
Not later than one year	**101**	101
After one year but not more than five years	**404**	404
After more than five years	**8,379**	8,480
	8,884	8,985

Notes to the financial statements for the year ended 31 March 2013

22 Related party transactions

The ultimate controlling party 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	2013 £'000	2012 £'000
Parent undertakings – non-current assets	14,911	14,079
Fellow subsidiary undertakings – non-current assets	924	924
Fellow subsidiary undertakings – current assets	39	118
Parent undertakings – current assets	24	24
Parent undertakings – current liabilities	(215)	(60)
Fellow subsidiary undertakings – current liabilities	(544)	(202)

		Amount of transaction	
Group	Nature of transaction	2013 £'000	2012 £'000
Fellow subsidiary undertakings	Group relief claimed	(76)	(74)
Parent undertakings	Group relief claimed	(96)	(15)
Fellow subsidiary undertakings	Survey and security costs payable	(858)	(31)
Parent undertakings	Charges payable	(622)	(444)
Parent undertakings	Interest receivable	833	789
Fellow subsidiary undertakings	Interest receivable	-	1,086

	Amount owed (to)/from related party	
Company	2013 £'000	2012 £'000
Subsidiary undertakings – current liabilities	(1,032)	(533)
Subsidiary undertakings – non-current assets	96,085	99,963
Subsidiary undertakings – current assets	7,026	6,751
Fellow subsidiary undertakings – current liabilities	(182)	(74)
Parent undertaking – current liabilities	(171)	(15)

		Amount of transaction	
Company	Nature of transaction	2013 £'000	2012 £'000
Parent undertakings	Group relief claimed	(96)	(15)
Fellow subsidiary undertakings	Group relief claimed	(76)	(74)
Subsidiary undertaking	Interest receivable	8,251	10,729

Notes to the financial statements for the year ended 31 March 2013

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 2013 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	11,977	11,712	11,446	11,145	10,882	97,427	154,589
Trade and other payables	3,637	-	-	-	-	-	3,637
	15,614	11,712	11,446	11,145	10,882	97,427	158,226

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 2013 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	11,977	11,712	11,446	11,145	10,882	97,427	154,589
Trade and other payables	1,398	-	-	-	-	-	1,398
	13,375	11,712	11,446	11,145	10,882	97,427	155,987

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

Notes to the financial statements for the year ended 31 March 2013

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 2013

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 2013

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2013.

Principal activity

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 £4,260,000 (2012: £3,089,000). The directors do not recommend the payment of a dividend (2012: £nil).

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group from its 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 the market arrangements approved by the Northern Ireland Authority for Utility Regulation 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.

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 £49,559,000 as at 31 March 2013 (2012: £39,172,000). 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 £49,559,000 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 £4,130,000 (2012: £1,984,000) instead of a loss of £4,260,000 (2012: £3,089,000).

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

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefit of its directors during the year and it remained in force at the date of this report.

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 (2012: £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.

Directors' report for the year ended 31 March 2013

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 32 days at 31 March 2013 (2012: 13 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.

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
21 June 2013

Independent auditors' report for the year ended 31 March 2013

We have audited the group and parent company financial statements (the "financial statements") of Premier Transmission Financing plc for the year ended 31 March 2013 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 118, 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 2013 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
4th July 2013

Group statement of comprehensive income for the year ended 31 March 2013

		2013			2012		
	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		**20,573**	**-**	**20,573**	15,627	-	15,627
Operating costs	2	**(14,542)**	**-**	**(14,542)**	(12,133)	-	(12,133)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**9,486**	**-**	**9,486**	6,948	-	6,948
Amortisation of intangible assets		**(1,402)**	**-**	**(1,402)**	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		**(2,053)**	**-**	**(2,053)**	(2,052)	-	(2,052)
Operating profit		**6,031**	**-**	**6,031**	3,494	-	3,494
Finance income	4	**414**	**-**	**414**	354	-	354
Finance costs	4	**(4,062)**	**-**	**(4,062)**	(3,852)	-	(3,852)
Finance costs - fair value adjustment on derivative financial instruments	4	**-**	**(10,387)**	**(10,387)**	-	(5,797)	(5,797)
Finance costs – net	4	**(3,648)**	**(10,387)**	**(14,035)**	(3,498)	(5,797)	(9,295)
Profit/(loss) before income tax		**2,383**	**(10,387)**	**(8,004)**	(4)	(5,797)	(5,801)
Income tax credit	5	**1,747**	**1,997**	**3,744**	1,988	724	2,712
Profit/(loss) for the year attributable to the owners of the parent	14	**4,130**	**(8,390)**	**(4,260)**	1,984	(5,073)	(3,089)

The notes on pages 123 to 143 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 for the group and company has not been presented.

