

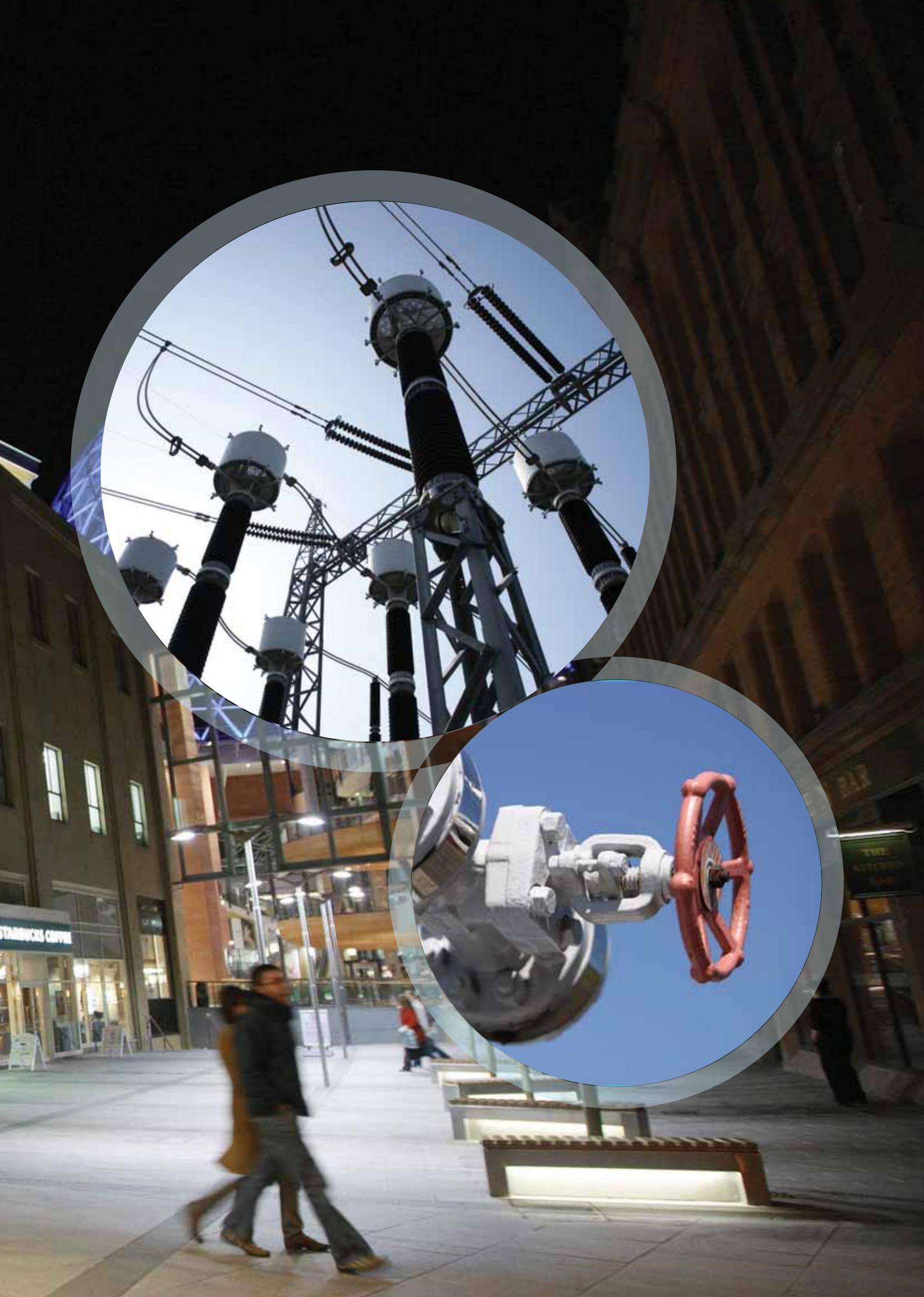


2014
ANNUAL REPORT
AND ACCOUNTS



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





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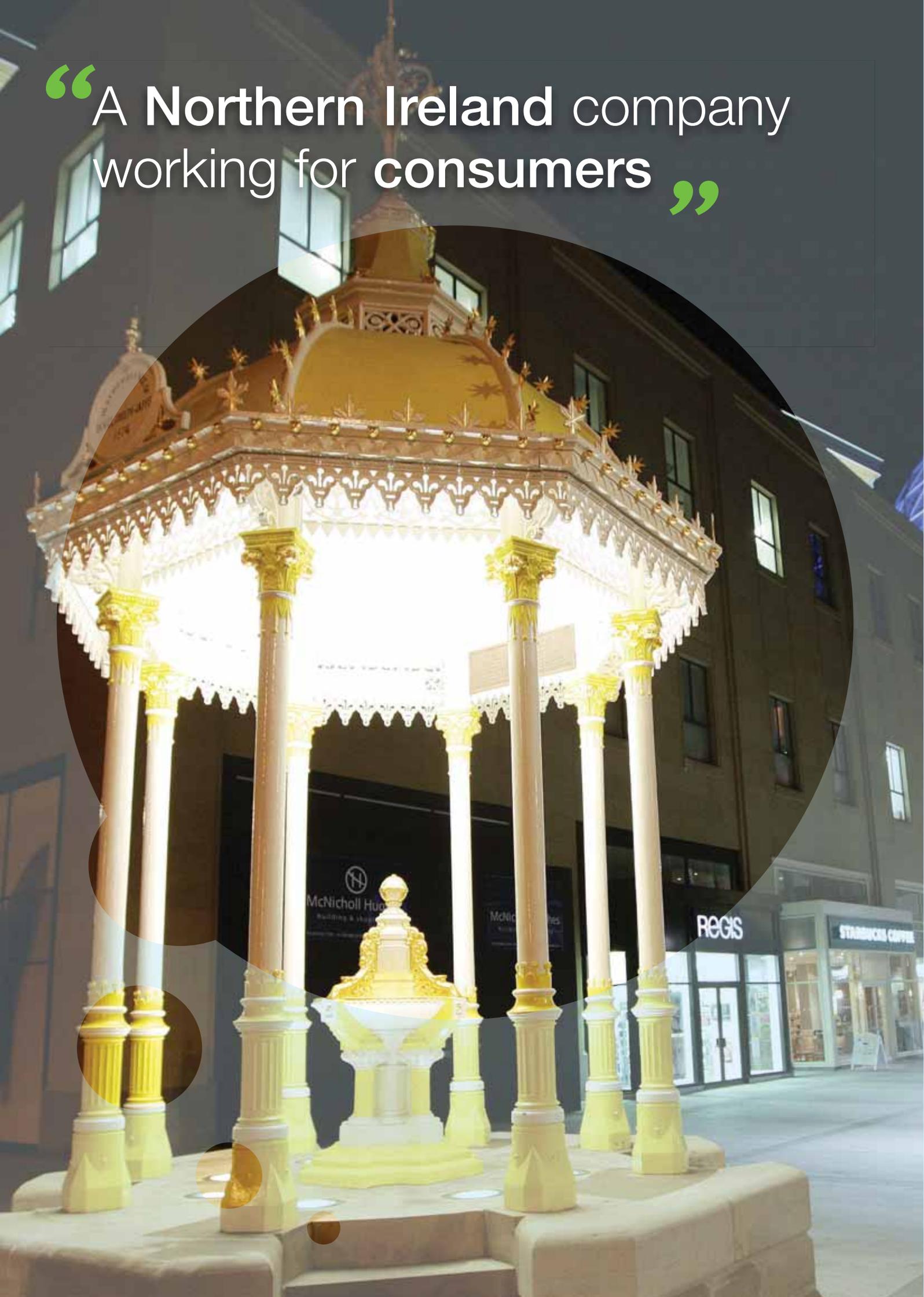
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“A Northern Ireland company working for consumers”





Regina Finn Chairman

Regina Finn



I am pleased to present my first Chairman's statement following my appointment as Chairman in December 2013 and having spent five years on the Board as a non-executive director. Mutual Energy group is operating in a challenging and complex commercial, regulatory and operational environment. Against this backdrop, our strategy in the energy industry in Northern Ireland continues to be the efficient management of critical energy assets between Great Britain and Northern Ireland, and working in the best interests of Northern Ireland consumers.

To deliver on this strategy, we have continued throughout the past year to manage the physical operations, maintenance and development of our assets as efficiently as possible. We have worked effectively in the market for energy to minimise costs to customers, while at the same time monitoring and influencing key developments in how those market arrangements may change, so as to influence those changes in customers' interests. At the same time we have made significant progress in a number of new and ongoing projects.

In the electricity business, our single biggest operational challenge has been the management of the impact of failures on the electricity interconnector. We have done this through a series of major projects. For example, we developed a revolutionary fault location method based on heat detection using the optical fibres embedded in the cables, and successfully applied this in May 2013 to locate the current fault on the interconnector.

Taking this a step further we are preparing to undertake a pioneering, experimental seabed repair to the existing interconnector. We have trialled and assessed various repair techniques and trained enough experienced divers to be able to carry out the attempted repair. We are now sourcing an appropriate vessel so that it can be equipped for a campaign to perform a trial repair, weather permitting, in early autumn 2014.

At the same time we continue to explore the possibility of setting the cable up in bi-pole mode (as one 500MW unit instead of two 250MW units) and have carried out the high level design for the project. Detailed design work continues as well as further research into possible magnetic field effects of this project.

Notwithstanding these projects to ensure the existing interconnector continues in service, we have agreed with our regulator Northern Ireland Authority for Utility Regulation (NIAUR), that the best way to ensure security of electricity supply to Northern Ireland is to replace the low voltage cables as soon as possible. We started the procurement of replacement cables in July 2013 and issued the tender in November 2013. We are confident that a supplier will be in place by summer 2014.

As part of our strategy we continue to seek out opportunities to deliver benefits to Northern Ireland consumers by financing and operating low risk assets through our competitive and effective mutual model. So we have submitted a highly competitive bid, along with Scotia Gas Networks, to deliver the high pressure transmission pipeline and the downstream distribution network operations needed for gas to the west of Northern Ireland.



We are focussed mainly on the operation and financing of the new transmission pipeline which would be a perfect fit with the company's existing gas transmission business.

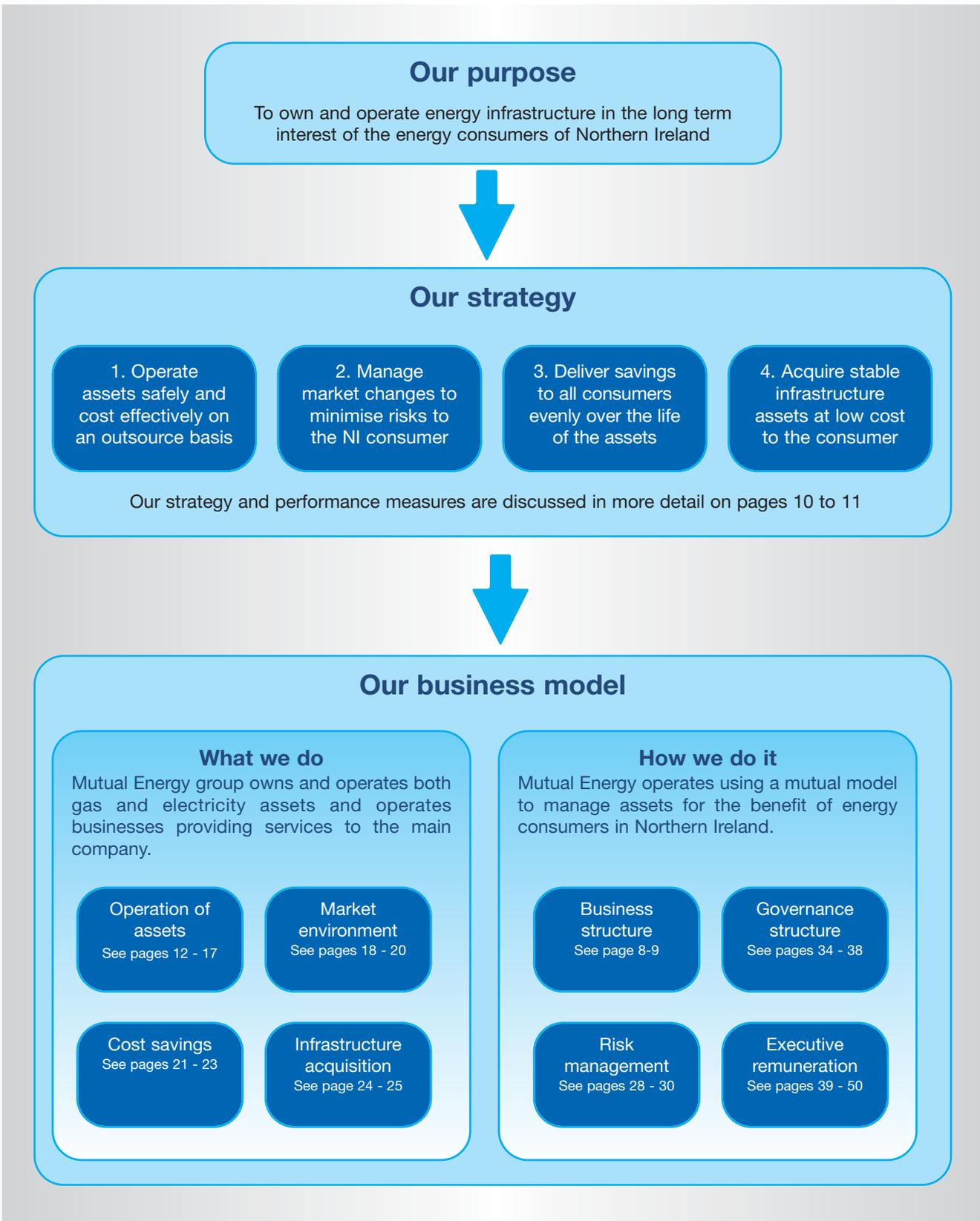
We, along with all energy businesses in Europe, are facing some very large regulatory changes in both the electricity and gas markets. Because of these changes, the entire Irish electricity market will have to be redesigned by 2016, and we have put considerable effort into this project during the year. At the same time the Northern Ireland gas market is undergoing radical changes to become compliant with European legislation, including the introduction of a single Transmission System Operator (TSO) for Northern Ireland, as required by NIAUR. We have been very actively involved at European, UK and local levels to influence these changes in a way that protects Northern Ireland consumers and to deliver the operational changes to our business that are needed.

Our future looks likely to remain challenging on a broad range of fronts. The economic recession continues to affect energy customers who are faced with rising prices. Our ability to keep those prices down is affected by global, European, GB and Irish markets and the major regulatory changes underway as well as how efficiently we manage our assets. I am confident that the team at Mutual Energy, including our staff and contracting partners, are well positioned to tackle these challenges and I would like to thank them for their professionalism, dedication and hard work.

Our members play a vital governance role, the challenge and support that members bring is crucial to our success as a mutual business and we very much appreciate their engagement over the year. Finally I would like to thank all of my fellow directors for their contribution over the year. I am especially grateful for Peter Warry's outstanding contribution to the business as Chairman over the past five years and to Gerry Walsh for his significant contribution as Senior Independent Director. It has been a privilege to work with both of them. Both stepped down from the Board in 2013 and on behalf of the Board I wish them every success in the future.



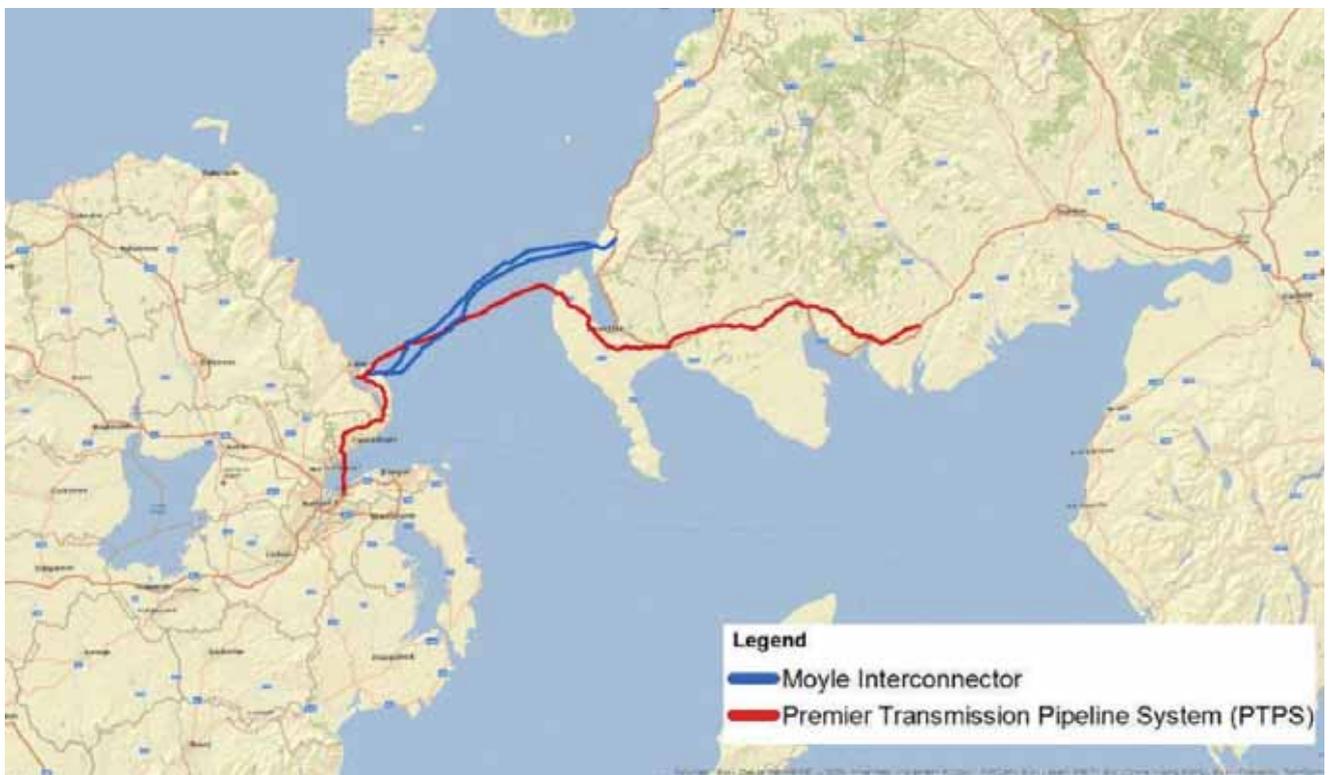
Our strategy and business model





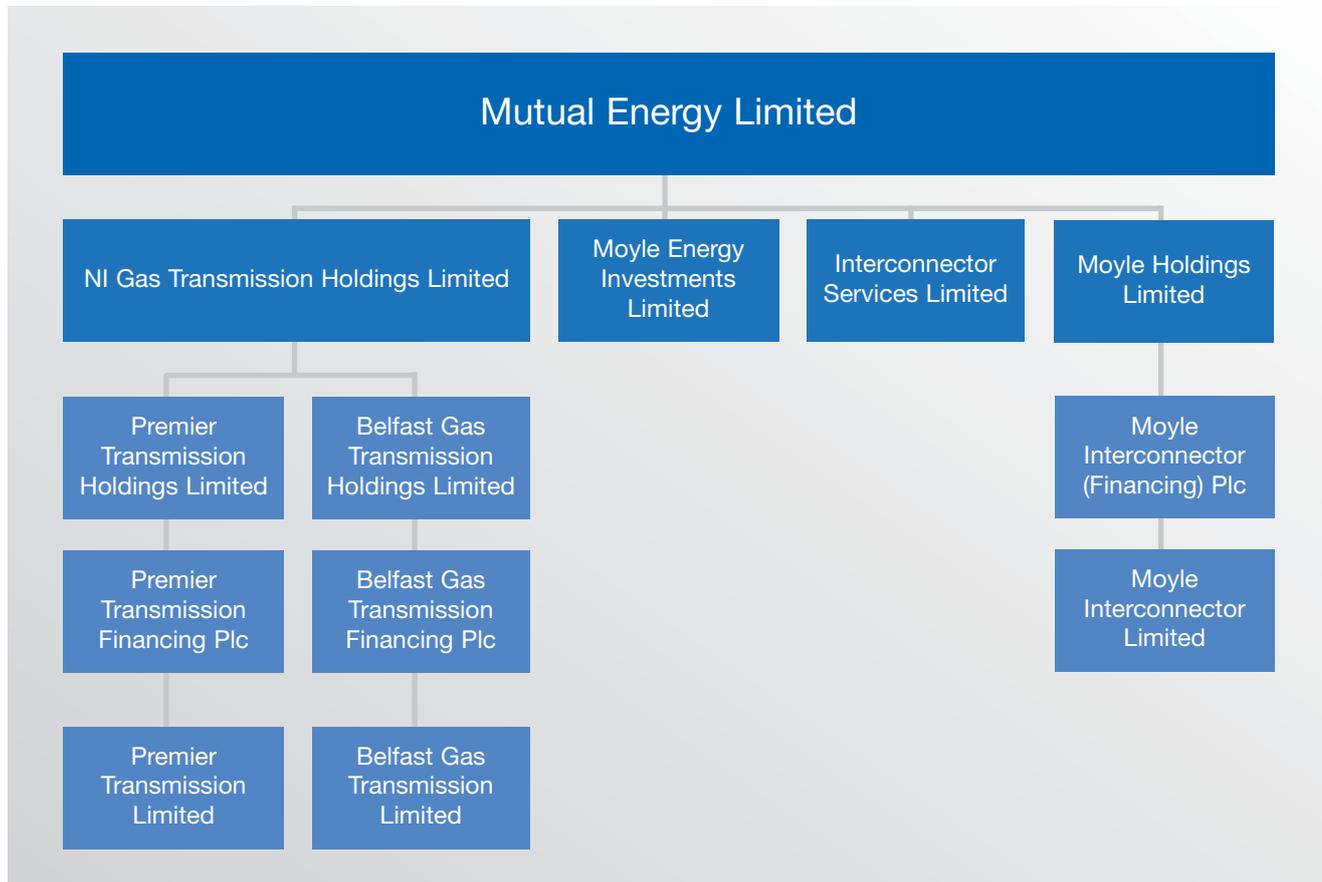
Business structure

Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, and the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP) and the Belfast Gas Transmission Pipeline (BGTP). These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them to the highest standards of safety, reliability and efficiency.





Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model allows the assets to be financed through bonds with a low cost of capital which results in associated savings for consumers. The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The group's structure can be seen in the diagram below:



In addition to each main operating company and their respective financing and holding companies the group also contains Moyle Energy Investments Limited and Interconnector Services Limited. Moyle Energy Investments manages the longer term cash reserves of the Moyle business and Interconnector Services provides services to the operational assets of the group where savings can be achieved by combining the provision of these services.

The principal risks affecting the business are discussed on page 29. More information regarding our customers, stakeholders and staff can be found on page 26-27.