Group and parent company balance sheet as at 31 March 2013

		Group		Company	
	Note	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**83,492**	86,641	**-**	-
Intangible assets	8	**31,864**	33,266	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**51,307**	51,307
Trade and other receivables	10	**-**	-	**50,403**	48,863
Deferred income tax assets	16	**11,398**	9,401	**11,398**	9,401
		126,754	129,308	**113,108**	109,571
Current assets					
Trade and other receivables	11	**8,139**	4,858	**450**	530
Cash and cash equivalents	12	**26,621**	26,026	**2,394**	398
		34,760	30,884	**2,844**	928
Total assets		**161,514**	160,192	**115,952**	110,499
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	13	**13**	13	**13**	13
Retained earnings	14	**(22,841)**	(18,581)	**(26,029)**	(19,196)
Total equity		**(22,828)**	(18,568)	**(26,016)**	(19,183)
Liabilities					
Non-current liabilities					
Borrowings	15	**80,629**	83,654	**80,625**	83,650
Deferred income tax liabilities	16	**17,998**	19,468	**-**	-
Government grant	17	**27,912**	29,008	**-**	-
Derivative financial instruments	21	**49,559**	39,172	**49,559**	39,172
		176,098	171,302	**130,184**	122,822
Current liabilities					
Trade and other payables	18	**4,123**	3,520	**8,759**	4,018
Borrowings	15	**3,025**	2,842	**3,025**	2,842
Government grant	17	**1,096**	1,096	**-**	-
		8,244	7,458	**11,784**	6,860
Total liabilities		**184,342**	178,760	**141,968**	129,682
Total equity and liabilities		**161,514**	160,192	**115,952**	110,499

The notes on pages 123 to 143 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 120 to 143 were authorised for issue by the Board of Directors on 21 June 2013 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 2013

		Group		Company	
		2013	2012	2013	2012
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Loss before income tax		(8,004)	(5,801)	(10,398)	(5,797)
Adjustments for:					
Finance costs - net		14,035	9,295	14,351	9,574
Depreciation of property, plant and equipment		3,149	3,148	-	-
Amortisation of government grants		(1,096)	(1,096)	-	-
Amortisation of intangible assets		1,402	1,402	-	-
Movement in trade and other receivables		(3,517)	904	(1,460)	(1,945)
Movement in trade and other payables		(591)	289	(2,529)	(1,757)
Income tax received/(paid)		551	(621)	173	545
Net cash generated from operating activities		5,929	7,520	137	620
Cash flows from investing activities					
Interest received		552	84	6	3
Amounts received from related parties		-	-	7,739	5,417
Purchase of property, plant and equipment		-	(6)	-	-
Net cash generated from investing activities		552	78	7,745	5,420
Cash flows from financing activities					
Interest paid		(2,818)	(2,812)	(2,818)	(2,812)
Repayment of borrowings		(3,988)	(3,633)	(3,988)	(3,633)
Collateral receipt		920	-	920	-
Net cash used in financing activities		(5,886)	(6,445)	(5,886)	(6,445)
Movement in cash and cash equivalents		595	1,153	1,996	(405)
Cash and cash equivalents at the beginning of the year	12	26,026	24,873	398	803
Cash and cash equivalents at the end of the year	12	26,621	26,026	2,394	398

The notes on pages 123 to 143 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2013

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 21 June 2013 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation 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 130.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group from its 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 the market arrangements approved by the Northern Ireland Authority for Utility Regulation 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.

Standards, amendments and interpretations effective in the year ended 31 March 2013 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 2013 but they are not relevant to the group's or parent company's operations:

IFRS 7 (amendment), 'Financial instruments: Disclosures on de-recognition' (effective 1 July 2011)

Notes to the financial statements for the year ended 31 March 2013

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

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 accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

IAS 1 Presentation of Financial Statements on OCI (effective 1 July 2012)

IAS 12 (amendment), 'Income taxes on deferred taxes' (effective 1 January 2013)

IAS 19 (revised 2011) Employee benefits (effective 1 January 2013)

IAS 27 (revised 2011) Separate financial statements (effective 1 January 2014)

IAS 28 (revised 2011) Associates and joint ventures (effective 1 January 2014)

IAS 32/IFRS 7 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IFRS 9, 'Financial instruments' (effective 1 Jan 2015)*

IFRS 10 Consolidated financial statements (effective 1 January 2013)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 12 Disclosure of interests in other entities (effective 1 January 2014)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 January 2013)

* Not yet endorsed by the EU.