Strategic objectives

Our strategy can be divided into four parts:

THE OBJECTIVE	HOW DO WE DELIVER?	HOW DO WE MEASURE SUCCESS?
<p>Operate assets cost effectively on an outsourced basis</p>	<p>We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland.</p> <p>Delivery is achieved through the competitive tendering process for key operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors.</p> <p>Further information on asset operation can be found on pages 13 and 16.</p>	<p>A number of measures are used to measure success:</p> <ul style="list-style-type: none"> • 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.
<p>Manage market changes to minimise risks to the Northern Ireland consumer</p>	<p>Our key focus is to ensure, so far as possible, that these changes do not impact negatively on our business, our financing arrangements or the energy consumers in Northern Ireland.</p> <p>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 the regulators and relevant government departments by identifying issues particularly relevant to Northern Ireland.</p> <p>The market environment is discussed in more detail on pages 18-20.</p>	<p>The key measure of success is the avoidance of any changes which would compromise the financing structures of the group.</p> <p>Individual projects are monitored against initial objectives and implementation plans with milestone dates.</p> <p>The number of gas code modifications issued are monitored (KPI 6).</p>
<p>Deliver savings to all consumers evenly over the life of the assets</p>	<p>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.</p> <p>In doing so we 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.</p> <p>Where appropriate, reserves will be used to provide capital for future investments.</p> <p>Cost smoothing is discussed in more detail on page 23.</p>	<p>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 include:</p> <ul style="list-style-type: none"> • Operational savings against forecast (KPI 3); • Cash reinvested to avoid charging consumers (KPI 4); and • Cash generated from operations (KPI 5).
<p>Acquire stable infrastructure assets at a low cost to the consumer</p>	<p>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.</p> <p>Delivery involves:</p> <ul style="list-style-type: none"> • 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 licencing structures to ensure low cost to the consumer. <p>This objective is discussed in more detail on page 24-25.</p>	<p>Success is measured with reference to the quality of the projects brought to the Board as potential opportunities to develop.</p> <p>The progress of individual projects is measured against project-specific milestones.</p> <p>In acquiring assets the group will not overpay the going market rate.</p> <p>Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (KPI 1).</p>



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
<p>1. Annual Debt Service Cover Ratio</p> <p>The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing.</p> <p>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.</p> <p>Graphs showing these ratios can be found in the financial performance sections on pages 12 and 15.</p>	<p>Annual Debt Service Cover Ratio</p> <p>The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company.</p> <p>The basis of calculation is Available Cash / Debt Service in the next 12 months.</p> <p>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.</p>
<p>2. Availability</p> <p>The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity.</p> <p>Graphs showing availability can be found in the physical operations sections on pages 13 and 16.</p>	<p>Availability</p> <p>Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.</p>
<p>3. Operational savings against forecast</p> <p>In respect of the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs.</p> <p>Operational savings vs forecasts for the gas businesses are shown on page 22.</p>	<p>Operational savings against forecast</p> <p>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.</p>
<p>4. Cash reinvested to avoid charging consumers</p> <p>Cash reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset.</p> <p>Cash reinvested to avoid charging consumers can be seen on page 23.</p>	<p>Cash reinvested to avoid charging consumers</p> <p>The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.</p>
<p>5. Cash generated from operations</p> <p>Cash generated in each of the businesses which will be used to avoid future charges to consumers.</p> <p>Cash generated in the gas and electricity businesses can be seen in the graphs on page 23.</p>	<p>Cash generated from operations</p> <p>Cash generated in each of the businesses post tax.</p>
<p>6. Code modifications made</p> <p>The number of gas code modifications issued are monitored as these are a measure of progress in implementing the changes required by EU legislation. The number of code modifications made each year can be seen on page 19.</p>	<p>Code modifications made</p> <p>Code modifications made is the sum of the code modifications made to each of the Premier Transmission Limited (PTL) and Belfast Gas Transmission (BGTL) codes.</p>

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.



Strategic objective: Operate assets cost effectively on an outsourced basis

Gas Business Performance

Financial performance

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc recorded revenue in the year of £25.2m (2013: £26.6m). 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 2013/14 financial year, the combined gas businesses were marginally below budget. No savings were retained in the business. Being regulated in this way, the Premier Transmission and Belfast Gas Transmission groups collect only the cash required to meet their costs. The cash collected in respect of debt servicing is the cash required for bond repayments in the period, and is not related to the interest charged in the period. As a result of the bond structures, although the businesses are cash generative and able to meet their debt service obligations, the groups are not expected to be profitable in the earlier years of the bonds when interest costs incurred are in excess of debt repayments - this situation will then reverse in later years. The Premier Transmission group is now approaching profitability, excluding the impact of the swap revaluation, but Belfast Gas Transmission group is not expected to be profitable for some years.

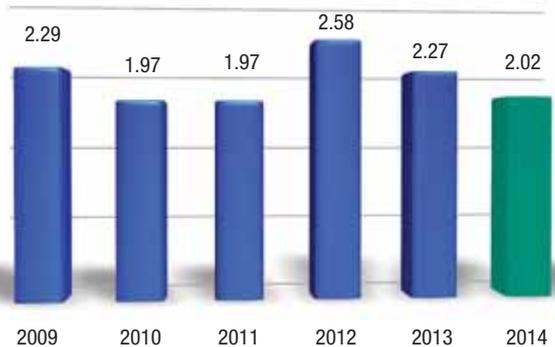
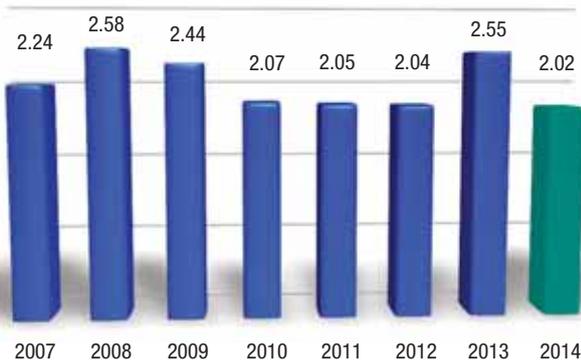
In terms of the Annual Debt Service Cover (ADSCR) both gas groups will tend to average towards 2.0. Over-performance by Premier Transmission above 2.0 in the 2007 to 2009 period and again in 2013, when cash was retained, will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. In particular the 2015 ADSCR is expected to be below 2.0 as we anticipate the cash retained in 2013 to be released against the costs of EU compliance projects. The ADSCRs for both companies can be seen in the graphs below.

Strategic objective:

Operate assets cost effectively on an outsourced basis

KPI 1: Premier Transmission ADSCR

KPI 1: Belfast Gas Transmission ADSCR





Physical operation

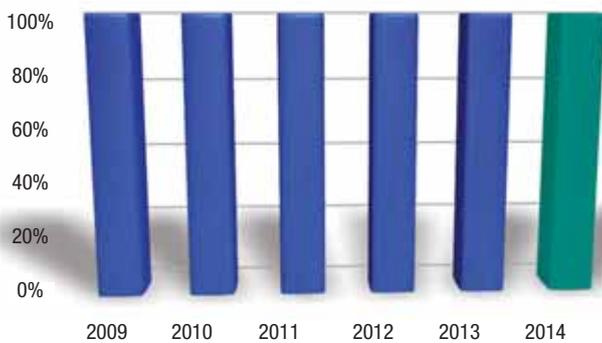
A major element of non-routine operational work during the year was the subcontracting and transition of the gas system control room services contract from Bord Gáis Networks, Cork, to Southern Gas Networks, Horley. After approximately a six month transition period, the new control room contract known as the “SNIP Agent contract” successfully became operational in late September 2013. The new control room benefits from diverse communication links to the gas sites and offers enhanced IT system resilience and security. SGN trained and managed staff man the control room 24/7 and SGN provide a comprehensive and structured approach to contract management, system operator training and competence. As part of the transition process the core emergency and operational compliance procedures were reviewed, amended and re-issued followed by an inclusive training program.

All site maintenance and statutory examinations were completed alongside the continuation and completion of the comprehensive program of assessment of the pipeline condition below covered surfaces. The latter included the replacement of heating pipe work on several sites to maintain and enhance system integrity and operation.

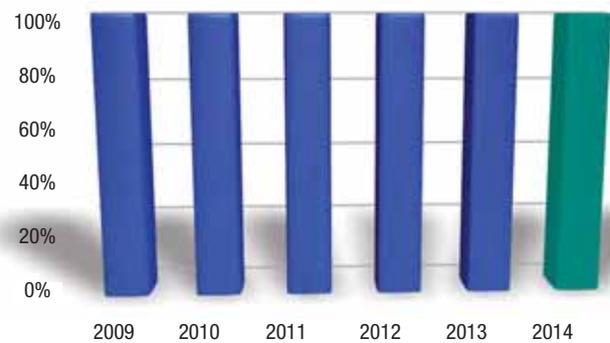
During the year Premier Transmission published its first Winter Outlook to help provide its stakeholders with an informed view of the gas supply and demand status for Northern Ireland for winter 2013/14. The outlook noted that based on the latest gas demand forecasts, Moffat flows would approach capacity limits in the event of winter peak conditions occurring and would consequently reduce the ability of the Premier Transmission Pipeline System to provide pressures or flexibility in excess of the contractual minimum requirements.

The gas businesses again maintained their record of 100% availability.

KPI 2: Premier Transmission availability



KPI 2: Belfast Gas Transmission availability



Future development

Although severe winter conditions did not occur in the year, the Winter Outlook 2013/14 highlighted the potential for reduced flexibility and pressures going forward. Based on the Northern Ireland Gas Capacity Statement published by the Utility Regulator in the year, the Scotland to Northern Ireland Pipeline (“SNIP”) has sufficient capacity to meet Northern Ireland’s firm gas demand until 2017/18, assuming no new gas fuelled power generation. This has been reduced by one year from the previous year’s predictions due to the anticipated additional demand from Gas to the West and is also subject to no new additional demand connections being requested. Beyond 2017/18 additional capacity could be provided by the North South pipeline or reinforcement of SNIP, however, reinforcement options require significant lead times that could extend beyond 2017. Conceptual studies on the reinforcement options have been undertaken in 2013/14. Further more detailed work is on hold awaiting the appropriate signals or drivers.

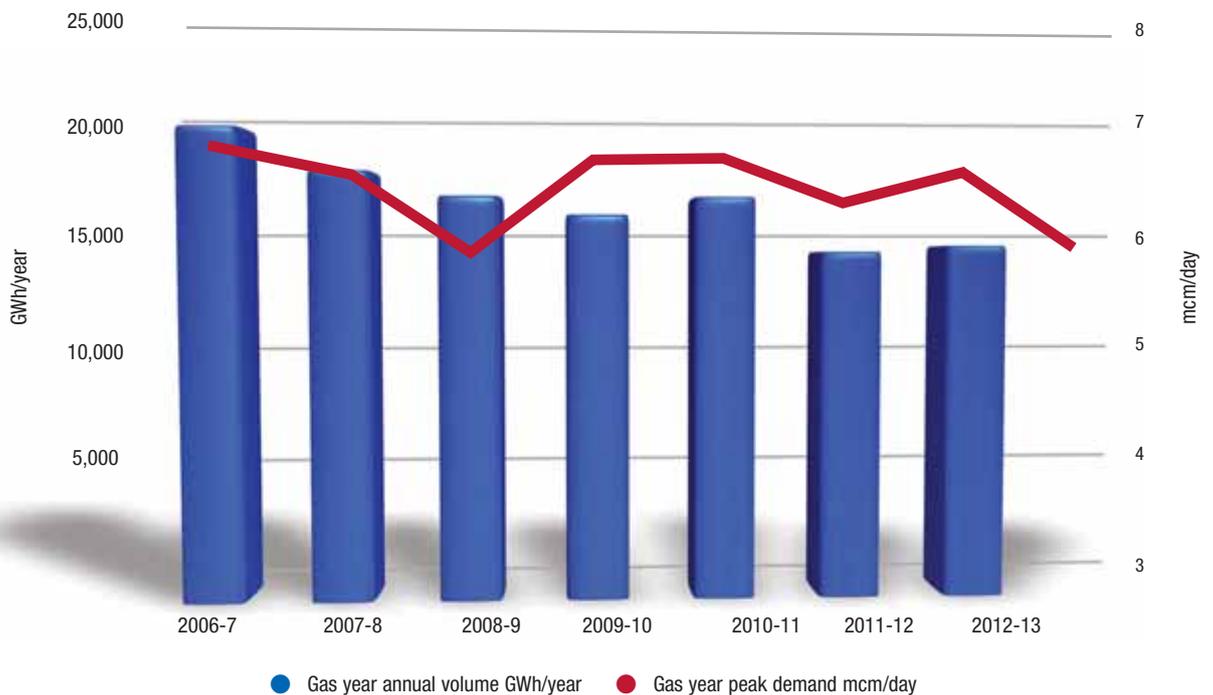


Gas Business Performance (continued)

Total annual gas demand in Northern Ireland has seen an overall decrease in recent years (see graph below) as a result of power generation dispatch moving from Northern Ireland to the Republic of Ireland, and to renewable energy sources. As volumes of gas transported falls, transportation tariffs per unit increase. Our expectations are for a continued decrease in power demand but with an increase in distribution demand. Overall the forecast gas demand for Northern Ireland is relatively stable, with a slight downward trend in volumes excluding Gas to the West and a slight increase in volumes expected when this is included. Although no significant increase in annual demand is expected, the annual peak demand is forecast to rise more notably 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 Northern Ireland gas transmission network over the next 10 years.

If gas storage is to be built in Northern Ireland in the future it will require physical reverse flow from Northern Ireland into GB. This would mean changes to the existing gas compression facilities on the South West of Scotland pipeline. In addition to this the Premier Transmission Pipeline System would need to be uprated to 85 barg from the current maximum operating pressure of 75 barg, in order to maximise the benefits of gas storage. This uprating would bring our system in line with the maximum operating pressure of the BGE(UK) system in Scotland and the North West Pipeline and would establish a single pressure network in Northern Ireland. A preliminary assessment for this uprating has been completed.

Northern Ireland gas year annual demand and peak day demand



The Corrib gas field is now expected to land supplies in Ireland by 2015. This could seriously reduce the gas flowed from GB to Ireland and consequently the capacity bookings on linking pipelines. SNIP, however, is expected to have sufficient capacity booked by shippers in the medium term.



Electricity Business Performance

Financial performance

The group's electricity business centres on the Moyle Interconnector which has a different charging mechanism than the gas businesses. The charging arrangement provides for Moyle to charge all electricity suppliers (and thereby consumers) an annual use of system fee, known as "CAIRt", to cover the costs of operating the interconnector. The fee is reduced by any revenue which Moyle earns through its capacity allocation auctions, such auction revenue being related to the electricity price difference between the Ireland and GB electricity markets. It is this mechanism that has enabled Moyle to secure low cost borrowing on the asset.

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 (CAIRt) were waived. Lower availability, due to the cable faults and expected lower unit prices in capacity auctions as a result of the East West Interconnector, led to the first tariff charge being made in the 2012/13 year. This call was for £14.5m, some 83% of the net costs incurred in the year, with the remaining 17% being met by the use of reserves from previous capacity auctions. A further £19.8m call was made in 2013/14 in relation to the financial year with a zero call being made for the period to 30 September 2014, in order to align the CAIRt call period with the electricity tariff year. The £19.8m call is some 59% of the sum of the costs incurred in the financial year and those expected in the 6 months to 30 September 2014, with the remaining 41% being met by the use of reserves. Pages 16-17 provide more explanation on our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

During the year Moyle recognised £14.0m of insurance proceeds in relation to previous cable faults. This consists of £10.0m received during the year and an additional £4.0m which was in negotiation during the year and was received in June 2014. The company continues to pursue additional claims in respect of these faults.

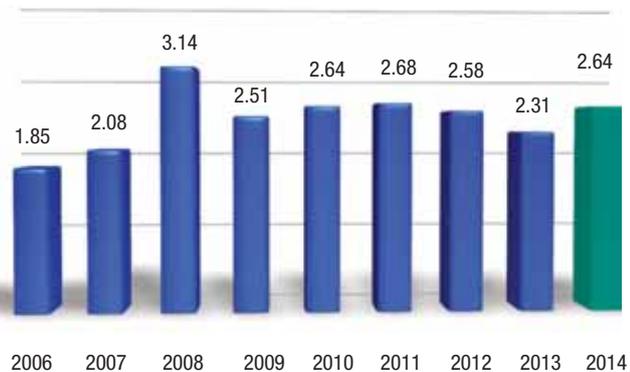
Moyle capacity is sold to electricity traders in annual, bi-annual, quarterly, monthly and daily

explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% east-west (2013: 100%) and 100% west-east (2013: 100%) of offered transmission capacity. Long term capacity auctions in the 2013/14 financial year resulted in some £6.42 per MWh contracted sales revenue for 2013/14 and future years. This compares with the long term capacity auctions in the 2012/13 financial year, which realised £5.45 per MWh for 2012/13 and future years. Additional revenue was earned from capacity sales to the system operators in Ireland for system reserve.

The fault on the Moyle north cable reduced revenue by an estimated £9m (2012/13: £6m), and incurred some £1.5m (2012/13: £1.7m) of costs in relation to fault location and potential repair solutions.

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation, and cable fault related income/costs (adjusted EBITDA) of £28.0m (2013: £24.4m). The group made an operating profit of £36.1m (2013: £19.0m). Strong cash revenues enabled the business to maintain its ADSCR comfortably over 2.0 (see graph below).

KPI 1: Moyle ADSCR
(Annual Debt Service Cover Ratio)





Physical operation

The Moyle Interconnector continued to operate at 250MW during the year, instead of its current connection agreement level to Northern Ireland of 450MW, due to the subsea cable outage which occurred on the North cable in June 2012. Moyle has carried out significant research and development in relation to this fault. In May 2013 the fault was located in situ using a non-destructive technique. The technique involved using distributed temperature sensing along the cable using the embedded optical fibres. Having precisely located the fault this opened up the theoretical possibility of attempting a repair of the cable in situ. Because of established weakness in the cable system, conventional repair techniques which involve cutting and lifting the cable from the seabed, are not considered prudent. It was agreed with the Utility Regulator that, even though there was a low chance of success, it was in the interests of Northern Ireland consumers that a seabed repair be attempted and significant efforts have been made to prepare for such a repair. Various repair techniques have been developed, trialled and assessed. This not only includes the cable repair itself but also the cable dissection/preparation equipment and the seabed habitat in which the repair would be carried out. Divers must carry out the attempted repair and sufficient numbers have been trained during early 2014. Full repair practice runs and repair mechanical and electrical testing are continuing. An appropriate vessel is being sourced with a view to being equipped for a campaign to perform a trial repair during 2014.

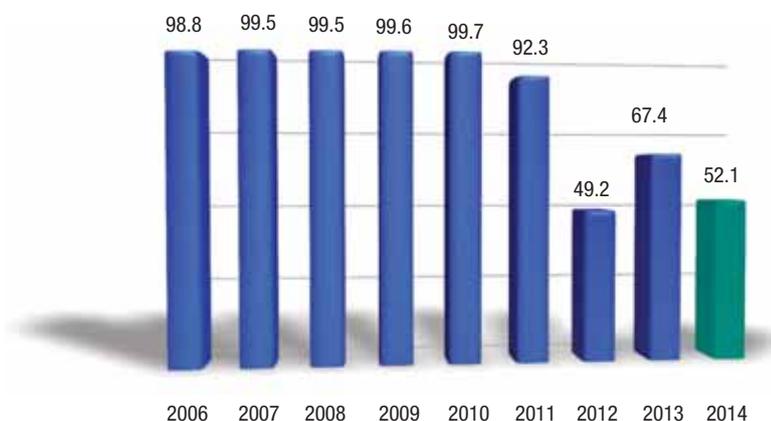
During the year the Moyle Interconnector was unavailable for 39 days due to a planned outage on the Scottish Power line supplying the Interconnector. The outage was a result of reconfiguration works to the Coylton substation in order to facilitate additional connections to the Scottish Power overhead line in Scotland to which Moyle is connected. A further three outages are expected in 2014/15 lasting around 9 weeks in total in order to facilitate the completion of these works.

In April 2013 Moyle maintenance management was brought in-house, instead of using an external maintenance manager. This change has resulted in six-figure savings per annum going forward, along with providing increased control of maintenance, budgets and planning.

Future developments

The Moyle Interconnector has experienced four faults since September 2010. These faults are all related to an electrical breakdown of the polyethylene outer insulation which insulates and waterproofs the return conductor and there is a risk that further similar faults could occur. The Moyle Interconnector plays a critical role in the security of supply of electricity to customers in Northern Ireland, as well as providing significant economic benefit to these customers, and as such the level of risk is unacceptable. Our primary focus has therefore been to remove reliance on this incident prone insulation altogether and assess the feasibility of a number of other options. The optimal long term solution was agreed with the Northern Ireland Utility Regulator in May 2013, namely to lay new low voltage cables along a similar route to augment the existing cables and replace the existing return conductor and its insulation. The specifications for this work have since been developed and in December 2013 a number of interested bidders were pre-qualified. An "invitation to negotiate" procurement process is underway and it is expected that Moyle will enter a contract in Q3 2014, albeit with an expected delivery of 2017. There is a high global demand on submarine cable manufacture and installation driven by high offshore wind and HVDC interconnection activity.

KPI 2: Moyle availability (%)





In the interim we will continue to pursue an underwater repair (as discussed above) if feasible, or alternatively consider the possibility of setting the cable up in bi-pole mode (as one 500MW unit instead of two 250MW units). Both of these methods are unconventional, may not be feasible and rely on the incident prone return conductor insulation.

The prices in Moyle's capacity auctions remain high in spite of the East West Interconnector becoming fully operational in 2013. Indeed the addition of the extra capacity from the East West has continued to encourage 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 GB Market has a higher proportion of coal plant than the Single Electricity Market (SEM) in Ireland, and also has a significant level of nuclear generation. The price of coal is currently low and nuclear power plants have low short-run marginal costs therefore there is a lower cost of generating electricity in GB relative to SEM. Also in SEM generators receive capacity payments which increases this price differential between GB and Ireland, as no such payments currently exist in GB. Under the Electricity Market Reform it is likely that capacity payments will be introduced in Britain, however the structure of these payments is currently under consultation and therefore it is currently uncertain how this might affect trading between the two markets. The potential exists that this price differential may be reduced as a result of this reform.

The UK Electricity Market Reform has also introduced a Carbon Price Floor mechanism which taxes carbon dioxide produced through generating electricity. The additional cost of this has been fixed for 2014/15 and 2015/16 and will be equivalent to adding £4 and £7 respectively to the cost of one MWh from a typical gas generating plant. Northern Ireland electricity generators operating in the SEM are exempt from this tax therefore this will reduce the GB to

NI price differential and so may adversely affect the auction prices for this interconnector capacity.

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 the System Operator for Northern Ireland (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 five years.

Premier Transmission Pipeline System

Premier Transmission works in partnership with major established utilities as its contractors, to provide operations and maintenance activities. This has worked well, providing a consistent, cost effective operations and maintenance regime. The main contractor is Scotia Gas Networks (SGN) who carries out routine maintenance and emergency response and also monitors 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

European energy regulation

European-wide regulation is continuing to mould how we do business. The key piece of EU legislation driving the changes in European gas and electricity markets is referred to as the Third Package. The Third Package created a regulatory framework to support a single, European Energy Market by developing European-wide Network Codes. These Network Codes will form a legally binding set of common technical and commercial rules and obligations that govern access to and use of the European energy networks. The development of these codes is at different stages for the gas and electricity markets, with progress in the electricity market being much more advanced. The impact of the legislation on these markets is discussed below.