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 2013. 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 2013

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 21 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 purchase 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	43 years
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 2013

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

Investments

Investments are recorded at cost less provision for impairment.

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 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. The group classifies its financial liabilities as other financial liabilities held at amortised cost.

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 interest rate swaps, are classified as derivatives and are not designated as hedges.

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 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 re-measured 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 liabilities 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.

Notes to the financial statements for the year ended 31 March 2013

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

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 2013

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

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 payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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 2013

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 current and 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 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 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 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 to manage 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 2013

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

The following fair value measurement hierarchy has been used by the group for calculating the fair value of financial instruments:

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

The group and company'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:

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 27.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 28.5 years, depreciation would have decreased by £110,000 and if the remaining useful economic life had been assessed at 26.5 years, depreciation would have increased by £118,000.

Notes to the financial statements for the year ended 31 March 2013

2 Expenses by nature

Group	2013 £'000	2012 £'000
Employee benefit expense (note 3)	158	139
Depreciation and amortisation	4,551	4,550
Amortisation of deferred government grant	(1,096)	(1,096)
Operating lease payments	78	75
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	18	18
Other expenses	10,833	8,447
Total operating costs	14,542	12,133

Other expenses include grid control costs, engineering works, IT system costs, rates, insurance, licence fees, administrative costs and costs payable to BGE for access to the SWOS pipeline.

3 Employee benefit expense

Group	2013 £'000	2012 £'000
Wages and salaries	133	118
Social security costs	18	14
Pension costs - defined contribution pension scheme	7	7
	158	139

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 2 (2012: 2).

The company had no employees other than its directors (2012: 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 services 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 2013

4 Finance income and costs

Group	2013 £'000	2012 £'000
Interest expense:		
Borrowings (including borrowing fees)	3,964	3,852
Short- term bank deposits	98	-
Fair value adjustment in respect of derivative financial instruments (note 21)	10,387	5,797
Finance costs	14,449	9,649
Interest income:		
Short-term bank deposits	(414)	(354)
Finance income	(414)	(354)
Finance costs – net	14,035	9,295

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	2013 £'000	2012 £'000
Current income tax:		
Group relief claimed	637	724
Adjustments in respect of previous periods	(914)	(173)
Total current income tax	(277)	551
Deferred income tax:		
Origination and reversal of temporary differences	(1,470)	(2,520)
Arising on derivative financial instruments	(1,997)	(724)
Adjustments in respect of previous periods	-	(19)
Total deferred income tax (note 16)	(3,467)	(3,263)
Income tax credit	(3,744)	(2,712)

Notes to the financial statements for the year ended 31 March 2013

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 24% (2012: 26%). The differences are reconciled below:

	2013 £'000	2012 £'000
Loss before income tax	**(8,004)**	(5,801)
Tax calculated at the UK standard rate of corporation tax of 24% (2012: 26%)	**(1,921)**	(1,508)
Effects of:		
Expenses not deductible for tax purposes	**33**	17
Reduction in rate of corporation tax on deferred tax assets and liabilities	**(313)**	(839)
Treatment of indexation of borrowings	**(629)**	(1,239)
Tax losses carried forward for which no deferred tax asset is recognised	**-**	1,049
Adjustments in respect of previous periods	**(914)**	(192)
Income tax credit	**(3,744)**	(2,712)

Future tax changes

The standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012 and accordingly the company's profits for the financial year were taxed at an effective rate of 24%.

During the year, as a result of the changes in the UK main corporation tax rate to 23%, that was substantively enacted on 3 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. Further reductions to the main rate are proposed to reduce the rate by a further 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes in the corporation tax rate from 23% to 20% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The overall effect of the further changes from 23% to 20%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £2,348,000 and reduce the deferred tax asset by £1,487,000.

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 £6,833,000 (2012: £4,864,000).