Impact on gas business

Although the Third Package of legislation has been effective since 2011, a longer timeline for implementation exists in order to allow for the preparation of framework guidelines and network codes with sufficient stakeholder consultation throughout, along with the development of a “gas target model.” The current deadline for implementation for the work streams is 2015, with the exception of tariffs which are due by 2017. Following the development of the gas target model and the advancement of the network codes, the impact of these changes on the Northern Ireland market is now much clearer. In addition to these major changes the Northern Ireland Utility Regulator (NIAUR) determined that a single system operator for Northern Ireland should be put in place in order to facilitate the required changes

Gas market before EU regulations	Gas market following EU regulations
Independent TSOs who co-operate with each other	One system operator – set up via a contractual joint venture between NI TSOs
Separate but aligned codes for each NI TSO	One code for the entire network
Separate IT systems for each TSO (combined for Premier Transmission and Belfast Gas)	One IT system for all TSOs
Northern Ireland Network Operators Agreement in place	New system operator agreement required to facilitate new market structure
Shippers book capacity and nominations at exit only and a matching booking for entry at Moffat is created automatically	Capacity and nominations are booked and charged at each entry and exit point
Shippers charged a single price for use of the network	Charging split between entry to and exit from the network
All capacity booked directly with the relevant TSO	Entry capacity auctioned by the relevant TSO using an auction platform
No secondary market exists	A secondary market for entry capacity in place with mechanisms set up including surrender of capacity, over subscription and buy back, and Use it or Lose it
Gas day runs from 06:00-05:59	Gas day runs from 05:00-04:59
Only annual capacity products offered	New products offered including bundled products at Moffat – annual, quarterly, monthly, daily and within day



from EU legislation. This is not a requirement of the legislation itself. NIAUR have concluded that for single system operation there should be a single code and IT system together with a single Transmission System Operator (TSO) team and single control room.

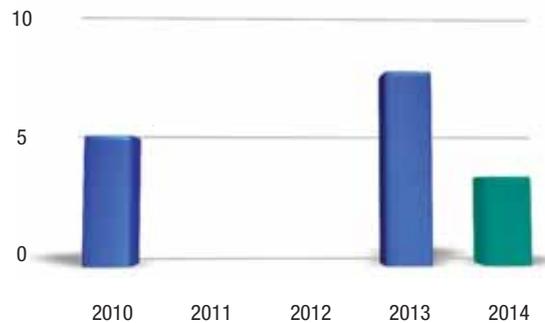
The table on the previous page sets out the key characteristics of the Northern Ireland gas market before the introduction of the European Parliament second and third packages of legislation and the introduction of a single system operator as requested by NIAUR, and highlights the significant changes which are expected in the next few years.

The changes above are just a few of the key changes required as a result of the legislation and the decision by the NIAUR to implement the legislation via the creation of a single TSO for Northern Ireland. This fundamentally changes the market and results in a considerable amount of work being required in a very short period in order to try and achieve compliance within the timeframe. The current network code will need to be rewritten, an IT system developed and tested, as well as the development of contractual agreements and licence changes. Work is progressing, however, clear instruction and timely decision from the regulator will be required if compliance is to be achieved within the current agreed timeframe.

Code modifications are required to implement these changes within our network code and the graph below shows the number of code modifications made over the last 5 years.

Whilst some modifications are more cost and time intensive than others, the KPI shows numerical increase. The 2010-2012 period, averaged less than 2 per year, whereas the 2013-14 period averaged nearly 6 per year, many of which were extensive.

KPI 6: Modifications made to gas network codes



Impact on electricity business

The all-island Single Electricity Market for Ireland (SEM) has been developed in recent years to improve compliance with the EU third package of regulations. However, SEM is not compatible with the European Electricity Target Model, which is the main regulatory vehicle for achieving market integration. This means that SEM will need to be significantly modified or replaced by the end of 2016 in order to comply with the target model and compulsory network codes. The SEM Committee has commenced a project to implement an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland from 2016, with the current structure being maintained until then. A consultation paper was published in February 2014 on the High Level Design options for this market with a further consultation on the favoured option planned for publication in June 2014 and a final decision by August 2014 as at the time of writing. Moyle remains actively involved in the consultation process in order to influence decisions to the benefit of Northern Ireland consumers.



Impact on electricity business (continued)

The table below sets out the key markets and characteristics of the Single Electricity Market in Ireland along with the main requirements of the proposed Integrated Single Electricity Market (I-SEM):

SEM	I-SEM
No forwards market	Forwards market in place where bi-lateral contracts for electricity will be set up in advance between parties on whatever terms and for whatever period is desired. The network code requires EU wide access rules and a single capacity allocation/auction platform. This platform will be used to sell transmission rights for Moyle Interconnector and other interconnectors throughout Europe.
Day-ahead gross mandatory pool market, into which all electricity generated on or imported onto the island of Ireland must be sold, and from which all wholesale electricity for consumption on or export from the island of Ireland must be purchased. At the day-ahead stage all bids and offers are submitted by a specific time ("gate closure") for the following trading day.	Day-ahead market will be scheduled on a European wide basis with market coupling. The Irish market will be coupled with the GB market as this is the only market it is connected to and cross-border trade will be limited by the available interconnector capacity on the day.
Intra-day market (introduced in prior year) which releases any unused interconnector capacity for reallocation to market participants at two points in time after the initial gate closure.	Intra-day market will operate using continuous implicit trading which will mean that trading will not be restricted to particular times or windows. This market will also operate on an EU-wide basis.
No balancing market	Balancing market will be introduced with the purpose of reconciling any differences in supply and demand thus ensuring that the system is appropriately balanced i.e. there is enough power available to meet demand and spare capacity available to respond to unforeseen events such as a power station trip. Proposals for the I-SEM include the balancing market operating as a pool type market which is similar to the existing SEM.

The new I-SEM is expected to impact Moyle in several ways. There is a risk that the harmonised access rules and platform for the forwards market will lead to less efficient use of Moyle and that firmness rules included will expose Moyle to additional financial risk. However, it is expected that the introduction of market coupling will result in more efficient use of the interconnector as the interconnector will be scheduled according to day-ahead market prices at either end. Market coupling is also expected to bring prices in the Irish and GB markets closer together, although this potential lack of arbitrage could reduce the prices paid for interconnector capacity in the future. The introduction of the intraday market is not expected to impact Moyle significantly, however it is not yet clear how charging for interconnector capacity will be facilitated. Moyle will continue its involvement in these developments to try and ensure a satisfactory outcome. The introduction of a balancing market is not expected to have any significant impact on Moyle Interconnector.



**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.

The table below illustrates the current prevailing costs of capital allowed on a number of

companies with similar types of assets. Based upon our assets the financing costs for the combined gas businesses are expected to be between £4.9m and £12.3m cheaper for 2014/15 than they would be using the cost of capital range of the gas company comparators shown in the graph below. The electricity interconnector financing costs would be £1.9m to £3.4m cheaper for the same period than using the electricity company comparators. These are striking savings, particularly against the major GB companies with both a scale and market inherently much more attractive to investors than Northern Ireland.

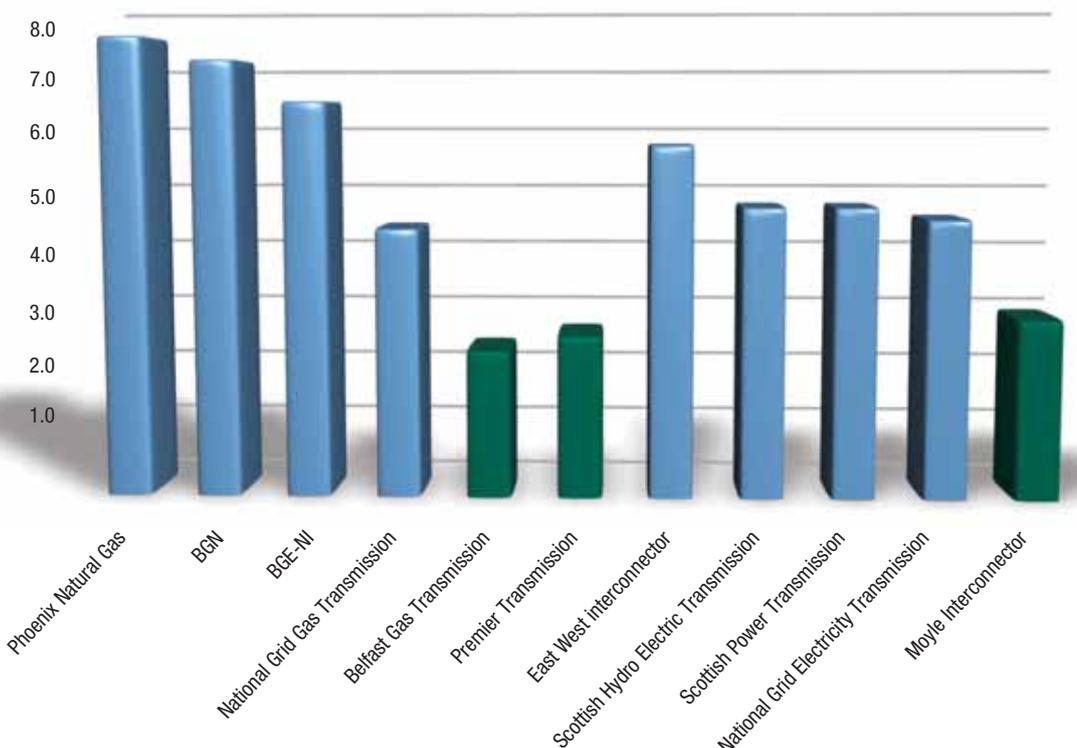
Strategic objective:
Deliver savings to all consumers evenly over the life of the assets

Costs charged to consumers

Gas business

The costs of the gas transmission assets are charged to the respective shippers through a “use of system” charge which happens automatically through the postalised transmission system. These charges are lower than they would have been without the presence of the mutual model and its low cost of capital, thereby passing on these savings to shippers and allowing them to charge the end consumer less for their gas.

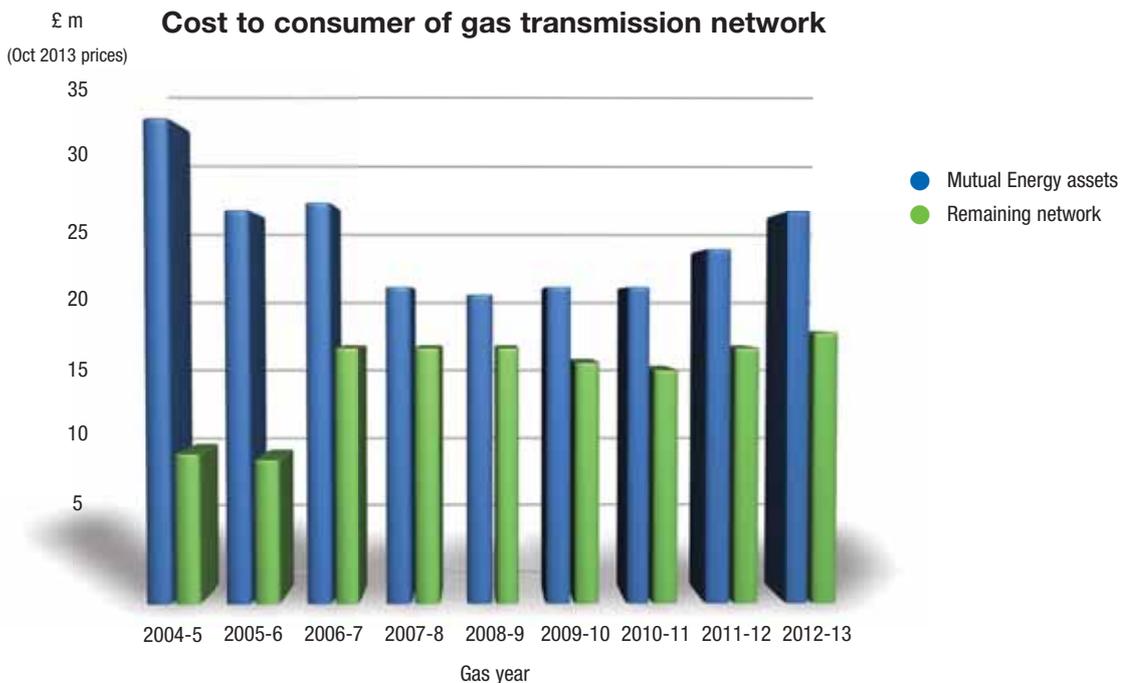
Cost of capital to consumer (%)



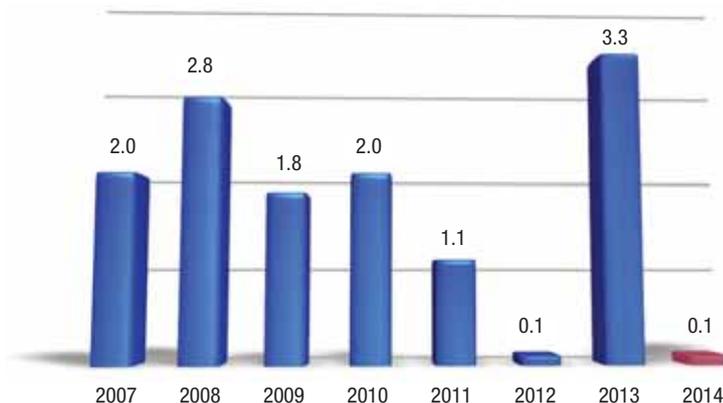


The following table shows the costs charged through to gas shippers in 2013 prices for the now Mutual Energy assets and the remaining transmission network from the first year of postalisation onwards. The 2004-5 year itself benefited from c£4m saving from the mutualisation of PTL (not shown on the graph). 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 2012-13 was due to major engineering works and system upgrades, along with the introduction of costs in relation to the IME3 compliance project for the Northern Ireland gas network.

Overall gas business charges recovered from shippers in 2012-13 are 19% lower in real terms than in 2004-5. We continually seek to achieve operational savings and efficiencies. Over the last eight 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 and maintenance and emergency response which have been opened up to retendering every five to seven 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 graph on the next page.



KPI 3: Gas business operational savings vs forecast (£m)





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 that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. Over the 11 years of operation Moyle has waived over £100m in use of system revenue it was otherwise entitled to collect. Year on year this is monitored by way of KPI on cash reinvested as part of the Collection Agency Income process to avoid charging consumers. Whilst all initial modelling 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, to the extent that it has been possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge.

Investing to smooth costs

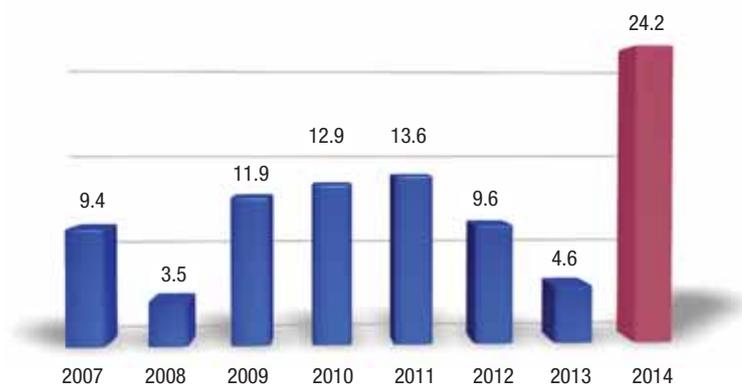
A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers.

This approach enabled the Moyle business to absorb the cost of the subsea repairs in 2011/12 without passing the costs through into use of system tariffs. Cash generated in the businesses in the last 5 years can be seen in the graph opposite. Within year cash is managed within the business and the subsidiary Moyle Energy Investments Limited manages the longer term cash reserves of the business.

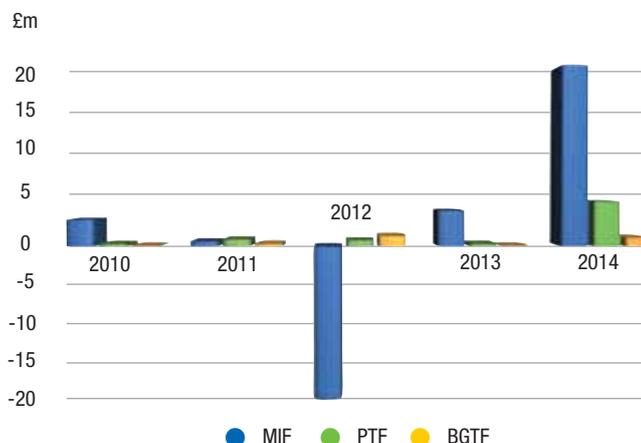
The only remaining investment is a €15m investment in a Platina renewable energy fund, PEN III, previously known as the European Renewable Energy Fund (EREF). This fund invests in renewable energy, spread across Europe to diversify the risk profile. Final investments are expected to be spread by the 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 investors. Winding up of the fund must be before 31 December 2022.

On return of the proceeds from the fund, it is intended that the funds will be used by Moyle to lessen the impact of its financing costs on future customers. Moyle will continue to review how best to smooth its costs across generations of NI consumers.

KPI 4: Cash reinvested to reduce charge to consumers (£m)



KPI 5: Cash generated in the year





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

Market changes

There have been significant changes in the energy infrastructure market in the year. As part of the Irish Government's state assets sale Centrica have taken over BGE's supply business, as well as a gas-fired power station in Cork; Brookfield Renewable Power has taken over BGE's renewable assets; and iCON Infrastructure have acquired Firmus, BGE's energy distribution business in Northern Ireland. In addition Phoenix Natural Gas has been sold to Hastings, an Australian infrastructure fund manager. Mutual Energy actively evaluated the opportunity to purchase Phoenix Natural Gas however we would not offer to pay more than the price which we assessed as appropriate. Mutual Energy will monitor any potential future sales to assess whether they meet our criteria for investment.

Gas to the West

In May 2014 Mutual Energy bid for a Transmission licence for the proposed extension pipelines terminating in Derrylin and Strabane. In terms of customer numbers the extension is small in scale, but it does cover a large geographical area with some difficult build terrain. In order to deliver a high quality service to the end consumer in a cost effective manner, we entered into a joint venture with Scotia Gas Networks, one of the SGN group of companies. As part of the joint venture SGN also bid for the distribution licence in the towns to be supplied.

If successful the introduction of one of the major UK gas distribution companies, with a strong record in customer service, to the Northern Ireland market will transform the way distribution services are provided. SGN existing businesses rank 1 and 3 in the OFGEM comparison for customer service and connect some 5.9m gas customers. With all the back end processes, staff experience and expertise we feel this would make a significant difference to the service to customers. Importantly SGN are used to the

model whereby a number of supply companies compete to supply gas to customers and the distribution company works efficiently with each of these companies to make it happen.

With low customer numbers and a developing gas market the need for efficiency is paramount. Mutual Energy is in a unique position to provide cost efficiency in the transmission part of the network. We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK and we have a clear track record in successfully mutualising infrastructure assets. Whilst this cost effectiveness is vital we also aim to bring significant cost synergies with our two existing gas businesses. In particular we have access to all the required IT systems for both the physical and commercial control of the network, and have people in place to carry out all the system operation functions. These system operation functions include meeting the onerous EU requirements, the contracting arrangements with connecting Transmission System Operators and shippers, and the operational framework for managing and maintaining high pressure gas pipelines.

A key part in the strategy for delivering cost efficiency is the ability to spread the large fixed costs of running a network. At transmission level we do this by outsourcing widely to other companies who already have the large fixed cost base and are able to provide services to us using their existing processes and infrastructure. At distribution level SGN plan to use their existing GB systems where appropriate, avoiding the need for costly investment.

This cost efficiency would also spread to the build cost. Part of the joint venture arrangement with SGN provides that they will build the Transmission pipeline as well. This would allow a full co-ordination of Distribution with Transmission as they are ultimately project managed by the same organisation. In addition SGN already has a large number of existing framework contracts which can be utilised to provide services and materials. From a purchasing perspective the Gas to the West project would become part of a purchasing portfolio of a network company roughly 20 times larger by customer numbers than the entire Northern Ireland network.

The regulator is scheduled to declare a preferred bidder in the summer of 2014, with final award some 6 months later.



Gas storage

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. This project is of strategic importance to the island of Ireland which is wholly reliant on gas imported from Great Britain. This 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.

The project has made significant progress to date, obtaining planning permission, land rights, and other important development consents. The quality of the project and its priority nature has also been recognised by the European Union with the designation 'Project of Common Interest' (PCI). For a project to be awarded PCI status, it has to have significant benefits for at least two Member States; contribute to market integration and further competition; enhance security of supply, and reduce CO2 emissions.

The main development partner is InfraStrata plc and the project was being developed with the support of BP Gas Marketing Limited, who held an option to acquire a controlling stake. However, following a review of its European wide gas assets portfolio in January 2014, BP Gas Marketing determined that further investment in gas storage in Northern Ireland is no longer aligned with the portfolio's objectives and has withdrawn from the project.

The project still remains intact and funds are available to secure the project for the immediate future. The group remains committed to finding a new investor so that this important project can proceed to the next stage of development. The group will continue to engage with the regulators, both North and South, to secure a future cross border regulatory environment suitable for gas storage and in order to allow this project to move forward.

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 year ended 31 March 2014 was £57.7m (2013: £56.4m). Group operating profit before interest and tax was £40.9m (2013: £25.9m), after the inclusion of cable fault related income of £11.8m (2013: £1.7m costs). After accounting for debt service, the group made an after-tax profit of £30.2m (2013: £0.2m).

Revenue from the gas businesses was £25.2m (2013: £26.6m), made up of £6.1m from Belfast Gas and £19.1m from Premier Transmission (2013: £6.0m Belfast Gas and £20.6m Premier Transmission). The prior year included an allowance of £1.9m which was expected to have been spent on EU compliance projects in 2012/13. This will be used to meet some of the EU compliance costs in the program up to 2015.

Revenue from the electricity business was £32.5m (2013: £29.8m), with £19.8m collected through the use of system (2013: £14.5m) and £12.7m from capacity sales (2013: £15.3m).

Other operating income was £14.0m which is insurance proceeds in Moyle in relation to the recent cable faults.

Adjusted EBITDA has increased from £38.3m in 2012/13 to £39.8m in 2013/14.

Finance charges

Included within finance costs is £18.5m (2013: £19.4m) 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 (2013:£9.2m);
- £8.3m (2013: £8.9m) required to restate bond liability to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges £1.0m (2013: £1.3m).

The actual interest charge is a cash amount and the restatement on the outstanding bond liability a non cash item. 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 an 100% effective hedge against the applicable licence income. As noted in previous years, the current accounting treatment of this under International Accounting Standard 39 “Financial Instruments: Recognition and measurement” is deficient in that the hedge is not recognised as such. As a result a further non-cash finance charge is recognised, representing the movement in the fair value of these index-linked swaps.

Cash flow 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.

Each sub group within the business 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 £32.0m at year end and Belfast Gas Transmission held £11.6m. At the year-end Moyle held operating cash reserves of £58.1m of which Moyle’s Distributions Account held £17.1m. This £17.1m 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. Total cash holdings by the group at year end amounted to £104.7m (2013: £78.4m).