Notes to the financial statements for the year ended 31 March 2013

7 Property, plant and equipment

Group	Pipeline £'000	Property, plant and equipment	Computer equipment £'000	Total £'000
Cost				
At 1 April 2011	108,584	-	237	108,821
Additions	-	8	1	9
At 31 March 2012 and at 31 March 2013	**108,584**	**8**	**238**	**108,830**
Accumulated depreciation				
At 1 April 2011	18,804	-	237	19,041
Provided during the year	3,147	-	1	3,148
At 31 March 2012	**21,951**	**-**	**238**	**22,189**
Provided during the year	**3,149**	**-**	**-**	**3,149**
At 31 March 2013	**25,100**	**-**	**238**	**25,338**
Net book amount				
At 31 March 2013	**83,484**	**8**	**-**	**83,492**
At 31 March 2012	86,633	8	-	86,641
At 31 March 2011	89,780	-	-	89,780

Depreciation expense of £3,149,000 (2012: £3,148,000) 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 2013

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2011, 31 March 2012 **and at 31 March 2013**	**2,435**	**40,645**	**43,080**
Accumulated amortisation			
At 1 April 2011	-	8,412	8,412
Provided during the year	-	1,402	1,402
At 31 March 2012	**-**	**9,814**	**9,814**
Provided during the year	**-**	**1,402**	**1,402**
At 31 March 2013	**-**	**11,216**	**11,216**
Net book amount			
At 31 March 2013	**2,435**	**29,429**	**31,864**
At 31 March 2012	2,435	30,831	33,266
At 31 March 2011	2,435	32,233	34,668

Amortisation expenses of £1,402,000 (2012: £1,402,000) have been fully charged to operating costs.

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 28 years. The group has concluded that these assets have a remaining useful economic life, as at 31 March 2013, of 21 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 17 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 2.86% (2012: 3.32%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 17 years. The inflation rate assumption used by the group in these calculations of 3.87% (2012: 4.22%) has been obtained from Bank of England yield curves over a 17 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 2013

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2011, 31 March 2012 and **at 31 March 2013**	**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	2013 £'000	2012 £'000
Amounts owed by related parties	**50,403**	48,863

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 £51,202,000 (2012: £45,208,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.86% (2012: 3.32%) that reflects the maturity profile of the company's loans and receivables.

11 Trade and other receivables (current)

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade receivables	**420**	327	**-**	-
Amounts owed by related parties	**297**	237	**189**	205
Other receivables	**2,000**	2,024	**-**	6
Prepayments and accrued income	**5,422**	2,270	**261**	319
	8,139	4,858	**450**	530

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 2013

12 Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash at bank and in hand	**23,324**	13,724	**2,394**	398
Short-term bank deposits	**3,297**	12,302	**-**	-
	26,621	26,026	**2,394**	398

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%. The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

13 Ordinary shares

Group and company	**2013 £'000**	2012 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	**13**	13

14 Retained earnings

Group	**£'000**
At 1 April 2011	(15,492)
Total comprehensive income for the year	(3,089)
At 31 March 2012	**(18,581)**
Total comprehensive income for the year	**(4,260)**
At 31 March 2013	**(22,841)**

Company	**£'000**
At 1 April 2011	(14,332)
Total comprehensive income for the year	(4,864)
At 31 March 2012	**(19,196)**
Total comprehensive income for the year	**(6,833)**
At 31 March 2013	**(26,029)**

Included in the retained earnings for the group is an amount of £1,874,000 (2012: £nil) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

Notes to the financial statements for the year ended 31 March 2013

15 Borrowings

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Non current				
5.2022% Guaranteed secured bond	**80,625**	83,650	**80,625**	83,650
Other borrowings	**4**	4	**-**	-
	80,629	83,654	**80,625**	83,650
Current				
5.2022% Guaranteed secured bond	**3,025**	2,842	**3,025**	2,842
Total borrowings	**83,654**	86,496	**83,650**	86,492

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 £134,680,000 (2012: £131,431,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.86% (2012: 3.32%) 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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Deferred income tax assets	**(11,398)**	(9,401)	**(11,398)**	(9,401)
Deferred income tax liabilities	**17,998**	19,468	**-**	-
Deferred income tax liabilities/(assets) – net	**6,600**	10,067	**(11,398)**	(9,401)

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

	Group £'000	Company £'000
At 1 April 2011	13,330	(8,677)
Income statement credit for the year	(3,263)	(724)
At 31 March 2012	**10,067**	**(9,401)**
Income statement credit for the year	**(3,467)**	**(1,997)**
At 31 March 2013	**6,600**	**(11,398)**

Notes to the financial statements for the year ended 31 March 2013

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 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**
Income statement credit for the year	**(839)**	**(631)**	**(1,997)**	**(3,467)**
At 31 March 2013	**11,230**	**6,768**	**(11,398)**	**6,600**

Company	Derivative financial instruments £'000
At 1 April 2011	(8,677)
Income statement credit for the year	(724)
At 31 March 2012	**(9,401)**
Income statement credit for the year	**(1,997)**
At 31 March 2013	**(11,398)**

The group and company have £5,136,000 (2012: £7,858,000) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £1,181,000 (2012: £1,886,000) has not been recognised as it is more likely than not that the group and company will not make sufficient taxable profits from the same trade, 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 £6,446,000 (2012: £7,063,000). 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 £10,890,000 (2012: £11,577,000).

17 Government grant

Group	£'000
At 1 April 2011	31,200
Amortised during the year	(1,096)
At 31 March 2012	**30,104**
Amortised during the year	**(1,096)**
At 31 March 2013	**29,008**

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 (2012: £1,096,000) and the non-current portion is £27,912,000 (2012: £29,008,000).

Notes to the financial statements for the year ended 31 March 2013

18 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	885	375	7	37
Amounts owed to related parties	161	819	7,815	3,975
Accruals and deferred income	1,954	1,895	4	6
Other tax and social security	203	431	13	-
Other creditors	920	-	920	-
	4,123	3,520	8,759	4,018

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 22 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	2013 £'000	2012 £'000
Not later than one year	78	78
After one year but not more than five years	313	313
After more than five years	1,331	1,409
	1,722	1,800

Notes to the financial statements for the year ended 31 March 2013

20 Related party transactions

The ultimate controlling party 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	2013 £'000	2012 £'000
Fellow subsidiary undertaking – current liabilities	(161)	(819)
Parent undertakings – current assets	-	19
Fellow subsidiary undertaking – current assets	297	218

		Amount of transaction	
Group	Nature of transaction	2013 £'000	2012 £'000
Parent undertakings	Charges payable	(576)	(457)
Fellow subsidiary undertaking	Survey and security costs payable	(1,480)	(729)
Fellow subsidiary undertaking	Group relief surrendered/(claimed)	277	(551)

	Amount owed (to)/from related party	
Company	2013 £'000	2012 £'000
Fellow subsidiary undertaking – current assets	189	205
Fellow subsidiary undertaking – current liabilities	-	(32)
Subsidiary undertaking – non-current assets	50,403	48,863
Subsidiary undertaking – current liabilities	(7,815)	(3,943)

		Amount of transaction	
Company	Nature of transaction	2013 £'000	2012 £'000
Fellow subsidiary undertaking	Group relief surrendered	189	173
Subsidiary undertaking	Group relief surrendered	1,374	37
Subsidiary undertaking	Interest receivable	4,024	3,838

Notes to the financial statements for the year ended 31 March 2013

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
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 2011	33,375
Fair value adjustment	5,797
Liability at 31 March 2012	**39,172**
Fair value adjustment	**10,387**
Liability at 31 March 2013	**49,559**

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 2013

21 Financial instruments (continued)

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

At 31 March 2013 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	7,001	7,140	7,280	7,426	7,573	103,492	139,912
Trade and other payables	3,920	-	-	-	-	-	3,920
	10,921	7,140	7,280	7,426	7,573	103,492	143,832

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

At 31 March 2013 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	7,001	7,140	7,280	7,426	7,573	103,492	139,912
Trade and other payables	8,746	-	-	-	-	-	8,746
	15,747	7,140	7,280	7,426	7,573	103,492	148,658

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

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 controlling party

The ultimate controlling party are the members of Mutual Energy Limited.

23 Ultimate parent undertaking

The immediate parent undertaking is Premier Transmission Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for that company are not prepared. The ultimate parent undertaking, and the only undertaking for which group financial statements are prepared, is Mutual Energy Limited, a company incorporated in Northern Ireland. Group financial statements for that company are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

BGTL's gas pressure reduction station, Knocknagoney.

belfast gas
TRANSMISSION

Belfast Gas Transmission Financing plc

Annual report
for the year ended 31 March 2013

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

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

Registered Number: NI 067348

Directors' report for the year ended 31 March 2013

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2013.

Principal activity

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 £4,714,000 (2012: £3,181,000). The directors do not recommend the payment of a dividend (2012: £nil).

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group from its 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 the market arrangements approved by the Northern Ireland Authority for Utility Regulation 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.

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 (2012: £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 7 days at 31 March 2013 (2012: 2 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefit of its directors during the year and it remained in force at the date of this report.