Stakeholders, relationships and resources

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 Endesa Spain signed up to be able to acquire capacity on the Moyle Interconnector and Power NI purchased Moyle Interconnector capacity for the first time. Moyle’s other customers include Bord Gáis Eireann, Danske Commodities, ESB Independent Energy, Electroroute Energy Trading, Scottish Power Energy Management Limited, SSE Energy Supply Limited, RWE Supply and Viridian Energy Supply Limited. 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, Airtricity Gas Supply, Firmus, Energia and Vayu, along with the addition of Electric Ireland in the year.

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.

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.

During the year the group was reorganised in order to facilitate the Moyle cable projects and the market changes resulting from European energy legislation. Additional resources were employed to carry out the required work, using temporary staff and contractors where considered more cost effective. This has resulted in an increase in staff costs as can be seen in note 5 of Mutual Energy’s financial statements.

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.

Employee diversity

The company recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the group as at 31 March 2014 is illustrated in the table below:

	Male	Female
Board	4	1
Senior management	9	3
All employees	13	8

Employee KPIs

The group monitor a number of employee related KPIs, as noted below:

KPI	2014	2013
Training days per employee	1.7	2.6
Sickness absence days per employee	1.7	1
Personal Pension take up	94%	100%

Social, community and human rights issues

The group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the group delivers these objectives can be found on page 10.

In addition to this the group continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where practical, as well as reducing our wider impacts such as resource use and waste to landfill. The group ensures robust Health and Safety systems are in place as discussed on page 30, for the benefit of employees, contractors and the wider public. The group complies with the Employments Rights Act and all other applicable UK law as an absolute minimum and recognises the importance of treating all of our employees fairly. The group is committed to conducting business in an honest and ethical manner and acts according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.



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 (including Health and Safety), 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 2014 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 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.

The principal risks of the group are set out on the next page.



Public information event, Islandmagee, April 2013



The group's principal risks

Risk description and potential impact	Mitigation
<i>Operational risk</i>	
Poor operational performance could result in impaired availability, damage to assets and/or reputation, loss of revenue or loss of licence	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed
Inadequate management of health and safety matters could lead to third party and/or employee injury	The group promotes a strong Health and Safety culture, has a well defined health and safety management system, follows industry standard practices and maintains regular formal interaction with key subcontractors. Site security is maintained to a standard suitable to the nature of the sites
<i>Financial risk</i>	
Fluctuations in external market conditions, including foreign exchange and interest rates could affect our financial position	Borrowing arrangements align the financing costs to the income allowances. Treasury policies are aimed at minimising the risks associated with the group's financial assets and liabilities
There is a possibility of loss arising in the event of non-performance of financial institutions	Cash reserves 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
Poor financial management could result in breach of financing covenants or compliance failure	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance
Liquidity risk could result in business disruption, controlling creditor intervention, default on bonds, or reputational damage	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
<i>Business environment and market risk</i>	
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on bonds, damage to reputation of mutual model or fines	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. A lobby strategy is in place to positively impact market developments. Specific recent and future market development are discussed on pages 18-20
<i>Regulatory risk</i>	
Changes in economic regulation or government policy could have an adverse effect on our financial position	The group's relationships with the Utility Regulator for Northern Ireland and DETI are 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, with legal advice sought where appropriate
<i>Corporate strategy and communication risk</i>	
The group could follow an inappropriate corporate strategy or communicate poorly with external stakeholders which could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using PR consultants as appropriate



Environment and Safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas supply emergency exercises to ensure a robust response plan is in place and Premier Transmission 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.

The group has a comprehensive Health and Safety Management System (HSMS) which is based on the Health and Safety Executive's HSG 65 'Successful Health and Safety Management'. HSG 65 was substantially revised in December 2013 and re-titled 'Managing for Health and Safety' and is now based on the Plan, Do, Check, Act approach and treats Health and Safety management as an integral part of good management generally, rather than as a stand-alone system. The group's Health and Safety Management System has been updated to reflect this new approach. No Prohibition Notices, or Improvement Notices have been issued by the Health and Safety Executive or the Health and Safety Executive Northern Ireland and there are no known investigations by any Health and Safety enforcing body.

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 their 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 their 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.

Greenhouse gas emissions reporting

The table below sets out our greenhouse gas (GHG) emissions in the current and prior year:

Emissions from:	Tonnes of CO ₂ e	
	2014	2013
Usage of gas in operations	740	799
Electricity consumption at convertor stations	1,155	1,164
Electricity, heat, steam and cooling purchased for own use	20	13
Total emissions	1,915	1,976
Emissions per GWh energy transmission	0.13	0.12

Methodology

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity.

Forward looking statements

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

By order of the Board

Gerard McIlroy
Company secretary
24 June 2014

“ A Northern Ireland company working for consumers ”



- Agenda
- Welcome and introductions
 - Major Capital Expenditure Update
 - Financial Business Plan
 - Opportunities: Gas Storage Costs
 - Gas to the West of Hill
 - Q & A



The Mutual Energy Board

Regina Finn (47) Chairman (from 1 December 2013)

Regina was appointed Chair of Mutual Energy in December 2013 having spent five years as a non-executive director of MEL and Chair of the company's Remuneration Committee. From 2006 to 2013, Regina was Chief Executive of Ofwat, the economic regulator for the water and waste water sectors in England and Wales. Before that she was a Commissioner for Energy Regulation in Dublin where she worked on the development of an all island energy market. She has also been Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and has worked in the Channel Islands where she set up and ran the regulatory regime for electricity, post and telecommunications. Regina is currently a Director of Lucerna Partners Limited, a UK based consultancy, and holds non-executive positions on the Boards of the Channel Islands Competition Authority (CICRA) and Irish Water.



Peter Warry (64) Chairman (until 1 December 2013)

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 (45) 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 (45) 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 (61) Senior Independent Director (until 31 December 2013)

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



Stephen Kirkpatrick (50)

Stephen Kirkpatrick has been CEO of Corbo Properties since 2010. 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. Stephen joined the Mutual Energy Board in 2010.



Clarke Black (60) Senior Independent Director (from 31 December 2013)

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 Limited 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 2014, 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.

The Board

An effective Board of Directors leads and controls the group. The Board, which met eight 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 group, 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. 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 Chief Executive and 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 following table:

Directors and meetings attended	Board	Nominations Committee	Remuneration Committee	Audit Committee	Risk Committee
Clarke Black	8/8	4/4	2/2	4/4	-
Regina Finn	8/8	4/4	2/2	2/2	-
Stephen Kirkpatrick	8/8	4/4	-	4/4	-
Paddy Larkin	8/8	-	-	-	2/2
Gerard McIlroy	8/8	-	-	-	-
Gerry Walsh	5/6	2/2	-	-	2/2
Peter Warry	5/5	2/2	-	-	-



Board membership

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 until his retirement in December 2013 when he was replaced by Clarke Black. 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 Clarke Black as Senior Independent Director led a meeting of the non-executive directors to appraise the performance of the Chairman. The Board then discussed the findings of these exercises at a full meeting of the Board. The evaluation covered the role and organisation of the Board, meeting arrangements, information provision and committee effectiveness. Where areas for improvement have been identified, actions have been agreed.

Board committees

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

Audit Committee

The Audit Committee comprised Stephen Kirkpatrick (Chairman), Regina Finn (until her appointment as Chairman of the Board in December 2013), 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 was chaired by Regina Finn until her appointment as Chairman of the Board in December 2013, at which time Clarke Black took up the position. The Committee comprises 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.



In the prior year the Committee appointed the Curzon Partnership, an independent party, to assist in the succession planning and non-executive recruitment process due to the pending retirement of the previous Chairman, Peter Warry. After consideration Regina Finn was appointed Chairman of the Board, leaving a vacancy for an additional non-executive director. There was also an additional unforeseen retirement in the year due to Gerry Walsh, Senior Independent Director, stepping down in December 2013, in line with the requirements of the EU third package of energy legislation, as a result of a position held with a gas producer in the Republic of Ireland.

Clarendon Executive was also appointed during the year, as an independent recruitment agency, in addition to the Curzon partnership to assist with the process of recruiting two further non-executive directors to fill these vacancies. The Board and Committee determined again that they would not instigate a gender target on Board recruitment and would recruit solely on merit. Curzon Partnership and Clarendon Executive conducted a recruitment exercise advertising for prospective non-executives in the early part of 2014 and as a result Christopher Murray, CEO of gas market facilitator XOServe and former CEO of Phoenix Natural Gas, and Kate Mingay, former Director of Commercial and Technical Services in the UK Department of Transport (DfT) and current panel member of HM Treasury's Major Projects Review Group, were appointed as non-executive directors on 1st May 2014 and will be put forward for election at the 2014 AGM.

Risk Committee

The Risk Committee is chaired by Gerry Walsh, who was a non-executive director until his retirement in December 2013, and also comprises Paddy Larkin, Chief Executive, Roy Coulter, Health and Safety Manager 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

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, as far as it is relevant, 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 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.

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.

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

Mutual Energy Members during 2013/14	
Clarke Black	Gillian Hughes
Ashley Boreland	Alan Jeffers
David Brown	Geraldine Kelly
Margaret Butler	Stephen Kirkpatrick
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 Senninger
Andrew Frew	Gerry Walsh
Trevor Greene	Peter Warry
Wesley Henderson	Noel Williams
Chris Horner	John Woods (resigned 26/09/13)



Directors' Remuneration Report

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS NOT SUBJECT TO AUDIT

The Chairman's annual statement

Following my appointment as Chair of the Remuneration Committee in December 2013, I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2014.

The group is facing significant challenges and opportunities and our operating environment has become much more complex – which is clearly set out in the Strategic Report. Against this backdrop, the challenge of delivering the best outcomes for customers in Northern Ireland depends critically on the senior leadership team of the group.

It was because of this that the Remuneration Committee reassessed remuneration policy for the senior team in February 2013, including carrying out an external benchmarking exercise. That review clearly showed that:

- base salaries were well below the median in comparable industries;
- the senior leadership team have acquired significant skills and experience that are critical to the business and are very transferable; and
- best practice is to use deferred performance related pay schemes to incentivise longer term performance – particularly where business critical projects go well beyond one year.

As a result the Remuneration Committee and the Board agreed a new remuneration policy closely aligned to the business strategy. The new structure is designed to reward and retain critical skilled individuals in the senior team and incentivise business critical projects that span multiple years. The new structure involved:

- An increase in base salary for the senior leadership team to bring these to comparable levels in the industry;

- A continuation of in-year performance related pay based on operational targets; and
- The introduction of a deferred performance pay scheme related to the businesses key strategic deliverables, which are generally much longer than a single year.

We presented this structure and pay levels to members at the Annual General Meeting on 26th September 2013 and received the unanimous support of members for the new structure and levels. Members were invited to provide any additional comments or feedback during the year.

This year has also seen significant changes in the reporting requirements for directors' remuneration due to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. As a result of this the Directors' remuneration report now includes, in addition to this statement, the Directors' remuneration policy report and the annual report on remuneration. The remuneration policy can be found on pages 40 to 45 and will be subject to a binding vote at the 2014 AGM. The annual report on remuneration can be found on pages 46 to 50.

We believe that our remuneration policy and approach is compatible with the revised remuneration reporting and we hope that the changes to reporting will provide even more assurance for our stakeholders that our approach to remuneration is considered, fair and fully aligned with Northern Ireland consumer interests.

Clarke Black
24 June 2014



Clarke Black
Chairman
Remuneration
Committee



Directors' Remuneration Report

Introduction

This report summarises the activities of the Remuneration Committee for the year to 31 March 2014. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended August 2013. This is the first time the company has prepared the report in accordance with the amended Regulations. The report is split into three main areas: the statement by the Chair of the Remuneration Committee, the policy report and the annual report on remuneration. The policy report will be subject to a binding vote at the 2014 Annual General Meeting and is intended to apply for three years from 1 October 2014, subject to member approval. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

The Companies Act 2006 requires the auditors to report to the shareholders on certain parts of the Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are indicated in that report. The statement by the chair of the Remuneration Committee and the policy report are not subject to audit.

The role of the Remuneration Committee

The role of the Remuneration Committee during the year was to determine and agree the remuneration policies of the company and its subsidiaries and specifically:

- to monitor, review and make recommendations to the Board on the executive structure of the group;

- to review and agree the broad policy and framework for the remuneration of the Chairman, executive directors 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 against remuneration of similar persons in similarly sized companies;
- to make recommendations to the Board, for it to put to the AGM for their approval in general meeting, in relation to the remuneration of the executive directors; and
- to agree the policy for authorising claims for expenses from the directors.

Remuneration Policy

It is intended that the Remuneration Policy set out in this report, if approved at the AGM, will take effect on 1 October 2014.

Future policy table

The policy is to pay no more than is necessary to attract, motivate and retain individuals of the calibre necessary to run a group of the scale and complexity of Mutual Energy. The Committee believes that a substantial proportion of the package should be performance related.



Remuneration policy for executive directors

The following table provides a summary of the key components of the remuneration package for executive directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy.	Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: <ul style="list-style-type: none"> - role, experience or performance; - average change in broader workforce salary; - group performance and prevailing market conditions; and - external benchmarking of similar roles at comparable companies. 	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
All taxable benefits	Providing employee protection in interest of employee and group.	Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Annual performance-related pay	Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity.	The Remuneration Committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable. Performance-related pay is calculated and awarded following the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).	Normal annual performance-related pay is expected to be 17% of salary with a maximum annual performance-related pay potential of 25% of salary.	Performance-related pay elements are based on group KPIs for the year and include: <ul style="list-style-type: none"> • Availability and asset integrity improvements; • Revenue; • Costs and cost savings ; and • Compliance and Health and Safety improvements. Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum. As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Deferred performance-related pay	Align executives with long term interests of the group and encourage retention of key employees.	Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	It is expected that each year up to 33% of salary will be deferred. However the maximum amount can be in the range 25-35% to give a total annual and deferred performance-related pay receivable of 50% in relation to each year. No deferred performance-related pay will be paid until the third year after being set aside, after which up to half of the amount set aside may be paid in cash or pension contributions as requested by the director.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the Remuneration Committee. The categories for which targets are set include asset performance, financial and regulatory/market performance.	No recovery or withholding applies to any performance-related pay paid in cash. The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the Committee.
Pensions	To provide funding for retirement.	There is a defined contribution plan for all executive directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for company paid pension contributions, with NIC cost savings being credited to the individual's pension.	The company pension contribution is expected to be 16% of salary but no more than 25%, excluding any employee salary sacrifice.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.



The Committee selected the performance conditions because these are central to the company's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business. The performance targets for both annual and deferred bonus are determined each year by the Committee, reflecting both financial and non-financial measures, and are typically set at a level that is aligned with company forecasts.

The Committee is of the opinion that the performance targets for the annual and deferred performance-related pay are commercially sensitive in respect of the group and that it would be detrimental to the interests of the group to disclose them before the start of the financial year. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report, to the extent that they do not remain commercially sensitive at that time.

In relation to the annual performance-related pay plan, the Committee retains discretion over:

- The participants;
- The timing of grant of a payment;
- The determination of the performance-related pay payment;
- Dealing with a change of control;
- Determination on the treatment of leavers based on the rules of the plan and the appropriate treatment chosen; and
- The annual review of performance measures and weighting, and targets for the annual performance-related pay plan from year to year.

In relation to both the company's annual and deferred performance-related pay plan, the Committee retains the ability to adjust the targets and/or set different measures if events occur (for example material acquisition and/or divestment of a group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration.

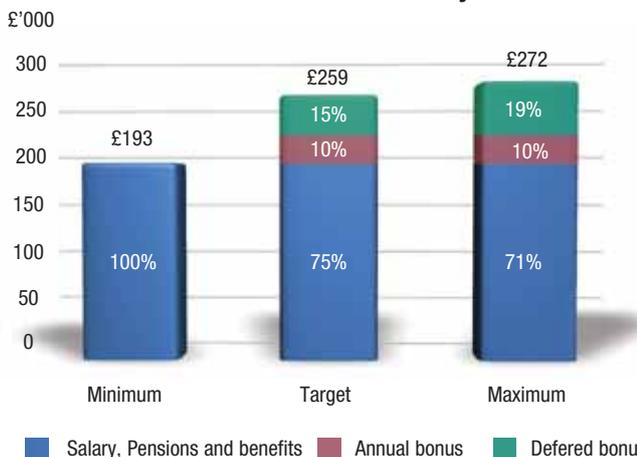
The Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

All employees are entitled to base salary, benefits, pension and annual performance-related pay. The remuneration policy for the executive directors is more heavily weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of the business strategy. The maximum performance-related pay opportunity available is based on the seniority and responsibility of the role with the employee average potential performance-related pay being 16%.

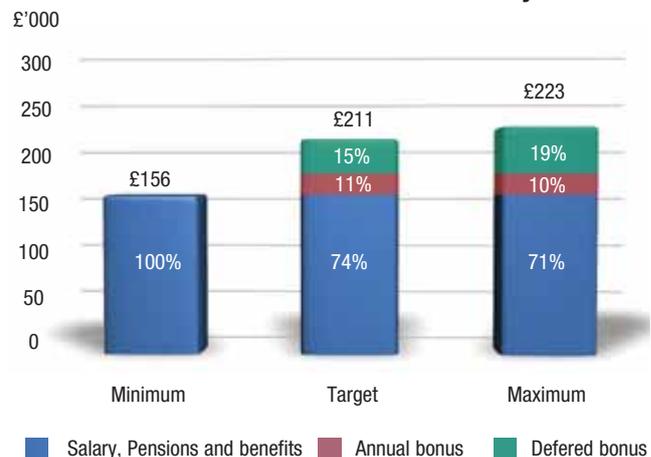
Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2014/15 under three different performance levels is shown below:

**Total remuneration potential:
Chief Executive Officer Paddy Larkin**



**Total remuneration potential:
Finance Director Gerard McIlroy**





Illustrations of potential reward opportunities for the executive directors (continued)

The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only;
- Target – Fixed pay plus 100% of the in-year performance-related pay (as these are based on fundamental operational performance measures and the aim is to meet these in full) plus 75% of the potential maximum deferral; and
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay for targets relating to 2014/15.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2014;
- benefits – amount received by each executive director in the 2013/14 financial year; and
- pension – amount received by each executive director in the 2013/14 financial year.

Service contracts and policy on payment for loss of office of the executive directors

The executive directors' services agreements normally continue until the directors' agreed retirement date or such other date as the parties agree, are terminable on 3 months' notice and provide no entitlement to the payment of a predetermined amount on termination of employment in any circumstances. If notice is served by either party the executive director can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. Payments in relation to annual performance-related pay may be made, payable in cash, on a pro-rata basis, but only for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice. There is no entitlement to payments in relation to deferred performance related pay, however, payments may be made at the discretion of the Committee. Any performance-

related pay (either in-year or deferred) paid would be subject to the normal performance-related pay targets, tested at the end of the year.

Directors' service contracts/letters of appointment are available for inspection at the company's registered office.

Approach to recruitment remuneration

The Committee's approach to remuneration is to pay no more than is necessary to attract appropriate candidates to the role. When setting the remuneration package for a new executive director, the Committee will apply the same principles and implement the policy as set out in the future policy table. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. The maximum level of variable pay and structure of remuneration will be in accordance with the policy table. This limit does not include the value of any buy out arrangements. Different performance measures may be set initially for the annual performance-related pay, taking into account the responsibilities of the individual and the point in the financial year in which they joined.

For external appointments, the Committee may structure an appointment package that it considers appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous position, taking into account timing and valuation and such other specific matters as it considers relevant. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the Committee considers is required to provide reasonable compensation to the incoming director. If the director will be required to relocate in order to take up the position, it is the company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.



In the case of an employee who is promoted to the position of director, it is the company's policy to honour pre-existing award commitments in accordance with their terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

Non-executive director appointments will be through letters of appointment. Non-executive directors' fees, including those of the Chairman, will be set in line with the future policy table for non-executive directors.

Remuneration policy for non-executive directors

The non-executive directors' are appointed for an initial three-year term and normally serve two terms or in exception three. Their letters of appointment require one month's written notice for early termination by either party. There is no provision for compensation in the event of early termination of their appointment.

The following table provides a summary of the key components of the remuneration package for non-executive directors (NEDs):

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	The Chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the Committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the Senior Independent Director. Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate. NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.	Fee levels for incumbents for 2014/15 are as follows: Chairman £77,320p.a. NEDs £33,500p.a.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A.	There are no provisions for the recovery of any sums paid or the withholding of any payments.



Statement of consideration of employment conditions elsewhere in company

The Committee invites the executive directors to present in its meeting in March on the proposals for salary increases for the employee population generally and on any other changes to remuneration within the group. The executive directors consult with the Committee on the KPIs for executive directors' performance-related pay and the extent to which these should be cascaded to other employees. The Committee is also provided with data on the remuneration structure for senior management (other than directors) and uses this information to work with the Finance Director to consider consistency of approach throughout the company. There is no set relationship between director and employee pay.

The Committee does not consult with employees when drawing up the directors' remuneration policy set out in this part of the report.

Statement of consideration of member views

The company remains committed to member dialogue and takes an active interest in voting outcomes. The Chairman of the Remuneration Committee presented the 2012/13 annual remuneration report and revised executive director remuneration structure for 2013/14 to the members at the 2013 AGM. Questions and comments were invited and members were offered the opportunity to discuss any issues on a one-to-one basis at a later date. The revised structure and levels received unanimous support from the members. Any feedback from members received throughout the year is considered when setting the directors' remuneration policy.



Mutual Energy Board (l-r): Gerard McLroy, Clarke Black, Kate Mingay, Paddy Larkin, Regina Finn, Stephen Kirkpatrick and Chris Murray.



Annual report on remuneration

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS SUBJECT TO AUDIT

Single total figure of remuneration for each director

The remuneration of the directors for the years 2013/14 and 2012/13 is made up as follows:

Directors' remuneration as a single figure (2013/14)

£'000	Salary and fees ⁶	All taxable benefits ⁷	Annual performance-related pay ⁶	Deferred performance-related pay	Pension ⁶	Total for 2013/14
Executive directors						
Paddy Larkin ¹	164	1	22	45	25	257
Gerard McLroy ²	133	1	18	36	20	208
Non-executive directors						
Clarke Black	34	-	-	-	-	34
Regina Finn ³	48	-	-	-	-	48
Stephen Kirkpatrick	34	-	-	-	-	34
Gerry Walsh ⁴	25	-	-	-	-	25
Peter Warry ⁵	52	-	-	-	-	52
	490	2	40	81	45	658

Directors' remuneration as a single figure (2012/13)

£'000	Salary and fees ⁶	All taxable benefits ⁷	Annual performance-related pay ⁶	Deferred performance-related pay	Pension ⁶	Total for 2012/13
Executive directors						
Paddy Larkin ¹	134	1	50	-	18	203
Gerard McLroy ²	107	1	42	-	16	166
Non-executive directors						
Clarke Black	34	-	-	-	-	34
Regina Finn	34	-	-	-	-	34
Stephen Kirkpatrick	34	-	-	-	-	34
Gerry Walsh	34	-	-	-	-	34
Peter Warry	77	-	-	-	-	77
	454	2	92	-	34	582

¹ In the year Paddy Larkin elected to exchange £17,600 of his salary (2013: £18,000) and none of his bonus (2013: £15,000) for company paid pension contributions. Under the company's salary sacrifice scheme the employer NIC savings are also credited to the individual's pension giving an additional credit of £2,429 in the year (2013: £4,554).