Directors' report for the year ended 31 March 2013

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 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

21 June 2013

Independent auditors' report for the year ended 31 March 2013

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 2013 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 148, 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 2013 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

4th July 2013

Group statement of comprehensive income for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Revenue – continuing operations		**6,012**	5,116
Operating costs	2	**(5,559)**	(4,837)
Earnings before depreciation and amortisation of intangible assets ("EBITDA")		**3,892**	3,720
Amortisation of intangible assets		**(2,485)**	(2,487)
Depreciation (net of amortisation of government grants)		**(954)**	(954)
Operating profit		**453**	279
Finance income	4	**99**	36
Finance costs	4	**(6,965)**	(7,554)
Finance costs – net	4	**(6,866)**	(7,518)
Loss before income tax		**(6,413)**	(7,239)
Income tax credit	5	**1,699**	4,058
Loss for the year attributable to the owners of the parent	13	**(4,714)**	(3,181)

The notes on pages 153 to 170 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 for the group and company has not been presented.

Group and parent company balance sheets as at 31 March 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	32,289	33,531	-	-
Intangible assets	8	96,980	99,465	-	-
Investment in subsidiary undertaking	9	-	-	112,384	112,384
		129,269	132,996	112,384	112,384
Current assets					
Trade and other receivables	10	1,823	1,391	17,935	14,600
Cash and cash equivalents	11	9,506	9,760	702	116
		11,329	11,151	18,637	14,716
Total assets		140,598	144,147	131,021	127,100
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	50	50	50	50
Retained earnings	13	(18,689)	(13,975)	6,660	5,946
Total equity		(18,639)	(13,925)	6,710	5,996
Liabilities					
Non-current liabilities					
Borrowings	14	123,019	120,094	123,019	120,094
Deferred income tax liabilities	15	26,385	28,358	-	-
Government grant	16	7,198	7,486	-	-
		156,602	155,938	123,019	120,094
Current liabilities					
Trade and other payables	17	1,343	966	288	130
Borrowings	14	1,004	880	1,004	880
Government grant	16	288	288	-	-
		2,635	2,134	1,292	1,010
Total liabilities		159,237	158,072	124,311	121,104
Total equity and liabilities		140,598	144,147	131,021	127,100

The notes on pages 153 to 170 are an integral part of these consolidated financial statements.

The group financial statements on pages 150 to 170 were authorised for issue by the Board of Directors on 21 June 2013 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 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash flows from operating activities					
(Loss)/profit before income tax		(6,413)	(7,239)	41	(9)
Adjustments for:					
Finance costs/(income) - net		6,866	7,518	(49)	15
Depreciation of property, plant and equipment		1,242	1,242	-	-
Amortisation of government grant		(288)	(288)	-	-
Amortisation of intangible assets		2,485	2,487	-	-
Movement in trade and other receivables		(431)	2,088	(177)	(113)
Movement in trade and other payables		(514)	(2,189)	159	71
Income tax received		617	2,283	617	2,440
Net cash generated from operating activities		3,564	5,902	591	2,404
Cash flows from investing activities					
Interest received		99	36	2	2
Amounts received from related parties		-	-	3,855	1,368
Net cash generated from investing activities		99	36	3,857	1,370
Cash flows from financing activities					
Interest paid		(3,015)	(2,923)	(2,960)	(2,887)
Repayment of borrowings		(902)	(787)	(902)	(787)
Net cash used in financing activities		(3,917)	(3,710)	(3,862)	(3,674)
Movement in cash and cash equivalents		(254)	2,228	586	100
Cash and cash equivalents at the beginning of the year	11	9,760	7,532	116	16
Cash and cash equivalents at the end of the year	11	9,506	9,760	702	116

The notes on pages 153 to 170 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2013

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 21 June 2013 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. 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 159.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group on its 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 the market arrangements approved by the Northern Ireland Authority for Utility Regulation 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.

Standards, amendments and interpretations effective in the year to 31 March 2013 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 2013 but they are not relevant to the group's or parent company's operations:

IFRS 7 (amendment), 'Financial instruments: Disclosures on de-recognition' (effective 1 July 2011)

Notes to the financial statements for the year ended 31 March 2013

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

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 accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

IAS 1 Presentation of Financial Statements on OCI (effective 1 July 2012)

IAS 12 (amendment), 'Income taxes on deferred taxes' (effective 1 January 2013)

IAS 19 (revised 2011) Employee benefits (effective 1 January 2013)

IAS 27 (revised 2011) Separate financial statements (effective 1 January 2014)

IAS 28 (revised 2011) Associates and joint ventures (effective 1 January 2014)

IAS 32/IFRS 7 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IFRS 9, 'Financial instruments' (effective 1 Jan 2015)*

IFRS 10 Consolidated financial statements (effective 1 January 2013)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 12 Disclosure of interests in other entities (effective 1 January 2014)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRIC 20 Stripping costs in the production phase of a surface mine (effective 1 January 2013)

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2013

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

Basis of consolidation

The group financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2013. 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.

Notes to the financial statements for the year ended 31 March 2013

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

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 39 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 purchase 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.

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 recorded at cost less provision for impairment.

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. The group classifies its financial liabilities as other financial liabilities held at amortised cost.

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' on the balance sheet.

Notes to the financial statements for the year ended 31 March 2013

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 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 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 2013

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

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 payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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.

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 current and 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.

Notes to the financial statements for the year ended 31 March 2013

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

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 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 £1,236,000. 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 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 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 to manage 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.

Fair value estimation

The following fair value measurement hierarchy has been used by the group for calculating the fair value of financial instruments:

- 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 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:

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 27 years at the beginning of the year. If the remaining useful economic life had been assessed at 28 years depreciation would have decreased by £44,000 and if the remaining useful economic life had been assessed at 26 years depreciation would have increased by £48,000.

Notes to the financial statements for the year ended 31 March 2013

2 Expenses by nature – operating costs

Group	2013 £'000	2012 £'000
Depreciation and amortisation	3,727	3,729
Amortisation of deferred government grant	(288)	(288)
Operating lease payments	13	13
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	9	10
Other expenses	2,098	1,373
Total operating costs	**5,559**	**4,837**

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 group and company have no employees other than its directors (2012: 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 services as a director of the group and services as a director of other group companies.

4 Finance income and costs

Group	2013 £'00	2012 £'000
Interest expense:		
Short term bank deposits	(48)	(36)
Borrowing (including borrowing fees)	(6,917)	(7,518)
Finance costs	**(6,965)**	(7,554)
Interest income:		
Short-term bank deposits	99	36
Finance income	**99**	36
Finance costs – net	**(6,866)**	(7,518)

Notes to the financial statements for the year ended 31 March 2013

5 Income tax credit

Group	2013 £'000	2012 £'000
Current income tax:		
Group relief surrendered	(714)	(798)
Adjustments in respect of previous periods	988	-
Total current income tax	274	(798)
Deferred income tax:		
Origination and reversal of temporary differences	(1,973)	(3,260)
Total deferred income tax (note 15)	(1,973)	(3,260)
Income tax credit	(1,699)	(4,058)

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 24% (2012: 26%). The differences are reconciled below:

	2013 £'000	2012 £'000
Loss before income tax	(6,413)	(7,239)
Tax calculated at the UK standard rate of corporation tax of 24% (2012: 26%)	(1,539)	(1,882)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	(1,148)	(2,365)
Adjustments in respect of previous periods	988	-
Losses carried forward for which no deferred tax is recognised	-	189
Income tax credit	(1,699)	(4,058)

Future tax changes

The standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012 and accordingly the company's profits for the financial year were taxed at an effective rate of 24%.

During the year, as a result of the changes in the UK main corporation tax rate to 23%, that was substantively enacted on 31 July 2012 and that will be effective from 1 April 2013, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. Further reductions to the main rate are proposed to reduce the rate by a further 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes in the corporation tax rate from 23% to 20% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements. The overall effect of the further changes from 23% to 20%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £3,442,000.

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 £626,000 (2012: £1,715,000).

Notes to the financial statements for the year ended 31 March 2013

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2011	38,480	-	38,480
Additions	-	17	17
At 31 March 2012 **and at 31 March 2013**	**38,480**	**17**	**38,497**
Accumulated depreciation			
At 1 April 2011	3,724	-	3,724
Provided during the year	1,241	1	1,242
At 31 March 2012	**4,965**	**1**	**4,966**
Provided during the year	**1,241**	**1**	**1,242**
At 31 March 2013	**6,206**	**2**	**6,208**
Net book amount			
At 31 March 2013	**32,274**	**15**	**32,289**
At 31 March 2012	33,515	16	33,531
At 31 March 2011	34,756	-	34,756

Depreciation expense of £1,242,000 (2012: £1,242,000) has been fully charged to operating costs. Borrowings are secured on the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2013

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2011, 31 March 2012 **and at 31 March 2013**	**109,413**
Accumulated amortisation	
At 1 April 2011	7,461
Provided during the year	2,487
At 31 March 2012	**9,948**
Provided during the year	**2,485**
At 31 March 2013	**12,433**
Net book amount	
At 31 March 2013	**96,980**
At 31 March 2012	99,465
At 31 March 2011	101,952

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 as at 31 March 2013, of 39 years.