² Gerard McLroy elected to exchange £8,390 of his salary (2013: £8,390) and none of his bonus (2013: £25,700) for company paid pension contributions in the year. NIC savings of £1,158 (2013: £4,704) were also credited to his pension account.

³ Appointed as Chairman on 1 December 2013.

⁴ Retired from the Board on 31 December 2013.

⁵ Retired from the Board on 1 December 2013.

⁶ Figures in the table are shown before the effect of salary sacrifices.

⁷ All taxable benefits consists solely of healthcare benefits provided to executive directors.



Determination of 2013/14 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 31 March 14. The performance-related pay accruing to executive directors is set out below. The particulars of the performance measures have not been disclosed as these are considered commercially sensitive.

2013/14 annual performance-related pay

	Annual performance related pay (% of salary)				Deferred performance related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	12.5%	10.5%	12.5%	10.5%	9.0%	8.5%	6.0%	6.0%
Financial performance	4.5%	4.0%	4.5%	4.0%	18.0%	16.5%	15.0%	14.0%
Regulatory/market performance	-	-	-	-	6.0%	4.5%	12.0%	8.0%
	17.0%	14.5%	17.0%	14.5%	33.0%	29.5%	33.0%	28.0%

Payments to past directors

There have been no payments to past directors in the year. Gerry Walsh retired as director on 31 December 2013 in order to comply with the unbundling requirements of the EU Third Energy Package. As part of the process he was retained as an advisor to the Risk Committee for a period of 12 months to facilitate handover to the new directors.

Payments for loss of office

There were no payments for loss of office made in the year.

CEO remuneration table

The table below sets out the details for the director undertaking the role of Chief Executive Officer.

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity %
2009/10	48*	95%	N/A
2010/11	197	92%	N/A
2011/12	189	86%	N/A
2012/13	203	81%	N/A
2013/14	257	85%	89%

* The group did not have a CEO until it was restructured in January 2010. The figure shown therefore only includes 3 months remuneration from January to March 2010.



Percentage change in remuneration of director undertaking the role of Chief Executive Officer

The table below shows the percentage change in remuneration of the director undertaking the role of Chief Executive Officer and the group’s employees as a whole between the year 2013/14 and 2012/13.

	Percentage increase in remuneration in 2013/14 compared with remuneration in 2012/13	
	CEO	Group's employees as a whole*
Salary and fees	22%	16%
All taxable benefits	5%	8%
Annual performance-related pay	-56%	-2%
Total	1%	9%

* Reflects the average change in pay for employees (excluding non-executive directors) employed in both the year ended 31 March 2013 and the year ended 31 March 2014.

At the end of the 2012/13 year, following a recruitment exercise, employees salaries were benchmarked and realigned. The table shows an increase of 22% in the CEO’s salary and fees. This increase is the result of a benchmarking exercise and measures made to restructure executive directors’ remuneration and performance-related pay in order to ensure retention of key staff. The new structure has resulted in increased salary but with two thirds of the performance-related pay now being deferred over 3 years and as a result a much lower annual performance-related pay than the prior year (56% reduction).

Relative importance of spend on pay

The table below shows the total pay for all of the group’s employees, compared with total debt repayments plus cash retained in the business plus cash returned to customers via shippers. The group does not pay dividends as there are no shareholders.

	2013/14	2012/13	Change
	£'000	£'000	
Total employee costs	1,633	1,240	32%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	49,973	26,981	85%

Total debt repayments plus cash retained in the business plus cash returned to customers via shippers shows the most significant distributions, payments and uses of cash flow therefore is deemed to be the most appropriate comparator for spend on employees.



Statement of implementation of remuneration policy in 2014/15

The directors' salaries and fees for the 2014/15 year are as follows:

	2014/15	2013/14	Change
	£'000	£'000	
Chief Executive	167	164	2%
Financial Director	136	133	2%
Chairman	77	77	0%
Non-executive directors	34	34	0%

The annual performance-related pay for 2014/15 will operate on the same basis as for 2013/14 and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the group.

The performance measures and weightings for the executive directors will consist of several targets based on assets and costs with overall weightings as shown below.

	Annual performance related pay (max % of salary)		Deferred performance related pay (max % of salary)	
	CEO	FD	CEO	FD
Asset performance	12.50%	12.50%	11.00%	5.00%
Financial performance	4.50%	4.50%	16.00%	15.00%
Regulatory/market performance	-	-	6.00%	13.00%
	17.00%	17.00%	33.00%	33.00%

The particulars of the performance targets relating to 2014/15 are considered to be commercially sensitive, however, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.



Consideration by the directors of matters relating to directors remuneration

During the year the Committee met twice to consider matters relating to executive directors' remuneration. The directors who were members of the Committee during these considerations were Regina Finn and Clarke Black. The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The executive directors are not involved in deciding their own remuneration. The Remuneration Committee has previously taken advice from Towers Watson on structuring executive directors' remuneration packages but no advice was sought in the year. Tower Watson is independent from the group and its directors and does not provide any other services to the group. No other person provided advice or services to the Committee that materially assisted the Committee in their consideration of any such matter.

Statement of voting at general meeting

The group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

Approval

This report was approved by the Board of Directors on 24 June 2014 and signed on its behalf by:

Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
19	100%	-	0%	19	-

Clarke Black
24 June 2014



Chairman Peter Warry taking questions at the AGM, September 2013.



Risk Committee Report

The Risk Committee is a Committee established by the Board of Directors of Mutual Energy 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 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, who was a non-executive director until his retirement in December 2013, and also comprises Paddy Larkin, Chief Executive, Roy Coulter, Health and

Safety Manager and Stephen Hemphill, Group Operations Manager.

The Committee met twice during the year ended 31 March 2014 in order to review risk registers and business improvement plans, review Health and Safety policies and procedures, and to address specific issues of operational and environmental risk including the online inspection of the Belfast Transmission Pipeline and the Moyle low voltage cable replacement. Attendance was as listed in the Corporate Governance Statement.

Activities in 2013/14

During the year the Committee:

- Reviewed the status of the recommendations of an external audit of the Health and Safety Management System;
- Reviewed the risk registers for both the gas and electricity businesses;
- Reviewed the improvement plan for the gas and electricity businesses, incorporating both Health and Safety and asset performance improvement;
- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Reviewed site security arrangements;
- Produced a risk register for the Moyle low voltage cable replacement project;
- Provided oversight and review of amendments to the Health and Safety Policy Statement and Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2013/14 and 2014/15 Health and Safety Plans and recommended these documents to the Board for approval; and
- Reviewed the inspection regime for the Belfast Gas Transmission Pipeline and its suitability for online inspection.

The minutes of the Risk Committee are issued to the Board for information and the proceedings are reported at the subsequent Board meeting.



Gerry Walsh
Chairman
Risk Committee



Stephen Kirkpatrick
Chairman
Audit Committee

Audit Committee Report

The Audit Committee was in place throughout the year ended 31 March 2014 and all its members were independent in accordance with provision A.3.1 of the Combined Code.

This year the Committee has focused on the changes to the narrative reporting and corporate governance disclosures in the Annual Report and financial statements, which have been introduced as a result of amendments to the Companies Act and the UK Corporate Governance Code (the Code). These include significant changes to the Strategic Report, Remuneration Report, Directors' Report and Audit Report. One new requirement of the Code is that the directors should state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy. In order to facilitate this the Board asked the Committee to advise on this statement.

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 Committee also comprised Clarke Black, the Chief Executive of the Ulster Farmers' Union with a background in banking, and, until her appointment as Chairman of the Board in December 2013, Regina Finn, an experienced regulator with a background in economics. Kate Mingay also joined the Committee, after the year end, in May 2014, following her appointment to the Board. Kate has previous Audit Committee experience and prior to joining the UK civil service as DfT Corporate Finance Director, held a series of senior corporate finance positions with blue chip investment banks Goldman Sachs and Warburg. The requirement in the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience is fulfilled by the Chairman. Members receive no additional remuneration for their service on the Committee.

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

Activities

The Committee met four times in the year ended 31 March 2014 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out on the following page, along with a description of the activities carried out in each area during the year.



Audit

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 Committees 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.

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. PwC have been the group's external auditors since 2007, with audit partner rotation after 5 years (2012) in line with APB Ethical Standards.

Audit related matters considered by the Committee in the year included:

- meeting with the external auditor to confirm their independence and objectivity;
- meeting with the external auditor:
 - o at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
 - o after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
- o 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 total costs of £27,000 were incurred in respect of non audit services, in relation to routine tax compliance and research and development tax claims (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, during the planning stage, the auditor puts forward a number of risks and their approach to auditing them. At completion stage a review of the material judgements and issues is provided.

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

Narrative reporting requirements

The Committee has spent a significant amount of time considering the requirements for narrative reporting in this year's annual report, due to the additional requirements arising from changes in the Companies Act and UK Corporate Governance Code. A full review of the annual report, including narrative, is performed every year however this year additional consideration has been required due to the scale of the changes, particularly with respect to the Directors' remuneration report. The Directors' remuneration report regulations are designed for listed entities which use Long-Term Incentive Plans (LTIPs) to align executive remuneration to long-term strategy. As this form of executive remuneration is not applicable for our executive directors, deferred performance related pay is instead used for this purpose, and to aid retention of key staff. As this scheme did not fit neatly into the categories set out in the new reporting requirements further consideration of the disclosure of this information under the new reporting requirements was required by the Committee with technical advice in relation to this being obtained from our auditors in order to gain assurance that the disclosure made was appropriate.

The assessments of asset impairment

The accounting policy on this is outlined on page 75. The ability of the assets 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 case of the Moyle Interconnector the Committee again reviewed the asset in light of the reduced asset performance, following the cable fault. This is a trigger for impairment, however, by considering the cash flows from the licence the Committee was able to conclude the asset, which has a carrying value of £89m as at 31 March 2014, was not impaired.

The treatment of potential insurance receipts

During the year £10.0m insurance proceeds were received from some of the insurers with respect to the 2011 cable fault claims. A further £4.0m was received in June 2014 which was under negotiation during the year and therefore has been recognised within other operating income in 2013/14. The company is still in discussions with the remaining insurers in relation to the 2011 faults. The Board is of the opinion that these claims are valid, however in the absence of an admission of liability from these insurers, it is not recognising any further potential claim income.

Accounting for derivatives

There is no change to the treatment for accounting for derivatives in the year, however this has such a material effect on the financial statements that it is worthy of note. 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.



This has been discussed in more detail in the Directors' report on page 65.

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 Directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the users of this financial information will better understand the underlying performance of the group.

Critical accounting estimates and judgements are included in note 1 on page 80. 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, including reviewing changes required as a result of the 2013 amendment to the Companies Act 2006 and the revised 2012 UK Corporate Governance Code; and
- making recommendations to the Board on the areas within its remit where action or improvement were needed.

Valuation of investments

The committee considered the valuation of investments assessing whether they should be consolidated in the accounts and whether there were any grounds for impairment of any of the investments. None of the investments qualified for consolidation in the accounts due to the absence of control and there were no indicators of impairment during the year.

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 including consideration of fraud risk;
- reviewing the outcome of the group's risk register process and making revisions to the risk register in line with changes to the group's business;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- reviewing the outcome of compliance reviews and recommending improvements and policy amendments in areas including: use of contractors, business continuity and disaster recovery, treasury management, business planning and forecasting, procurement, staff remuneration, disciplinary policy, code of ethics and business principles, and conflicts of interest; and
- reviewing and approving the policies for group treasury, business planning and forecasting, procurement, and use of contractors.



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 an Independent Board Member at the Youth Justice Agency of Northern Ireland and a non-executive director at the Probation Board for Northern Ireland. Formerly David held the positions of Commercial and Services Director at Translink, Sales & Marketing Director at Airtricity, Business Development Director at Yates TR (NI) Limited and Managing Director at Simentra Limited. David is also a co-founder and Trustee at Simply Serving Ministries, a charity that provides humanitarian 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 firstly with Northern Bank and then with National Australia Bank in Executive roles. Margaret is currently a non executive director of AIB (UK). Margaret has leadership experience across a wide range of disciplines including human resources, business planning, strategy, operations and business transformation.

Margaret has an MBA from the University of Ulster. She is 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



Members' Day, The Arena Building, May 2014



Business Development and Improvement Director at Lamont Holdings plc, and a variety of positions in British Telecom. John was previously a Board Member of the Central Services Agency and a Board member of the Sports Council for Northern Ireland and a lay magistrate.

Bill Cherry

Bill is the Managing Director of Fusion Heating Limited, a specialist mechanical and electrical maintenance provider for the social housing sector within Northern Ireland. Bill is also a member of the Chartered Institute of Management, and is currently on the committee 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, and whistle blowing and investigative risk management. He has a BA (Hons) in Public Policy and Management from the University of Ulster, PGD in HRM and Training, University of Leicester, PGD in Professional Management, Open University, PGC in Professional Development, University of Teeside. John is a Fellow of the Chartered Management Institute and a member of the Fraud Advisory Panel.

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 Doherty works as a Curriculum Manager in the Technology Department of Southwest College. This work involves aligning the college's curriculum offer to the needs of local and regional industries (such as developments within the renewable energies fields). He is 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. He is also the Principal Moderator for CCEA in the area of ICT (Key Skills and Essential Skills).



Members' Day, The Arena Building, May 2014.



Seamus Downey

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

Malcolm Emery

Malcolm holds an MSc in supply chain management and business development from the University of Ulster, an Advanced Diploma in Management Practice from UUU 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 Prince's 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.

Trevor Greene

Before his retirement in 2012, Trevor worked for the Northern Ireland Housing Executive. He worked in personnel management until the late 1990s when he took up post as Business Planning Manager dealing with corporate and 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. Along with his role as a Mutual Energy member, he is currently a director of Hostelling International Northern Ireland, Habinteg Housing Association, First Cast NI (an angling related charity to assist vulnerable people), the Lough Neagh Dollaghan Trust and acts as an adviser to Employers for Disability Northern Ireland.

Members' Day, The Arena Building, May 2014.



**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 and an Education Speaker for Cats Protection, the national animal charity.

Christopher Horner

Christopher Horner is a chartered civil engineer with over 20 years' experience in the industry. Following graduation from Queen's 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, 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 Company Secretary at Northern Ireland Co-ownership Housing Association, the Northern Ireland regional body for shared ownership. 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, which is the international qualifying and membership body for the Chartered Secretary profession and a recognised authority on governance and compliance.

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 is a non-executive director on a number of public and private sector boards including Aura Leisure Ltd, Micro Finance Ireland and RICS. 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.



Members' Day, The Arena Building, May 2014.



Colm McGarry

Colm has an MSc Social Policy Planning & Admin, FCIPD. He is a former Chief Executive of Larne Borough Council, and was formerly General Manager ORTUS and worked at the Northern Ireland Housing Executive from 1973 to 1998 latterly as assistant director (Corporate Services). He is an unpaid Director at Grove Housing.

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 delivering a PFI solution to Northern Ireland Water), much of his recent career has involved change management in complex organisations. He is currently a member of the Audit Committee of Down District Council.

Gordon Millington

Gordon Millington has a DSc (Honoris Causa) and is a Fellow of the Institution of Civil Engineers, Fellow of Engineers Ireland, Fellow of the Institution of Highways and Transportation and an Honorary 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. At present he is deputy Chairman of the Disciplinary Board of the Institution of

Civil Engineers in London and on the membership committee of the Irish Academy of Engineers in Dublin. He is a member of Halo at the Northern Ireland Science Park.

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 had been appointed as a member of the National Cancer Research Institute (NCRI) Clinical Studies Group.

Ben Robinson

Ben Robinson has a senior profile in the food and drink processing industry in Ireland and Europe. Currently heading up a new US business located in Dublin and San Diego he also sits as a non-Executive Director of a number of UK and Irish food businesses. A Director of Gilbeys of Ireland (DIAGEO) and a member of their European Board, he went on to lead Ballymoney Foods through a remarkable turnaround. He moved on to head up a major Dutch Food processor, working closely with European growers in joint venture and strategic partnership initiatives. As Managing Director of a busy agri-food project management business he is closely involved in financial strategy and corporate governance. Ben is also involved in a



Mutual Energy AGM, Europa Hotel, September 2013.



senior level political and academic ‘think-tank’ working to link our schools, businesses and children in their quest to close the future skills and careers gap in our Northern Ireland economy.

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.

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 organisations.

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland (NI) for seven years, where his remit was to maximise the effectiveness of EST's programmes and oversee its strategy in Northern Ireland. He sought to address the damaging effects of climate change, reducing Northern Ireland's greenhouse gas emissions and tackle fuel poverty. He continues to maintain relationships with key Northern Ireland partners such as government departments, Power NI (formerly NIE Energy), Phoenix Natural Gas, Firmus Energy, NI Housing Executive, Housing Associations, the oil industry, Northern Ireland local authorities and other stakeholders through the NI Fuel Poverty Forum. He is currently the Head of Operations for the Alliance Party East Antrim Constituency.



Chairman Regina Finn welcomes new board members Kate Mingay and Chris Murray



Mutual Energy AGM, Europa Hotel, September 2013.



Mutual Energy AGM, Europa Hotel, September 2013.



The Mutual Energy team

Engineering



Stephen Hemphill
Group Operations
Manager



Emmet McFadden
Gas Operations Manager



Mark Raphael
Commercial
Operations
Engineer



Mick McGuckin
Electrical Operations
Manager



Joseph Awodola
Energy Networks
Engineer



Marcus McFarlane
Project Engineer

Finance, admin and IT



Emma Jayne Armstrong
Accountant



Roisin Clarke
Office Manager



Andrew McManus
IT Manager



Helyn Rankin
Records Officer

Commercial



Paul McGuckin
Commercial
Accountant



Ciara Brennan
Commercial Manager



Stephen English
Gas Contracts Manager



Lauren Skillen-Baine
Business Analyst



Claire Stewart
Gas Analyst



Mutual Energy Limited

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

Annual report for the year ended

31 March 2014

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Directors

Regina Finn	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Stephen Kirkpatrick	Non-executive director	
Clarke Black	Senior independent director	
Gerry Walsh	Non-executive director	(resigned 31 December 2013)
Peter Warry	Chairman	(resigned 1 December 2013)
Christopher Murray	Non-executive director	(appointed 1 May 2014)
Kate Mingay	Non-executive director	(appointed 1 May 2014)

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: NI053759



Directors' report for the year ended 31 March 2014

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2014.

General information on the company can be found on page 64 and within note 1 to the financial statements.

Results

The group's profit for the year is £30,177,000 (2013: £198,000).

A review of our operational and financial performance, research and development activity, current position and future developments is included in our Strategic report.

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 (resigned 31 December 2013)

Peter Warry (resigned 1 December 2013)

Gerard McIlroy

Stephen Kirkpatrick

Clarke Black

Christopher Murray (appointed 1 May 2014)

Kate Mingay (appointed 1 May 2014)

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.

Directors indemnities

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

Derivative financial instruments

The directors wish to draw the attention of readers to note 24 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 £43,877,000 as at 31 March 2014 (2013: £49,559,000). 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 £43,877,000 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 there been no requirement to fair value this financial liability the group's reported profit for the year would have been £27,118,000 (2013: £8,588,000) instead of a profit of £30,177,000 (2013: £198,000).



Directors' report for the year ended 31 March 2014

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.

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group's website, www.mutual-energy.com. 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
24 June 2014



Independent auditors' report to the members of Mutual Energy Limited

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 Regulations.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Mutual Energy Limited, comprise:

- the group and parent company balance sheets as at 31 March 2014;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Independent auditors' report to the members of Mutual Energy Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on additional disclosures

Directors' remuneration report

The parent company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 66, 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 ISAs (UK & 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.

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

25 June 2014



Group statement of comprehensive income for the year ended 31 March 2014

	Note	2014			2013		
		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		57,721	-	57,721	56,441	-	56,441
Operating costs	3	(30,737)	-	(30,737)	(30,514)	-	(30,514)
Other operating income	3	13,954	-	13,954	-	-	-
Earnings before interest, tax, depreciation and amortisation of intangible assets, and cable fault related income/costs (adjusted "EBITDA")		39,818	-	39,818	38,254	-	38,254
Amortisation of intangible assets		(5,550)	-	(5,550)	(5,550)	-	(5,550)
Depreciation (net of amortisation of government grants)		(5,096)	-	(5,096)	(5,093)	-	(5,093)
Exceptional item - cable fault related income/(costs)	4	11,766	-	11,766	(1,684)	-	(1,684)
Operating profit		40,938	-	40,938	25,927	-	25,927
Finance income	6	1,049	-	1,049	847	-	847
Finance costs	6	(18,528)	-	(18,528)	(19,367)	-	(19,367)
Finance income/(costs) - fair value adjustment on derivative financial instruments	6	-	5,682	5,682	-	(10,387)	(10,387)
Finance costs - net	6	(17,479)	5,682	(11,797)	(18,520)	(10,387)	(28,907)
Profit/(loss) before income tax		23,459	5,682	29,141	7,407	(10,387)	(2,980)
Income tax credit/(charge)	7	3,659	(2,623)	1,036	1,181	1,997	3,178
Profit/(loss) for the year attributable to the owners of the parent	16	27,118	3,059	30,177	8,588	(8,390)	198

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.

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



Group and parent company balance sheets at 31 March 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	202,233	209,131	47	79
Intangible assets	10	163,160	168,710	-	-
Investments	11	-	-	10,250	10,250
Other investments	12	11,264	10,187	-	-
Deferred income tax assets	19	8,775	16,271	10	16
		385,432	404,299	10,307	10,345
Current assets					
Trade and other receivables	13	15,328	14,015	2,578	2,424
Corporation tax receivable		570	-	-	-
Cash and cash equivalents	14	104,693	78,383	924	420
		120,591	92,398	3,502	2,844
Total assets		506,023	496,697	13,809	13,189
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	15	-	-	-	-
Retained earnings	16	1,971	(28,206)	(2,592)	(1,936)
Total equity		1,971	(28,206)	(2,592)	(1,936)
Liabilities					
Non-current liabilities					
Borrowings	17	311,253	317,054	15,794	14,911
Provisions	18	3,089	3,504	-	-
Deferred income tax liabilities	19	49,046	58,310	-	-
Government grants	20	68,159	70,875	-	-
Derivative financial instruments	24	43,877	49,559	-	-
		475,424	499,302	15,794	14,911
Current liabilities					
Trade and other payables	21	13,106	10,649	607	214
Borrowings	17	12,814	12,244	-	-
Government grants	20	2,708	2,708	-	-
		28,628	25,601	607	214
Total liabilities		504,052	524,903	16,401	15,125
Total equity and liabilities		506,023	496,697	13,809	13,189

The notes on pages 72 to 99 are an integral part of these financial statements.