Amortisation expense of £2,485,000 (2012: £2,487,000) has been fully charged to operating costs.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2011, 31 March 2012 **and 31 March 2013**	**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 2013

10 Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade receivables	**422**	183	**-**	-
Amounts owed by related parties	**235**	956	**17,923**	14,585
Prepayments and accrued income	**1,166**	248	**12**	11
Other debtors	**-**	4	**-**	4
	1,823	1,391	**17,935**	14,600

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash at bank and in hand	9,506	9,760	702	116

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 0.12%.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

12 Ordinary shares

Group and company	**2013 £'000**	2012 £'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 2013

13 Retained earnings

Group	£'000
At 1 April 2011	(10,794)
Total comprehensive income for the year	(3,181)
At 31 March 2012	**(13,975)**
Total comprehensive income for the year	**(4,714)**
At 31 March 2013	**(18,689)**

Company	£'000
At 1 April 2011	4,231
Total comprehensive income for the year	1,715
At 31 March 2012	**5,946**
Total comprehensive income for the year	**626**
At 31 March 2013	**6,572**

14 Borrowings

Group and company	2013 £'000	2012 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**123,019**	120,094
Current		
2.207% Index linked guaranteed secured bond	**1,004**	880
Total borrowings	**124,023**	120,974

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 £102,734,000 (2012: £95,282,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.36% (2012: 3.64%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 20.

Notes to the financial statements for the year ended 31 March 2013

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2011	31,618
Income statement credit for the year	(3,260)
At 31 March 2012	28,358
Income statement credit for the year	(1,973)
At 31 March 2013	26,385

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 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
Income statement credit for the year	(406)	(1,567)	(1,973)
At 31 March 2013	4,080	22,305	26,385

The group and company have £3,798,131 (2012: £3,798,131) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £873,570 (2012: £911,551) has not been recognised as it is more likely than not that the group and company will not make sufficient taxable profits from the same trade, from which the tax losses can be deducted.

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 £21,733,000 (2012: £23,275,000). 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 £3,861,000 (2012: £4,257,000).

Notes to the financial statements for the year ended 31 March 2013

16 Government grant

Group	£'000
At 1 April 2011	8,062
Amortised during the year	(288)
At 31 March 2012	7,774
Amortised during the year	(288)
At 31 March 2013	7,486

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 (2012: £288,000) and the non-current portion is £7,198,000 (2012: £7,486,000).

17 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	30	9	6	6
Amounts owed to related parties	348	176	279	108
Other tax and social security	620	344	-	-
Other payables	17	17	-	-
Accruals and deferred income	328	420	3	16
	1,343	966	288	130

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	2013 £'000	2012 £'000
Not later than one year	13	13
After one year but not more than five years	51	51
After five years	425	438
	489	502

Notes to the financial statements for the year ended 31 March 2013

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	2013 £'000	2012 £'000
Parent undertakings – current assets	50	50
Fellow subsidiary undertakings – current assets	185	906
Parent undertakings – current liabilities	-	(16)
Fellow subsidiary undertakings – current liabilities	(348)	(160)

		Amount of transaction	
Group	Nature of transaction	2013 £'000	2012 £'000
Parent undertakings	Charges payable	(249)	(198)
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	(274)	798
Fellow subsidiary undertakings	Charges payable	(979)	(705)

	Amount owed (to)/from related party	
Company	2013 £'000	2012 £'000
Subsidiary undertaking – current assets	17,688	13,629
Fellow subsidiary undertaking – current liabilities	-	(108)
Parent undertaking – current assets	50	50
Fellow subsidiary undertakings – current assets	185	906

		Amount of transaction	
Company	Nature of transaction	2013 £'000	2012 £'000
Fellow subsidiary undertakings	Group relief surrendered	673	1,730
Subsidiary undertaking	Interest receivable	6,957	7,501

Notes to the financial statements for the year ended 31 March 2013

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 2013 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	3,735	3,809	3,887	3,964	4,043	167,303	186,741
Trade and other payables	723	-	-	-	-	-	723
	4,458	3,809	3,887	3,964	4,043	167,303	187,464

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 2013 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	3,735	3,809	3,887	3,964	4,043	167,303	186,741
Trade and other payables	288	-	-	-	-	-	288
	4,023	3,809	3,887	3,964	4,043	167,303	187,029

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

Notes to the financial statements for the year ended 31 March 2013

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.

Mutual Energy Limited

Annual report and accounts **2013**

mutual*energy*

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