The financial statements on pages 69 to 99 were authorised for issue by the Board of Directors on 24 June 2014 and were signed on its behalf by

Patrick Larkin

Director

Stephen Kirkpatrick

Non-executive director

Mutual Energy Limited

Registered number: NI053759



Group and parent company cash flow statements for the year ended 31 March 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash flows from operating activities					
Profit/(loss) before income tax		29,141	(2,980)	(825)	(639)
Adjustments for:					
Finance costs - net		11,797	28,907	881	832
Depreciation of property, plant and equipment		7,812	7,801	39	32
Amortisation of government grants		(2,716)	(2,708)	-	-
Amortisation of intangible assets		5,550	5,550	-	-
Movement in trade and other receivables		(1,291)	(6,848)	(190)	(94)
Movement in trade and other payables		1,973	(4,287)	293	(58)
Income tax (paid)/received		(1,302)	-	313	-
Non-operating element of insurance proceeds		(7,234)	-	-	-
Net cash generated from operating activities		43,730	25,435	511	73
Cash flows from investing activities					
Interest received/(paid)		515	670	1	(4)
Purchase of property, plant and equipment		(431)	(295)	(8)	(110)
Purchase of other investment		(1,733)	(1,396)	-	-
Repayment of investment		658	1,647	-	-
Non-operating element of insurance proceeds		7,234	-	-	-
Net cash generated from/(used in) investing activities		6,243	626	(7)	(114)
Cash flows from financing activities					
Interest paid		(7,907)	(9,611)	-	-
Repayment of borrowings		(15,756)	(13,157)	-	-
Collateral receipt		-	920	-	-
Net cash used in financing activities		(23,663)	(21,848)	-	-
Movement in cash and cash equivalents		26,310	4,213	504	(41)
Cash and cash equivalents at the beginning of the year	14	78,383	74,170	420	461
Cash and cash equivalents at the end of the year	14	104,693	78,383	924	420

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

		Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Net cash generated from operating activities before exceptional items		34,923	33,047	511	73
Cash flows in respect of exceptional items		8,807	(7,612)	-	-
Net cash generated from operating activities		43,730	25,435	511	73

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.



Notes to the financial statements for the year ended 31 March 2014

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

General information

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

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. With the exception of the group's investments, all of the group's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 24 June 2014 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 80.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2014 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2014 and are relevant to the group's operations but have no material impact:

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)

IFRS7 (amendment) 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRS 10/11/12 (amendment) 'Transition guidance' (effective 1 January 2013)

Standards, amendments and interpretations effective in the year to 31 March 2014 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 2014 but they are not relevant to the group's or parent company's operations:

IFRS 1 (amendment) 'First time adoption' on government loans (effective 1 January 2013)

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



Notes to the financial statements for the year ended 31 March 2014

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 16 (amendment) Property, Plant and Equipment (effective 1 January 2016)*

IAS 19 (amendment) Employee benefits on defined benefit plans (effective 1 July 2014)*

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 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets on recoverable amount and disclosure' (effective 1 January 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IAS 39 (amendment) Novation of derivatives and hedge accounting (effective 1 January 2014)

IFRS 10 (amendment) Consolidated financial statements (effective 1 January 2014)

IFRS 10 / 12 / IAS 27 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

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

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRIC 21 'Levies' (effective 1 January 2014)*

* 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 2014. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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 2014

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

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

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

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

Exceptional items

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Insurance receipts

Insurance receipts are recognised as other operating income when received or the receipt is virtually certain. Insurance receipts are apportioned in the cash flow between receipts for damage to property, plant and equipment (investing activities) and receipts for business interruption (operating activities) by apportioning cash received in a ratio consistent with the insurance claim.

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 20 years for the Scotland Northern Ireland pipeline, 23 years for the Moyle Interconnector and 38 years for the Belfast Gas Transmission pipeline.



Notes to the financial statements for the year ended 31 March 2014

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
Plant and machinery	15 years
Office and 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.

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

Investments in unquoted funds and other unquoted companies 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.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The group's financial assets and liabilities comprise inflation rate SWAPs, which are classified as derivatives, and are not designated as hedges.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.



Notes to the financial statements for the year ended 31 March 2014

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

Classification of financial instruments (continued)

These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet

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

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

Available-for-sale financial assets (financial instruments)

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

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.

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;



Notes to the financial statements for the year ended 31 March 2014

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

Impairment of financial assets (continued)

(a) Assets held at amortised cost (continued)

- 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.

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 2014

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 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 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

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

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

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



Notes to the financial statements for the year ended 31 March 2014

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

Financial Risk Management (continued)

Moyle Interconnector (Financing) plc

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

(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 £2,537,000.

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).

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.



Notes to the financial statements for the year ended 31 March 2014

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

Fair value estimation (continued)

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 26.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 27.5 years, depreciation would have decreased by £114,000 and if the remaining useful economic life had been assessed at 25.5 years, depreciation would have increased by £123,000.

The remaining useful economic life of the interconnector was determined as approximately 29 years at the beginning of the year. If the remaining useful economic life had been assessed at 30 years depreciation would have decreased by £105,000 and if the remaining useful economic life had been assessed at 28 years depreciation would have increased by £113,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 26 years at the beginning of the year. If the remaining useful economic life had been assessed at 27 years

depreciation would have decreased by £46,000 and if the remaining useful economic life had been assessed at 25 years depreciation would have increased by £50,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.90%. The decommissioning provision has been discounted using a rate of 3.47%. 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%	950
Decrease in inflation factor by 1%	(733)
Increase in discount rate by 1%	(729)
Decrease in discount rate by 1%	965

(c) Insurance claim

Insurance proceeds of £14.0m (2013: £Nil) were recognised in the year which included £10.0m received in relation to the 2011 cable faults, and £4.0m received in June 2014, which was under negotiation at year end. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.



Notes to the financial statements for the year ended 31 March 2014

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 fault related income/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 is as follows:

Year ended 31 March 2014	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	32,478	19,122	6,121	-	57,721
Segment expenses	(4,482)	(11,486)	(1,963)	28	(17,903)
Segment results (Adjusted EBITDA)	27,996	7,636	4,158	28	39,818
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,045)	(2,053)	(955)	(43)	(5,096)
Exceptional item – cable fault related income	11,766	-	-	-	11,766
Finance income	1,621	250	53	(875)	1,049
Finance costs	(7,912)	(4,235)	(6,381)	-	(18,528)
Fair value adjustment on derivative financial instruments	-	5,682	-	-	5,682
Profit/(loss) before income tax	29,765	5,878	(5,612)	(890)	29,141
Income tax (charge)/credit	(3,933)	158	4,673	138	1,036
Profit/(loss) for the year	25,832	6,036	(939)	(752)	30,177
Assets					
Segment assets	196,900	156,730	137,687	14,706	506,023



Notes to the financial statements for the year ended 31 March 2014

2 Segment information (continued)

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	(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 fault related 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 fault related income/costs.

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

Revenues from the group's gas transmission businesses of £25,243,000 (2013: £26,585,000) are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

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

	2014 £'000	2013 £'000
Customer A	3,643	5,179
Customer B	3,303	2,771
	6,946	7,950

* Included in segmental revenue is a CAIRt call of £19.8m (2013: £14.5m).



Notes to the financial statements for the year ended 31 March 2014

3 Expenses by nature – operating costs

Group	2014 £'000	2013 £'000
Employee benefit expense (note 5)	1,633	1,240
Depreciation and amortisation	13,362	13,351
Amortisation of deferred government grants	(2,716)	(2,708)
Operating lease payments	232	232
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	44	45
Fees payable to the company's auditor in respect of taxation services	27	13
Fees payable to the company's auditor in respect of other services	-	24
Other expenses	15,967	16,633
Exceptional item – cable fault related costs (note 4)	2,188	1,684
Total operating costs	30,737	30,514

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

Group	2014 £'000	2013 £'000
Other operating income (insurance proceeds) (note 4)	(13,954)	-

Other operating income consists of insurance proceeds received in respect of the recent Moyle cable faults. This income has been presented separately on the statement of comprehensive income in order to provide readers with an understanding of the underlying costs.

4 Exceptional item – cable fault related (income)/costs

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Group	2014 £'000	2013 £'000
Exceptional item – cable fault related costs	2,188	1,684
Exceptional item – insurance proceeds	(13,954)	-
Cable fault related (income)/costs	(11,766)	1,684



Notes to the financial statements for the year ended 31 March 2014

4 Exceptional item – cable fault related (income)/costs (continued)

Cable fault related costs

Cable repair costs totalling £2,188,000 (2013: £1,684,000) comprise the costs directly incurred to address the 2012 subsea fault, including fault location and investigating potential repair solutions, along with legal and professional costs associated with the 2011 and 2012 faults. The tax impact of this exceptional item was a current tax credit of £503,000 (2013: £404,000).

Insurance proceeds

Insurance proceeds of £13,954,000 (2013: £Nil) were recognised in the year which included £9,954,000 received within the financial year in relation to the 2011 cable faults, and £4,000,000 received in June 2014, which was under negotiation at year end. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability. The tax impact of this exceptional item was a current tax charge of £3,209,000 (2013: £Nil).

5 Employee benefit expense

Group	2014 £'000	2013 £'000
Wages and salaries	1,303	1,018
Social security costs	160	127
Pension costs – defined contribution pension scheme	170	95
	1,633	1,240

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 21 (2013: 16). All staff perform asset management activities.

Directors' emoluments	2014 £'000	2013 £'000
Aggregate emoluments	394	268
Contributions paid to defined contribution pension scheme	75	110
	469	378

Pension scheme	Number	Number
Members of defined contribution pension scheme	15	13

Directors' emoluments represent the remuneration of the group's executive directors. The remaining directors of the group received £193,000 (2013: £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 £214,000 (2013: £152,000) and the contributions paid to his defined contribution pension scheme were £45,000 (2013: £56,000).

Directors' emoluments include the effects of salary sacrifice arrangements and any employers NIC savings credited to the directors' pension as a result of salary sacrifices made.



Notes to the financial statements for the year ended 31 March 2014

6 Finance income and costs

Group	2014 £'000	2013 £'000
Interest expense:		
Borrowings (including borrowing fees)	18,528	19,367
Fair value adjustment in respect of derivative financial instruments (note 24)*	-	10,387
Finance costs	18,528	29,754
Interest income:		
Short-term bank deposits	(634)	(844)
Movement of discount on decommissioning provision	(415)	(3)
Fair value adjustment in respect of derivative financial statements (note 24)*	(5,682)	-
Finance income	(6,731)	(847)
Finance costs – net	11,797	28,907

*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.

7 Income tax credit

Group	2014 £'000	2013 £'000
Current income tax:		
Current tax on profits for the year	615	-
Adjustments in respect of previous periods	117	-
Total current income tax	732	-
Deferred income tax:		
Origination and reversal of temporary differences	(3,157)	(1,168)
Arising on derivative financial instruments	2,623	(1,997)
Adjustments in respect of previous periods	(1,234)	(13)
Total deferred income tax (note 19)	(1,768)	(3,178)
Income tax credit	(1,036)	(3,178)



Notes to the financial statements for the year ended 31 March 2014

7 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 23% (2013: 24%). The differences are reconciled below:

Group	2014 £'000	2013 £'000
Profit/(loss) before income tax	29,141	(2,980)
Tax calculated at the UK standard rate of corporation tax of 23% (2013: 24%)	6,702	(715)
Effects of:		
Expenses not deductible	1	2
Reduction in corporation tax rate on deferred tax assets/liabilities	(5,976)	(1,823)
Treatment of indexation of borrowings	(558)	(629)
Decommissioning provision	(88)	-
Adjustments in respect of previous periods	(1,117)	(13)
Income tax credit	(1,036)	(3,178)

Future tax changes

The standard rate of corporation tax in the UK reduced from 24% to 23% with effect from 1 April 2013 and accordingly the company's profits for the financial year were taxed at an effective rate of 23%. During the year, as a result of the changes in the UK main corporation tax rate to 21% and 20%, that was substantively enacted on 2 July 2013 and that will be effective from 1 April 2014 and 1 April 2015, the relevant deferred tax balances have been re-measured.

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 £656,000 (2013: £394,000).



Notes to the financial statements for the year ended 31 March 2014

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 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
Additions	-	755	-	131	28	914
At 31 March 2014	147,064	128,654	3,938	157	487	280,300
Accumulated depreciation						
At 1 April 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
Provided during the year	4,388	3,180	164	2	78	7,812
At 31 March 2014	35,696	39,689	2,270	4	408	78,067
Net book amount						
At 31 March 2014	111,368	88,965	1,668	153	79	202,233
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

Depreciation expense of £7,812,000 (2013: £7,801,000) 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 2014****9 Property, plant and equipment (continued)**

Company	Office and computer equipment £'000
At 1 April 2012	146
Additions	44
Disposals	(67)
At 31 March 2013	123
Additions	7
At 31 March 2014	130
Accumulated depreciation	
At 1 April 2012	79
Provided during the year	32
Disposals	(67)
At 31 March 2013	44
Provided during the year	39
At 31 March 2014	83
Net book amount	
At 31 March 2014	47
At 31 March 2013	79
At 31 March 2012	67

Depreciation expense of £39,000 (2013: £32,000) 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 2014

10 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2012, 31 March 2013 and at 31 March 2014	2,435	206,535	208,970
Accumulated amortisation			
At 1 April 2012	-	34,710	34,710
Provided during the year	-	5,550	5,550
At 31 March 2013	-	40,260	40,260
Provided during the year	-	5,550	5,550
At 31 March 2014	-	45,810	45,810
Net book amount			
At 31 March 2014	2,435	160,725	163,160
At 31 March 2013	2,435	166,275	168,710
At 31 March 2012	2,435	171,825	174,260

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 34 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 20 years, 38 years and 23 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 (2013: £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 16 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 4.25% (2013: 4.45%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 16 years. The inflation rate assumption used by the group in these calculations of 4.03% (2013: 3.87%) has been obtained from Bank of England UK yield curves over a 16 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 2014

11 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	10,250

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

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

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

* held by a subsidiary undertaking



Notes to the financial statements for the year ended 31 March 2014

12 Other investments

Group	£'000
Cost	
At 1 April 2012	10,436
Additions	1,397
Repayment of capital	(1,646)
At 31 March 2013	10,187
Additions	1,735
Repayment of capital	(658)
At 31 March 2014	11,264

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 Platina renewable energy fund, PEN III, (formerly known as European Renewable Energy Fund Limited Partnership). Mutual Energy Limited is an initial limited partner in this limited partnership. Other investments also include a 35% interest in Islandmagee Storage which is carried at cost of £35 and a 0.9% interest in PRISMA European Capacity Platform GmbH which is carried at a cost of £1,988.

13 Trade and other receivables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	4,983	3,967	-	-
Prepayments and accrued income	3,917	7,724	30	29
Other receivables	6,428	2,324	56	-
Amounts owed by subsidiary undertakings	-	-	2,492	2,395
	15,328	14,015	2,578	2,424

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 2014

14 Cash and cash equivalents

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	104,693	75,082	924	420
Short-term bank deposits	-	3,301	-	-
	104,693	78,383	924	420

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 0.9%.

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 2012	(28,404)
Total comprehensive income for the year	198
At 31 March 2013	(28,206)
Total comprehensive income for the year	30,177
At 31 March 2014	1,971

Company	£'000
At 1 April 2012	(1,542)
Total comprehensive income for the year	(394)
At 31 March 2013	(1,936)
Total comprehensive income for the year	(656)
At 31 March 2014	(2,592)

Included in the retained earnings for the group is an amount of £1,874,000 (2013: £1,874,000) 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 2014

17 Borrowings

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Non-current				
5.2022% Guaranteed secured bond	77,408	80,625	-	-
2.9376% Index linked guaranteed secured bond	108,554	113,406	-	-
2.207% Index linked guaranteed secured bond	125,287	123,019	-	-
Amounts owed to group undertakings	-	-	15,794	14,911
Other borrowings	4	4	-	-
	311,253	317,054	15,794	14,911
Current				
5.2022% Guaranteed secured bond	3,218	3,025	-	-
2.9736% Index linked guaranteed secured bond	8,465	8,215	-	-
2.207% Index linked guaranteed secured bond	1,131	1,004	-	-
	12,814	12,244	-	-
Total borrowings	324,067	329,298	15,794	14,911

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

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

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

The 2.9376% index linked bond has a fair value of £114,267,000 (2013: £122,270,000), the 5.2022% bond has a fair value of £95,235,000 (2013: £103,916,000) and the 2.207% index linked bond has a fair value of £100,935,000 (2013: £102,734,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 3.52% (2013: 3.1%) for the 2.9376% index linked bond, a discount rate of 3.39% (2013: 2.86%) for the 5.2022% bond and a discount rate of 3.63% (2013: 3.36%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings.



Notes to the financial statements for the year ended 31 March 2014

18 Provisions

	Decommissioning provision £'000
Group	
At 1 April 2012	3,507
Movement on discount during the year	(3)
At 31 March 2013	3,504
Movement of discount during the year	(415)
At 31 March 2014	3,089

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 28 years, at the end of its useful economic life. This provision is expected to be utilised within 28 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 3.47% (2013: 3.1%) 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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Deferred income tax assets	8,775	16,271	10	16
Deferred income tax liabilities	(49,046)	(58,310)	-	-
Deferred income tax (liabilities)/assets – net	(40,271)	(42,039)	10	16

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 2012	(45,217)	20
Credit/(charge) for the year	3,178	(4)
At 31 March 2013	(42,039)	16
Credit/(charge) for the year	1,768	(6)
At 31 March 2014	(40,271)	10



Notes to the financial statements for the year ended 31 March 2014

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 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)
(Charge)/credit for the year	(4,873)	3,166	6,098	(2,623)	1,768
At 31 March 2014	-	(16,901)	(32,145)	8,775	(40,271)

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 within the next 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 £31,035,000 (2013: £36,967,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £13,923,000 (2013: £19,708,000).

20 Government grants

Group	£'000
At 1 April 2012	76,291
Amortised during the year	(2,708)
At 31 March 2013	73,583
Amortised during the year	(2,716)
At 31 March 2014	70,867

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 (2013: £2,708,000), and the non-current portion is £68,159,000 (2013: £70,875,000).



Notes to the financial statements for the year ended 31 March 2014

21 Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade payables	1,530	1,796	53	17
Accruals and deferred income	6,635	5,296	420	197
Amounts owed to subsidiary undertakings	-	-	96	-
Other tax and social security	3,256	2,623	38	-
Other payables	1,685	934	-	-
	13,106	10,649	607	214

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 2, 21, 37 and 86 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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Not later than one year	233	232	40	40
After one year but not more than five years	814	858	40	90
After more than five years	9,988	10,135	-	-
	11,035	11,225	80	130

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

Other financial commitments

Under the terms of the European Renewable Energy Fund Limited Partnership agreement, the group is committed to provide funding of Euro 15 million, of which Euro 13.4 million has been invested to date, to the partnership during the next year.



Notes to the financial statements for the year ended 31 March 2014

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:

Company	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Subsidiary undertakings – current assets	2,492	2,395
Subsidiary undertakings – current liabilities	(96)	-
Subsidiary undertakings – non-current liabilities	(15,794)	(14,911)

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.

Company	Nature of transaction	Value of transaction	
		2014 £'000	2013 £'000
Subsidiary undertakings	Interest payable	882	833
Subsidiary undertakings	Group relief surrendered	(198)	(225)
Subsidiary undertakings	Charges receivable	1,864	1,555

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

Group	2014 £'000	2013 £'000
Short term employee benefits	506	481
Long term employee benefits	81	-
Post-employment benefits	75	110



Notes to the financial statements for the year ended 31 March 2014

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 receivables
Other investments	Available for sale financial assets
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	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 2012	39,172
Fair value adjustment	10,387
Liability at 31 March 2013	49,559
Fair value adjustment	(5,682)
Liability at 31 March 2014	43,877

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 2014

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 2014 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	12,080	11,805	11,495	11,224	10,801	89,681	147,086
5.2022% Bond and associated derivatives	7,363	7,508	7,659	7,810	7,966	98,775	137,081
2.207% Index linked bond	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	9,850	-	-	-	-	-	9,850
	33,208	23,308	23,227	23,189	23,006	356,144	482,082

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

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.



Moyle Interconnector converter station, Islandmagee.



Moyle Interconnector (Financing) plc

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31 March 2014

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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
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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: NI045625



Directors' report for the year ended 31 March 2014

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2014. General information on the company can be found on page 102 and within note 1 to the financial statements.

Results and dividends

The group's profit for the financial year is £25,832,000 (2013: £9,381,000). The directors do not recommend the payment of a dividend (2013: £nil).

Included in the profit and loss account is an exceptional item in respect of cable fault related income totalling £11,766,000 (2013: £1,684,000 costs).

A review of our operational and financial performance, research and development activity, current position and future developments is included in our Strategic report.

Directors

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

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefits 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 judgments 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.

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group'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
24 June 2014



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

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Moyle Interconnector (Financing) plc, comprise:

- the group and parent company balance sheets as at 31 March 2014;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

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



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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 103, 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 ISAs (UK & 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.

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

25 June 2014

**Group statement of comprehensive income for the year ended 31 March 2014**

	Note	2014 £'000	2013 £'000
Revenue – continuing operations		32,478	29,844
Operating costs	2	(10,376)	(10,833)
Other operating income (insurance proceeds)	2	13,954	-
Earnings before interest, tax, depreciation and amortisation of intangible assets, and cable fault related income/(costs) (adjusted “EBITDA”)		27,996	24,399
Amortisation of intangible assets		(1,661)	(1,661)
Depreciation (net of amortisation of government grants)		(2,045)	(2,043)
Exceptional item – cable fault related income/(costs)	3	11,766	(1,684)
Operating profit		36,056	19,011
Finance income	5	1,621	1,164
Finance costs	5	(7,912)	(8,340)
Finance costs – net	5	(6,291)	(7,176)
Profit before income tax		29,765	11,835
Income tax charge	6	(3,933)	(2,454)
Profit for the year attributable to the owners of the parent	15	25,832	9,381

The notes on pages 109 to 129 are an integral part of these consolidated financial statements.

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



Group and parent company balance sheets as at 31 March 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Assets					
Non-current assets					
Property, plant and equipment	8	90,633	93,247	-	-
Intangible assets	9	38,206	39,867	-	-
Investment in subsidiary undertaking	10	-	-	20,950	20,950
Deferred income tax asset	18	-	4,873	-	-
Trade and other receivables	11	16,717	15,835	91,872	96,085
		145,556	153,822	112,822	117,035
Current assets					
Trade and other receivables	12	9,594	4,198	7,476	7,187
Corporation tax receivable		475	-	-	-
Cash and cash equivalents	13	58,126	38,445	25	127
		68,195	42,643	7,501	7,314
Total assets		213,751	196,465	120,323	124,349
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	14	50	50	50	50
Retained earnings	15	40,676	14,844	1,108	1,280
Total equity		40,726	14,894	1,158	1,330
Liabilities					
Non-current liabilities					
Borrowings	16	108,554	113,406	108,554	113,406
Provisions	17	3,089	3,504	-	-
Deferred income tax liabilities	18	11,425	13,979	-	-
Government grant	19	34,433	35,757	-	-
		157,501	166,646	108,554	113,406
Current liabilities					
Trade and other payables	20	5,735	5,386	2,146	1,398
Borrowings	16	8,465	8,215	8,465	8,215
Government grant	19	1,324	1,324	-	-
		15,524	14,925	10,611	9,613
Total liabilities		173,025	181,571	119,165	123,019
Total equity and liabilities		213,751	196,465	120,323	124,349

The notes on pages 109 to 129 are an integral part of these consolidated financial statements.

The group financial statements on pages 106 to 129 were authorised for issue by the Board of Directors on 24 June 2014 and were signed on its behalf by:

Patrick Larkin **Director**

Gerard McIlroy **Director**

Moyle Interconnector (Financing) plc

Registered number: NI045625



Group and parent company cash flow statements for the year ended 31 March 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		29,765	11,835	(13)	(25)
Adjustments for:					
Finance costs – net		6,291	7,176	7,960	8,256
Depreciation of property, plant and equipment		3,369	3,369	-	-
Amortisation of government grant		(1,324)	(1,326)	-	-
Amortisation of intangible assets		1,661	1,661	-	-
Movement in trade and other receivables		(5,381)	(2,959)	4,225	3,913
Movement in trade and other payables		(215)	(4,933)	(11,820)	(12,103)
Income tax liabilities (paid)/received		(1,879)	32	(449)	32
Non-operating element of insurance proceeds		(7,234)	-	-	-
Net cash generated from/(used in) operating activities		25,053	14,855	(97)	73
Cash flows from investing activities					
Interest received		358	1,073	-	-
Amounts received from related parties		-	-	12,557	12,357
Purchases of property, plant and equipments		(402)	(153)	-	-
Non-operating element of insurance proceeds		7,234	-	-	-
Net cash generated from investing activities		7,190	920	12,557	12,357
Cash flows from financing activities					
Interest paid (including borrowing fees)		(3,954)	(4,090)	(3,954)	(4,090)
Repayment of borrowings		(8,608)	(8,267)	(8,608)	(8,267)
Net cash used in financing activities		(12,562)	(12,357)	(12,562)	(12,357)
Net increase/(decrease) in cash and cash equivalents		19,681	3,418	(102)	73
Cash and cash equivalents at the beginning of the year	13	38,445	35,027	127	54
Cash and cash equivalents at the end of the year	13	58,126	38,445	25	127

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

		Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Net cash generated from operating activities before exceptional items		16,246	22,437	97	73
Cash flows in respect of exceptional items		8,807	(7,582)	-	-
Net cash generated from operating activities		25,053	14,855	97	73

The notes on pages 109 to 129 are an integral part of these consolidated financial statements.



Notes to the financial statements for the year ended 31 March 2014

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 24 June 2014 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 116.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2014 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2014 and are relevant to the group's operations but have no material impact:

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)

IFRS 7 (amendment) 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRS 10 / 11 / 12 (amendment) 'Transition guidance' (effective 1 January 2013)



Notes to the financial statements for the year ended 31 March 2014

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

Standards, amendments and interpretations effective in the year to 31 March 2014 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 2014 but they are not relevant to the group's or parent company's operations:

IFRS 1 (amendment) 'First time adoption' on government loans (effective 1 January 2013)

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

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 16 (amendment) Property, Plant and Equipment (effective 1 January 2016)*

IAS 19 (amendment) Employee benefits on defined benefit plans (effective 1 July 2014)*

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 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets on recoverable amount and disclosure' (effective 1 January 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IAS 39 (amendment) Novation of derivatives and hedge accounting (effective 1 January 2014)

IFRS 10 (amendment) Consolidated financial statements (effective 1 January 2014)

IFRS 10 / 12 / IAS 27 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

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

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRIC 21 'Levies' (effective 1 January 2014)*

* Not yet endorsed by the EU.



Notes to the financial statements for the year ended 31 March 2014

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

Basis of consolidation

The group financial statements consolidate the financial statements of Moyle Interconnector (Financing) plc and its subsidiary undertaking drawn up to 31 March 2014. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

Segment reporting

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

Revenue

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

Exceptional items

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Insurance receipts

Insurance receipts are recognised as other operating income when received or the receipt is virtually certain. Insurance receipts are apportioned in the cash flow between receipts for damage to property, plant and equipment (investing activities) and receipts for business interruption (operating activities) by apportioning cash received in a ratio consistent with the insurance claim.

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 23 years.



Notes to the financial statements for the year ended 31 March 2014

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

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.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the

estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

Investments

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

Classification of financial instruments

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

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



Notes to the financial statements for the year ended 31 March 2014

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

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

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

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

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

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

Ordinary shares

Ordinary shares are classified as equity.

**Notes to the financial statements for the year ended 31 March 2014****1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)****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.

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.



Notes to the financial statements for the year ended 31 March 2014

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Financial risk management

Financial risk factors

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

(a) Market risk

The group's interest rate risk arises from its long term borrowings. These borrowings are index linked to the Retail Price Index and expose the company to interest rate risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs, profit and equity during the year by £1,269,000.

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 group also retains significant cash reserves and a liquidity facility with an A – rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 23.

Capital risk management

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



Notes to the financial statements for the year ended 31 March 2014

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.

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 29 years at the beginning of the year. If the remaining useful economic life had been assessed at 30 years depreciation would have decreased by £105,000 and if the remaining useful economic life had been assessed at 28 years depreciation would have increased by £113,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.90%. The decommissioning provision has been discounted using a rate of 3.47%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

Table with 2 columns: Description and Increase/(decrease) in provision £'000. Rows include: Increase in inflation factor by 1% (950), Decrease in inflation factor by 1% (733), Increase in discount rate by 1% (729), and Decrease in discount rate by 1% (965).

(c) Insurance claim

Insurance proceeds of £14.0m (2013: £Nil) were recognised in the year which included £10.0m received in relation to the 2011 cable faults, and £4.0m received in June 2014, which was under negotiation at year end. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.



Notes to the financial statements for the year ended 31 March 2014

2 Operating costs and other operating income

Group	2014 £'000	2013 £'000
Employee benefit expense (note 4)	100	57
Depreciation and amortisation	5,030	5,030
Amortisation of deferred government grants (note 19)	(1,324)	(1,326)
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	15
Other expenses	4,266	5,272
Exceptional item – cable fault related costs (note 3)	2,188	1,684
Total operating costs	10,376	10,833

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

Group	2014 £'000	2013 £'000
Other operating income (insurance proceeds) (note 3)	(13,954)	-

Other operating income consists of insurance proceeds received in respect of the recent Moyle cable faults. This income has been presented separately on the statement of comprehensive income in order to provide readers with an understanding of the underlying costs.

3 Exceptional item – cable fault related (income)/costs

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Group	2014 £'000	2013 £'000
Exceptional item – cable fault related costs	2,188	1,684
Exceptional item – insurance proceeds	(13,954)	-
Cable fault related (income)/costs	(11,766)	1,684

Cable fault related costs

Cable repair costs totalling £2,188,000 (2013: £1,684,000) comprise the costs directly incurred to address the 2012 subsea fault, including fault location and investigating potential repair solutions, along with legal and professional costs associated with the 2011 and 2012 faults.

The tax impact of this exceptional item was a current tax credit of £503,000 (2013: £404,000).

Insurance proceeds

Insurance proceeds of £13,954,000 (2013: £Nil) were recognised in the year which included £9,954,000 received within the financial year in relation to the 2011 cable faults, and £4,000,000 received in June 2014, which was under negotiation at year end. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.

The tax impact of this exceptional item was a current tax charge of £3,209,000 (2013: £Nil).

**Notes to the financial statements for the year ended 31 March 2014****4 Employee benefit expense**

Group	2014 £'000	2013 £'000
Wages and salaries	91	49
Social security costs	9	6
Pension costs	-	2
	100	57

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 2 (2013: 1). All staff perform asset management activities.

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

5 Finance income and costs

Group	2014 £'00	2013 £'000
Interest expense:		
Borrowings (including borrowing fees)	7,912	8,340
Finance costs	7,912	8,340
Interest income:		
Short-term bank deposits	(324)	(328)
Movement of discount on decommissioning provision	(415)	(3)
Amounts owed by related parties	(882)	(833)
Finance income	(1,621)	(1,164)
Finance costs – net	6,291	7,176



Notes to the financial statements for the year ended 31 March 2014

6 Income tax charge

Group	2014 £'000	2013 £'000
Current income tax:		
Current tax on profits for the year	615	-
Group relief claimed	720	172
Adjustments in respect of prior periods	279	-
Total current income tax	1,614	172
Deferred income tax:		
Origination and reversal of temporary differences	3,706	2,282
Adjustments in respect of prior periods	(1,387)	-
Total deferred income tax (note 18)	2,319	2,282
Income tax charge	3,933	2,454

The income tax charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are reconciled below:

	2014 £'000	2013 £'000
Profit before income tax	29,765	11,835
Tax calculated at the UK standard rate of corporation tax of 23% (2013: 24%)	6,846	2,840
Effects of:		
Expenses not deductible	(88)	10
Reduction in rate of corporation tax on deferred tax assets/liabilities	(1,717)	(396)
Adjustment in respect of previous periods	(1,108)	-
Income tax charge	3,933	2,454

Future tax changes

The standard rate of corporation tax in the UK reduced from 24% to 23% with effect from 1 April 2013 and accordingly the company's profits for the financial year were taxed at an effective rate of 23%. During the year, as a result of the changes in the UK main corporation tax rate to 21% and 20%, that was substantively enacted on 2 July 2013 and that will be effective from 1 April 2014 and 1 April 2015, the relevant deferred tax balances have been re-measured.

7 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £172,000 (2013: £199,000).



Notes to the financial statements for the year ended 31 March 2014

8 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2012	127,899	3,785	16	131,700
Additions	-	153	-	153
At 31 March 2013	127,899	3,938	16	131,853
Additions	755	-	-	755
At 31 March 2014	128,654	3,938	16	132,608
Accumulated depreciation				
At 1 April 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
Provided during the year	3,180	189	-	3,369
At 31 March 2014	39,689	2,270	16	41,975
Net book amount				
At 31 March 2014	88,965	1,668	-	90,633
At 31 March 2013	91,390	1,857	-	93,247
At 31 March 2012	94,570	1,893	-	96,463

Depreciation expense of £3,369,000 (2013: £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 2014

9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	56,477
Accumulated amortisation	
At 1 April 2012	14,949
Provided during the year	1,661
At 31 March 2013	16,610
Provided during the year	1,661
At 31 March 2014	18,271
Net book amount	
At 31 March 2014	38,206
At 31 March 2013	39,867
At 31 March 2012	41,528

Intangible assets include licences 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 of 23 years as at 31 March 2014. Amortisation expense of £1,661,000 (2013: £1,661,000) has been fully charged to operating costs.

10 Investment in subsidiary undertaking

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	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 2014

11 Trade and other receivables (non-current)

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Amounts owed by subsidiary undertaking	-	-	99,102	103,111
Amounts owed by related parties	16,717	15,835	-	-
	16,717	15,835	99,102	103,111
Amounts owed by subsidiary undertaking (current assets)	-	-	(7,230)	(7,026)
	16,717	15,835	91,872	96,085

All of the group's 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 £99,278,000 (2013: £106,359,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.52% (2013: 3.1%) that reflects the maturity profile of the company's loans and receivables.

12 Trade and other receivables (current)

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	4,319	3,063	-	-
Amounts owed by related parties	134	63	7,326	7,026
Prepayments and accrued income	1,006	1,011	148	161
Other receivables	4,135	61	2	-
	9,594	4,198	7,476	7,187

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 2014

13 Cash and cash equivalents

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	58,126	38,445	25	127

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 0.75%.

14 Ordinary shares

Group and company	2014 £'000	2013 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	50	50

15 Retained earnings

Group	£'000
At 1 April 2012	5,463
Total comprehensive income for the year	9,381
At 31 March 2013	14,844
Total comprehensive income for the year	25,832
At 31 March 2014	40,676

Company	£'000
At 1 April 2012	1,479
Total comprehensive income for the year	(199)
At 31 March 2013	1,280
Total comprehensive income for the year	(172)
At 31 March 2014	1,108

**Notes to the financial statements for the year ended 31 March 2014****16 Borrowings**

	2014 £'000	2013 £'000
Group and company		
Non current		
2.9376% Index linked guaranteed secured bond	108,554	113,406
Current		
2.9376% Index linked guaranteed secured bond	8,465	8,215
Total borrowings	117,019	121,621

The 2.9376% guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC and are index linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.125% of the outstanding balance of the bond. The fair value of the bond is £114,267,000 (2013: £122,270,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.52% (2013: 3.1%) 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 2012	3,507
Movement on discount during the year	(3)
At 31 March 2013	3,504
Movement on discount during the year	(415)
At 31 March 2014	3,089

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 28 years, at the end of its useful economic life. This provision is expected to be utilised within 28 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 3.47% (2013: 3.1%) that reflects the maturity profile of the group's provision.



Notes to the financial statements for the year ended 31 March 2014

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	2014 £'000	2013 £'000
Deferred income tax assets	-	4,873
Deferred income tax liabilities	(11,425)	(13,979)
Deferred income tax liabilities – net	(11,425)	(9,106)

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

Group	£'000
At 1 April 2012	6,824
Income statement charge for the year	2,282
At 31 March 2013	9,106
Income statement charge for the year	2,319
At 31 March 2014	11,425

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 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
Income statement charge/(credit) for the year	4,873	(1,026)	(1,528)	2,319
At 31 March 2014	-	3,784	7,641	11,425

The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £7,309,000 (2013: £8,767,000). 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 £3,189,000 (2013: £5,020,000).



Notes to the financial statements for the year ended 31 March 2014

19 Government grant

Group	£'000
At 1 April 2012	38,407
Amortised during the year	(1,326)
At 31 March 2013	37,081
Amortised during the year	(1,324)
At 31 March 2014	35,757

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 (2013: £1,324,000). The non-current portion is £34,433,000 (2013: £35,757,000).

20 Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade payables	347	355	-	10
Amounts owed to related parties	813	759	2,142	1,385
Accruals and deferred income	2,909	2,523	4	3
Other payables	52	-	-	-
Other tax and social security	1,614	1,749	-	-
	5,735	5,386	2,146	1,398

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

21 Commitments

Operating lease commitments

The group has entered into a commercial lease on land and this lease has a remaining lease term of 86 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	2014 £'000	2013 £'000
Not later than one year	101	101
After one year but not more than five years	404	404
After more than five years	8,278	8,379
	8,783	8,884



Notes to the financial statements for the year ended 31 March 2014

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:

Group	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Parent undertakings – non-current assets	15,794	14,911
Fellow subsidiary undertakings – non-current assets	923	924
Fellow subsidiary undertakings – current assets	38	39
Parent undertakings – current assets	96	24
Parent undertakings – current liabilities	(272)	(215)
Fellow subsidiary undertakings – current liabilities	(541)	(544)

Group	Nature of transaction	Value of transaction	
		2014 £'000	2013 £'000
Parent undertakings	Group relief claimed	(183)	(96)
Parent undertakings	Charges payable	(746)	(622)
Parent undertakings	Interest receivable	882	833
Fellow subsidiary undertakings	Group relief claimed	(816)	(76)
Fellow subsidiary undertakings	Survey and security costs payable	(15)	(858)

Company	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Subsidiary undertakings – current liabilities	(1,984)	(1,032)
Subsidiary undertakings – non-current assets	91,872	96,085
Subsidiary undertakings – current assets	7,230	7,026
Fellow subsidiary undertakings – current liabilities	(158)	(182)
Parent undertaking – current liabilities	-	(171)
Parent undertaking – current assets	96	-

Company	Nature of transaction	Value of transaction	
		2014 £'000	2013 £'000
Parent undertakings	Group relief claimed	-	(96)
Fellow subsidiary undertakings	Group relief claimed	(159)	(76)
Subsidiary undertaking	Interest receivable	7,971	8,251



Notes to the financial statements for the year ended 31 March 2014

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 receivables
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Trade and other payables	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 2014 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	12,080	11,805	11,495	11,224	10,801	89,681	147,086
Trade and other payables	4,121	-	-	-	-	-	4,121
	16,201	11,805	11,495	11,224	10,801	89,681	151,207

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 2014 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	12,080	11,805	11,495	11,224	10,801	89,681	147,086
Trade and other payables	2,146	-	-	-	-	-	2,146
	14,226	11,805	11,495	11,224	10,801	89,681	149,232

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



Notes to the financial statements for the year ended 31 March 2014

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 Financing plc

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31 March 2014

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Financial Statements

Premier Transmission Financing plc

Directors and advisers

Directors

Patrick Larkin Executive Director
Gerard McIlroy Executive Director

Company secretary

Gerard McIlroy

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Barclays plc
Donegall House
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Independent auditors

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

Registered number: NI053751



Directors' report for the year ended 31 March 2014

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2014.

General information on the company can be found on page 132 and within note 1 to the financial statements.

Results and dividends

The group's profit for the year is £6,036,000 (2013: £4,260,000 loss). The directors do not recommend the payment of a dividend (2013: £nil).

A review of our operational and financial performance, research and development activity, current position and future developments is included in our Strategic report.

Going concern

The group has had recurring accounting losses historically which have accordingly resulted in net liabilities. In view of the structure of the group's initial set up, including the acquisition of Premier Transmission Limited and the issuing of a bond, this is a situation which is expected to reverse within the next decade. However the group is cash generative and is forecast to remain cash positive. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

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.

Derivative financial instruments

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

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £43,877,000 as at 31 March 2014 (2013: £49,559,000). 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 £43,877,000 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 £2,977,000 (2013: £4,130,000) instead of a profit of £6,036,000 (2013: £4,260,000 loss).



Directors' report for the year ended 31 March 2014

Directors' indemnities

The group has made a qualifying third party indemnity provision for the benefits 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.

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.

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group'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
24 June 2014



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

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Premier Transmission Financing Plc, comprise:

- the group and parent company balance sheets as at 31 March 2014;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.



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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 134, 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 ISAs (UK & 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.

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

25 June 2014



Group statement of comprehensive income for the year ended 31 March 2014

	Note	2014			2013		
		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		19,122	-	19,122	20,573	-	20,573
Operating costs	2	(14,941)	-	(14,941)	(14,542)	-	(14,542)
Earnings before interest, tax, depreciation and amortisation (“EBITDA”)		7,636	-	7,636	9,486	-	9,486
Amortisation of intangible assets		(1,402)	-	(1,402)	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		(2,053)	-	(2,053)	(2,053)	-	(2,053)
Operating profit		4,181	-	4,181	6,031	-	6,031
Finance income	4	250	-	250	414	-	414
Finance costs	4	(4,235)	-	(4,235)	(4,062)	-	(4,062)
Finance income/(costs) – for fair value adjustment on derivative financial instruments	4	-	5,682	5,682	-	(10,387)	(10,387)
Finance (costs)/income – net	4	(3,985)	5,682	1,697	(3,648)	(10,387)	(14,035)
Profit/(loss) before income tax		196	5,682	5,878	2,383	(10,387)	(8,004)
Income tax credit/(charge)	5	2,781	(2,623)	158	1,747	1,997	3,744
Profit/(loss) for the year attributable to the owners of the parent	15	2,977	3,059	6,036	4,130	(8,390)	(4,260)

The notes on pages 140-160 are an integral part of these consolidated financial statements.

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



Group and parent company balance sheet as at 31 March 2014

		Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	80,412	83,492	-	-
Intangible assets	8	30,462	31,864	-	-
Investment in subsidiary undertaking	9	-	-	51,307	51,307
Other investments	10	2	-	-	-
Trade and other receivables	11	-	-	51,986	50,403
Deferred income tax assets	17	8,775	11,398	8,775	11,398
		119,651	126,754	112,068	113,108
Current assets					
Trade and other receivables	12	4,997	8,139	42	450
Corporation tax receivable		95	-	-	-
Cash and cash equivalents	13	31,991	26,621	2,999	2,394
		37,083	34,760	3,041	2,844
Total assets		156,734	161,514	115,109	115,952
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	14	13	13	13	13
Retained earnings	15	(16,805)	(22,841)	(22,367)	(26,029)
Total equity		(16,792)	(22,828)	(22,354)	(26,016)
Liabilities					
Non-current liabilities					
Borrowings	16	77,412	80,629	77,408	80,625
Deferred income tax liabilities	17	15,122	17,998	-	-
Government grant	18	26,816	27,912	-	-
Derivative financial statements	22	43,877	49,559	43,877	49,559
		163,227	176,098	121,285	130,184
Current liabilities					
Trade and other payables	19	5,985	4,123	12,960	8,759
Borrowings	16	3,218	3,025	3,218	3,025
Government grant	18	1,096	1,096	-	-
		10,299	8,244	16,178	11,784
Total liabilities		173,526	184,342	137,463	141,968
Total equity and liabilities		156,734	161,514	115,109	115,952

The notes on pages 140 to 160 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 137 to 160 were authorised for issue by the Board of Directors on 24 June 2014 and were signed on its behalf by:

Patrick Larkin Director

Gerard McIlroy Director

Premier Transmission Financing plc

Registered number: NI053751



Group and parent cash flow statements for the year ended 31 March 2014

	Note	Group		Company	
		2014	2013	2014	2013
		£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit/(loss) before income tax		5,878	(8,004)	5,684	(10,398)
Adjustments for:					
Finance costs – net		(1,697)	14,035	(1,555)	14,351
Depreciation of property, plant and equipment		3,149	3,149	-	-
Amortisation of government grants		(1,096)	(1,096)	-	-
Amortisation of intangible assets		1,402	1,402	-	-
Movement in trade and other receivables		3,150	(3,517)	(1,175)	(1,460)
Movement in trade and other payables		1,388	(591)	(3,145)	(2,529)
Income tax received		214	551	189	173
Net cash generated from/(used in) operating activities		12,388	5,929	(2)	137
Cash flows from investing activities					
Interest received		241	552	13	6
Amounts received from related parties		-	-	7,758	7,739
Net cash generated from investing activities		241	552	7,771	7,745
Cash flows from financing activities					
Interest paid		(2,901)	(2,818)	(2,806)	(2,818)
Repayment of borrowing		(4,358)	(3,988)	(4,358)	(3,988)
Collateral receipt		-	920	-	920
Net cash used in financing activities		(7,259)	(5,886)	(7,164)	(5,886)
Movement in cash and cash equivalents		5,370	595	605	1,996
Cash and cash equivalents at the beginning of the year	13	26,621	26,026	2,394	398
Cash and cash equivalents at the end of the year	13	31,991	26,621	2,999	2,394

The notes on pages 140 to 160 are an integral part of these consolidated financial statements



Notes to the financial statements for the year ended 31 March 2014

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 24 June 2014 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 147.

Going concern

The group has net liabilities. In view of the structure of the group's initial set up including the acquisition of Premier Transmission Limited and the issuing of a bond, this is a situation which is expected to reverse within the next decade. The group is cash generative and is forecast to remain cash positive. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year ended 31 March 2014 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2014 and are relevant to the group's operations but have no material impact:

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)



Notes to the financial statements for the year ended 31 March 2014

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

Standards, amendments and interpretations effective in the year to 31 March 2014 and that are relevant to the group and parent company (continued)

IFRS 7 (amendment) 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRS 10 / 11 / 12 (amendment) 'Transition guidance' (effective 1 January 2013)

Standards, amendments and interpretations effective in the year to 31 March 2014 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 2014 but they are not relevant to the group's or parent company's operations:

IFRS 1 (amendment) 'First time adoption' on government loans (effective 1 January 2013)

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

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 16 (amendment) Property, Plant and Equipment (effective 1 January 2016)*

IAS 19 (amendment) Employee benefits on defined benefit plans (effective 1 July 2014)*

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 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets on recoverable amount and disclosure' (effective 1 January 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IAS 39 (amendment) Novation of derivatives and hedge accounting (effective 1 January 2014)

IFRS 10 (amendment) Consolidated financial statements (effective 1 January 2014)

IFRS 10 / 12 / IAS 27 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

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

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRIC 21 'Levies' (effective 1 January 2014)*

* Not yet endorsed by the EU.



Notes to the financial statements for the year ended 31 March 2014

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

Basis of consolidation

The group financial statements consolidate the financial statements of Premier Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2014. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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.

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.



Notes to the financial statements for the year ended 31 March 2014

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

Intangible assets (continued)

(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 20 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 machinery	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.

Investments

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

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

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.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The group's financial assets and liabilities comprise interest rate swaps, which are classified as derivatives, and are not designated as hedges.

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



Notes to the financial statements for the year ended 31 March 2014

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

Classification of financial instruments (continued)

for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

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

The group enters into derivative financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently 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.

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.



Notes to the financial statements for the year ended 31 March 2014

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

Impairment of financial assets (continued)

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

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

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

Trade 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.



Notes to the financial statements for the year ended 31 March 2014

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

Government grants (continued)

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 group also retains significant cash reserves and a liquidity facility with an A – rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 22.

Capital risk management

The group has no obligation to increase member's funds as the 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.



Notes to the financial statements for the year ended 31 March 2014

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

Fair value estimation (continued)

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 pipeline was determined as approximately 26.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 27.5 years, depreciation would have decreased by £114,000 and if the remaining useful economic life had been assessed at 25.5 years, depreciation would have increased by £123,000.

**Notes to the financial statements for the year ended 31 March 2014****2 Expenses by nature – operating costs**

Group	2014 £'000	2013 £'000
Employee benefit expenses (note 3)	237	158
Depreciation and amortisation	4,551	4,551
Amortisation of deferred government grant	(1,096)	(1,096)
Operating lease payments	78	78
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	18	18
Other expenses	11,153	10,833
Total operating costs	14,941	14,542

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	2014 £'000	2013 £'000
Wages and salaries	213	133
Social security costs	24	18
Pension costs	-	7
	237	158

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 4 (2013: 2). All staff perform asset management activities.

The company had no employees other than its directors (2013: 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 2014

4 Finance income and costs

Group	2014 £'000	2013 £'000
Interest expense:		
Borrowings (including borrowing fees)	4,139	3,964
Short- term bank deposits	96	98
Fair value adjustment in respect of derivative financial instruments (note 22)	-	10,387
Finance costs	4,235	14,449
Interest income:		
Short-term bank deposits	(250)	(414)
Fair value adjustment in respect of derivative financial instruments (note 22)	(5,682)	-
Finance income	(5,932)	(414)
Finance (income)/costs – net	(1,697)	14,035

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	2014 £'000	2013 £'000
Current income tax:		
Group relief claimed	126	637
Adjustments in respect of previous periods	(31)	(914)
Total current income tax	95	(277)
Deferred income tax:		
Origination and reversal of temporary difference	(2,906)	(1,470)
Arising on derivative financial instruments	2,623	(1,997)
Adjustments in respect of previous periods	30	-
Total deferred income tax (note 17)	(253)	(3,467)
Income tax credit	(158)	(3,744)

**Notes to the financial statements for the year ended 31 March 2014****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 23% (2013: 24%). The differences are reconciled below:

	2014 £'000	2013 £'000
Profit/(loss) before income tax	5,878	(8,004)
Tax calculated at the UK standard rate of corporation tax of 23% (2013: 24%)	1,352	(1,921)
Effects of:		
Expenses not deductible for tax purposes	-	33
Reduction in rate of corporation tax on deferred tax assets and liabilities	(951)	(313)
Treatment of indexation of borrowings	(558)	(629)
Adjustments in respect of previous periods	(1)	(914)
Income tax credit	(158)	(3,744)

Future tax changes

The standard rate of corporation tax in the UK reduced from 24% to 23% with effect from 1 April 2013 and accordingly the company's profits for the financial year were taxed at an effective rate of 23%. During the year, as a result of the changes in the UK main corporation tax rate to 21% and 20%, that was substantively enacted on 2 July 2013 and that will be effective from 1 April 2014 and 1 April 2015, the relevant deferred tax balances have been re-measured.

6 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £3,662,000 (2013: £6,833,000 loss).



Notes to the financial statements for the year ended 31 March 2014

7 Property, plant and equipment

Group	Pipeline £'000	Property, plant and equipment	Computer equipment £'000	Total £'000
Cost				
At 1 April 2012 and at 31 March 2013	108,584	8	238	108,830
Additions	-	69	-	69
At 31 March 2014	108,584	77	238	108,899
Accumulated depreciation				
At 1 April 2012	21,951	-	238	22,189
Provided during the year	3,149	-	-	3,149
31 March 2013	25,100	-	238	25,338
Provided during the year	3,148	1	-	3,149
At 31 March 2014	28,248	1	238	28,487
Net book amount				
At 31 March 2014	80,336	76	-	80,412
At 31 March 2013	83,484	8	-	83,492
At 31 March 2012	86,633	8	-	86,641

Depreciation expense of £3,149,000 (2013: £3,149,000) 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 2014

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2012, 31 March 2013 and at 31 March 2014	2,435	40,645	43,080
Accumulated depreciation			
At 1 April 2012	-	9,814	9,814
Provided during the year	-	1,402	1,402
31 March 2013	-	11,216	11,216
Provided during the year	-	1,402	1,402
At 31 March 2014	-	12,618	12,618
Net book amount			
At 31 March 2014	2,435	28,027	30,462
At 31 March 2013	2,435	29,429	31,864
At 31 March 2012	2,435	30,831	33,266

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 29 years. The group has concluded that these assets have a remaining useful economic life, as at 31 March 2013, of 20 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 16 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 4.25% (2013: 4.45%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 16 years. The inflation rate assumption used by the group in these calculations of 4.03% (2013: 3.87%) has been obtained from Bank of England yield curves over a 16 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 2014

9 Investment in subsidiary undertakings

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	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 Other investments

	Other investments £'000
Cost	
At 31 March 2013	-
Additions	2
At 31 March 2014	2

Other investments represent an amount the company invested in a 0.9% share in PRISMA European Capacity Platform GmbH, at a cost of £1,988.

The investments are recorded at cost, which is the fair value of the consideration paid.

11 Trade and other receivables (non-current)

Company	2014 £'000	2013 £'000
Amounts owed by related parties	51,986	50,403

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 £49,352,000 (2013: £51,202,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.39% (2013: 2.86%) that reflects the maturity profile of the company's loans and receivables.



Notes to the financial statements for the year ended 31 March 2014

12 Trade and other receivables (current)

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	429	420	-	-
Amounts owed by related parties	2	297	1	189
Prepayments and accrued income	2,566	5,422	41	261
Other receivables	2,000	2,000	-	-
	4,997	8,139	42	450

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.

13 Cash and cash equivalents

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	31,991	23,324	2,999	2,394
Short-term bank deposits	-	3,297	-	-
	31,991	26,621	2,999	2,394

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 0.9%.

14 Ordinary shares

Group and Company	2014 £'000	2013 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	13	13



Notes to the financial statements for the year ended 31 March 2014

15 Retained earnings

Group	£'000
At 1 April 2012	(18,581)
Total comprehensive income for the year	(4,260)
At 31 March 2013	(22,841)
Total comprehensive income for the year	6,036
At 31 March 2014	(16,805)

Company	£'000
At 1 April 2012	(19,196)
Total comprehensive income for the year	(6,833)
At 31 March 2013	(26,029)
Total comprehensive income for the year	3,662
At 31 March 2014	(22,367)

Included in the retained earnings for the group is an amount of £1,874,000 (2013: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

16 Borrowings

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Non current				
5.2022% Guaranteed secured bond	77,408	80,625	77,408	80,625
Other borrowings	4	4	-	-
	77,412	80,629	77,408	80,625
Current				
5.2022% Guaranteed secured bond	3,218	3,025	3,218	3,025
	80,630	83,654	80,626	83,650

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 £95,235,000 (2013: £103,916,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.39% (2013: 2.86%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 22.



Notes to the financial statements for the year ended 31 March 2014

17 Deferred income tax

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

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Deferred income tax assets	(8,775)	(11,398)	(8,775)	(11,398)
Deferred income tax liabilities	15,122	17,998	-	-
Deferred income tax liabilities/(assets) - net	6,347	6,600	(8,775)	(11,398)

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

	Group £'000	Company £'000
At 1 April 2012	10,067	(9,401)
Income statement credit for the year	(3,467)	(1,997)
At 31 March 2013	6,600	(11,938)
Income statement (credit)/charge for the year	(253)	2,623
At 31 March 2014	6,347	(8,775)

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 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
Income statement credit)/charge for the year	(1,713)	(1,163)	2,623	(253)
At 31 March 2014	9,517	5,605	(8,775)	6,347

Company	Derivative financial instruments £'000
At 1 April 2012	(9,401)
Income statement credit for the year	(1,997)
At 31 March 2013	(11,938)
Income statement charge for the year	2,623
At 31 March 2014	(8,775)



Notes to the financial statements for the year ended 31 March 2014

17 Deferred income tax (continued)

The group and company have £5,136,000 (2013: £5,136,000) of tax losses available for carry forward against future taxable profits. The related deferred tax asset of £1,027,000 (2013: £1,181,000) has not been recognised as it is more likely than not that the group and company will make sufficient taxable profits from which the tax losses can be deducted.

It is not possible to determine the portion of the deferred tax asset arising from the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £5,325,000 (2013: £6,446,000). 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 £8,151,000 (2013: £10,890,000).

18 Government grant

Group	£'000
At 1 April 2012	30,104
Amortised during the year	(1,096)
At 31 March 2013	29,008
Amortised during the year	(1,096)
At 31 March 2014	27,912

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 (2013: £1,096,000) and the non-current portion is £26,816,000 (2013: £27,912,000).

19 Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade payables	560	885	33	7
Amounts owed to related parties	732	161	11,997	7,815
Accruals and deferred income	2,596	1,954	3	4
Other tax and social security	579	203	7	13
Other payables	1,518	920	920	920
	5,985	4,123	12,960	8,759

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



Notes to the financial statements for the year ended 31 March 2014

20 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 21 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	2014 £'000	2013 £'000
Not later than one year	78	78
After one year but not more than five years	313	313
After more than five years	1,252	1,331
	1,643	1,722

21 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:

Group	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Parent undertakings – current liabilities	(101)	-
Fellow subsidiary undertaking – current liabilities	(631)	(161)
Parent undertakings – current assets	-	-
Fellow subsidiary undertaking – current assets	2	297

Group	Nature of Transaction	Value of transaction	
		2014 £'000	2013 £'000
Parent undertakings	Charges payable	(690)	(576)
Fellow subsidiary undertaking	Charges payable	(774)	(1,480)
Parent undertakings	Group relief surrendered/(claimed)	(160)	-
Fellow subsidiary undertaking assets	Group relief surrendered/(claimed)	139	277

Company	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Fellow subsidiary undertaking – current assets	1	189
Fellow subsidiary undertaking – current liabilities	(1)	-
Subsidiary undertakings – non-current assets	51,986	50,403
Subsidiary undertaking – current liabilities	(11,996)	(7,815)



Notes to the financial statements for the year ended 31 March 2014

21 Related party transactions (continued)

Company	Nature of transaction	Amount of transaction	
		2014 £'000	2013 £'000
Fellow subsidiary undertaking	Group relief surrendered	-	189
Subsidiary undertaking	Group relief surrendered	601	1,374
Subsidiary undertaking	Interest receivable	(4,187)	4,024

22 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 receivables
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	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 2012	39,172
Fair value adjustment	10,387
Liability at 31 March 2013	49,559
Fair value adjustment	(5,682)
Liability at 31 March 2014	43,877

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 2014

22 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 2014 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	7,363	7,508	7,659	7,810	7,966	98,775	137,081
Trade and other payables	5,406	-	-	-	-	-	5,406
	12,769	7,508	7,659	7,810	7,966	98,775	142,487

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 2014 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	7,363	7,508	7,659	7,810	7,966	98,775	137,081
Trade and other payables	12,953	-	-	-	-	-	12,953
	20,316	7,508	7,659	7,810	7,966	98,775	150,034

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

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.

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.

Belfast Gas Transmission Financing plc

**Annual report
for the year ended 31 March 2014**

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Financial Statements

Belfast Gas Transmission Financing plc

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: NI067348



Directors' report for the year ended 31 March 2014

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2014.

General information on the company can be found on page 162 and within note 1 to the financial statements.

Results and dividends

The group's loss for the year is £939,000 (2013: £4,714,000). The directors do not recommend the payment of a dividend (2013: £nil).

A review of our operational and financial performance, research and development activity, current position and future developments is included in our Strategic report.

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 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 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 financial statements.

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.

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 2014

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.

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group'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
24 June 2014



Independent auditors' report to the members of Belfast Gas Transmission Financing plc

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Belfast Gas Transmission Financing Plc, comprise:

- the group and parent company balance sheets as at 31 March 2014;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

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



Independent auditors' report to the members of Belfast Gas Transmission Financing plc (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 164, 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 ISAs (UK & 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.

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

25 June 2014



Group statement of comprehensive income for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Revenue – continuing operations		6,121	6,012
Operating costs	2	(5,405)	(5,559)
Earnings before interest, tax, depreciation and amortisation (“EBITDA”)		4,158	3,892
Amortisation of intangible assets		(2,487)	(2,485)
Depreciation (net of amortisation of government grants)		(955)	(954)
Operating profit		716	453
Finance income	4	53	99
Finance costs	4	(6,381)	(6,965)
Finance costs – net	4	(6,328)	(6,866)
Loss before income tax		(5,612)	(6,413)
Income tax credit	5	4,673	1,699
Loss for the year attributable to the owners of the parent	13	(939)	(4,714)

The notes on pages 170 to 187 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 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	31,109	32,289	-	-
Intangible assets	8	94,493	96,980	-	-
Investment in subsidiary undertaking	9	-	-	112,384	112,384
		125,602	129,269	112,384	112,384
Current assets					
Trade and other receivables	10	1,300	1,823	21,603	17,935
Cash and cash equivalents	11	11,619	9,506	751	702
		12,919	11,329	22,354	18,637
Total assets		138,521	140,598	134,738	131,021
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	50	50	50	50
Retained earnings	13	(19,628)	(18,689)	8,119	6,660
Total equity		(19,578)	(18,639)	8,169	6,710
Liabilities					
Non-current liabilities					
Borrowings	14	125,287	123,019	125,287	123,019
Deferred income tax liabilities	15	22,507	26,385	-	-
Government grant	16	6,910	7,198	-	-
		154,704	156,602	125,287	123,019
Current liabilities					
Trade and other payables	17	1,976	1,343	151	288
Borrowings	14	1,131	1,004	1,131	1,004
Government grant	16	288	288	-	-
		3,395	2,635	1,282	1,292
Total liabilities		158,099	159,237	126,569	124,311
Total equity and liabilities		138,521	140,598	134,738	131,021

The notes on pages 170 to 187 are an integral part of these consolidated financial statements.

The group financial statements on pages 167 to 187 were authorised for issue by the Board of Directors on 24 June 2014 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Belfast Gas Transmission Financing plc

Registered number: NI067348



Group and parent company cash flow statements for the year ended 31 March 2014

	Note	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash flows from operating activities					
(Loss)/profit before income tax		(5,612)	(6,413)	-	41
Adjustments for:					
Finance costs/(income) - net		6,328	6,866	(14)	(49)
Depreciation of property, plant and equipment		1,243	1,242	-	-
Amortisation of government grant		(288)	(288)	-	-
Amortisation of intangible assets		2,487	2,485	-	-
Movement in trade and other receivables		980	(431)	(242)	(177)
Movement in trade and other payables		848	(514)	138	159
Income tax received		58	617	58	617
Net cash generated from/(used in) operating activities		6,044	3,564	(60)	591
Cash flows from investing activities					
Interest received		53	99	2	2
Amounts received from related parties		-	-	4,044	3,855
Net cash generated from investing activities		53	99	4,046	3,857
Cash flows from financing activities					
Interest paid		(2,958)	(3,015)	(2,911)	(2,960)
Repayment of borrowings		(1,026)	(902)	(1,026)	(902)
Net cash used in financing activities		(3,984)	(3,917)	(3,937)	(3,862)
Movement in cash and cash equivalents		2,113	(254)	49	586
Cash and cash equivalents at the beginning of the year	11	9,506	9,760	702	116
Cash and cash equivalents at the end of the year	11	11,619	9,506	751	702

The notes on pages 170 to 187 are an integral part of these consolidated financial statements.

**Notes to the financial statements for the year ended 31 March 2014****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 24 June 2014 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 176.

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 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 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 financial statements.

Standards, amendments and interpretations effective in the year to 31 March 2014 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2014 and are relevant to the group's operations but have no material impact:

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)

IFRS 7 (amendment) 'Financial instruments: Disclosures' on offsetting financial assets and financial liabilities (effective 1 January 2013)

IFRS 13 Fair value measurement (effective 1 January 2013)

IFRS 10 / 11 / 12 (amendment) 'Transition guidance' (effective 1 January 2013)



Notes to the financial statements for the year ended 31 March 2014

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

Standards, amendments and interpretations effective in the year to 31 March 2014 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 2014 but they are not relevant to the group's or parent company's operations:

IFRS 1 (amendment) 'First time adoption' on government loans ((effective 1 January 2013)

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

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 16 (amendment) Property, Plant and Equipment (effective 1 January 2016)*

IAS 19 (amendment) Employee benefits on defined benefit plans (effective 1 July 2014)*

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 (amendment) Financial Instruments asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets on recoverable amount and disclosure' (effective 1 January 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IAS 39 (amendment) Novation of derivatives and hedge accounting (effective 1 January 2014)

IFRS 10 (amendment) Consolidated financial statements (effective 1 January 2014)

IFRS 10 / 12 / IAS 27 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 Joint arrangements (effective 1 January 2014)

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

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

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRIC 21 'Levies' (effective 1 January 2014)*

* Not yet endorsed by the EU.

**Notes to the financial statements for the year ended 31 March 2014****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 2014. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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.

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.



Notes to the financial statements for the year ended 31 March 2014

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 38 years.

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.

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.



Notes to the financial statements for the year ended 31 March 2014

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

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.

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.



Notes to the financial statements for the year ended 31 March 2014

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.

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 £1,267,000.



Notes to the financial statements for the year ended 31 March 2014

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

Financial risk management (continued)

(a) Market risk (continued)

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 UK 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 26 years at the beginning of the year. If the remaining useful economic life had been assessed at 27 years depreciation would have decreased by £46,000 and if the remaining useful economic life had been assessed at 25 years depreciation would have increased by £50,000.



Notes to the financial statements for the year ended 31 March 2014

2 Expenses by nature – operating costs

Group	2014 £'000	2013 £'000
Depreciation and amortisation	3,730	3,727
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	10	9
Other expenses	1,940	2,098
Total operating costs	5,405	5,559

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 (2013: 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	2014 £'000	2013 £'000
Interest expense:		
Short term bank deposits	(49)	(48)
Borrowing (including borrowing fees)	(6,332)	(6,917)
Finance costs	(6,381)	(6,965)
Interest income:		
Short-term bank deposits	53	99
Finance income	53	99
Finance costs – net	(6,328)	(6,866)



Notes to the financial statements for the year ended 31 March 2014

5 Income tax credit

Group	2014 £'000	2013 £'000
Current income tax:		
Group relief surrendered	(644)	(714)
Adjustments in respect of previous periods	(151)	988
Total current income tax	(795)	274
Deferred income tax:		
Origination and reversal of temporary differences	(4,023)	(1,973)
Adjustments in respect of previous periods	145	-
Total deferred income tax (note 15)	(3,878)	(1,973)
Income tax credit	(4,673)	(1,699)

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 23% (2013: 24%). The differences are reconciled below:

	2014 £'000	2013 £'000
Loss before income tax	(5,612)	(6,413)
Tax calculated at the UK standard rate of corporation tax of 23% (2013: 24%)	(1,291)	(1,539)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	(3,376)	(1,148)
Adjustments in respect of previous periods	(6)	988
Income tax credit	(4,673)	(1,699)

Future tax changes

The standard rate of corporation tax in the UK reduced from 24% to 23% with effect from 1 April 2013 and accordingly the company's losses for the financial year were taxed at an effective rate of 23%. During the year, as a result of the changes in the UK main corporation tax rate to 21% and 20%, that was substantively enacted on 2 July 2013 and that will be effective from 1 April 2014 and 1 April 2015, the relevant deferred tax balances have been re-measured.

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £1,459,000 (2013: £714,000).



Notes to the financial statements for the year ended 31 March 2014

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2012 and at 31 March 2013	38,480	17	38,497
Additions	-	63	63
At 31 March 2014	38,480	80	38,560
Accumulated depreciation			
At 1 April 2012	4,965	1	4,966
Provided during the year	1,241	1	1,242
At 31 March 2013	6,206	2	6,208
Provided during the year	1,242	1	1,243
At 31 March 2014	7,448	3	7,451
Net book amount			
At 31 March 2014	31,032	77	31,109
At 31 March 2013	32,274	15	32,289
At 31 March 2012	33,515	16	33,531

Depreciation expense of £1,243,000 (2013: £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 2014

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	109,413
Accumulated amortisation	
At 1 April 2012	9,948
Provided during the year	2,485
At 31 March 2013	12,433
Provided during the year	2,487
At 31 March 2014	14,920
Net book amount	
At 31 March 2014	94,493
At 31 March 2013	96,980
At 31 March 2012	99,465

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 2014, of 38 years.

Amortisation expense of £2,487,000 (2013: £2,485,000) has been fully charged to operating costs.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2012, 31 March 2013 and at 31 March 2014	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 2014

10 Trade and other receivables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	235	422	-	-
Amounts owed by related parties	834	235	21,479	17,923
Prepayments and accrued income	231	1,166	124	12
	1,300	1,823	21,603	17,935

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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	11,619	9,506	751	702

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 0.3%.

12 Ordinary shares

Group and company	2014 £'000	2013 £'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 2014

13 Retained earnings

Group	£'000
At 1 April 2012	(13,975)
Total comprehensive income for the year	(4,714)
At 31 March 2013	(18,689)
Total comprehensive income for the year	(939)
At 31 March 2014	(19,628)

Company	£'000
At 1 April 2012	5,946
Total comprehensive income for the year	714
At 31 March 2013	6,660
Total comprehensive income for the year	1,459
At 31 March 2014	8,119

14 Borrowings

Group and company	2014 £'000	2013 £'000
Non-current		
2.207% Index linked guaranteed secured bond	125,287	123,019
Current		
2.207% Index linked guaranteed secured bond	1,131	1,004
Total borrowings	126,418	124,023

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 £100,935,000 (2013: £102,734,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.63% (2013: 3.36%) 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 2014

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2012	28,358
Income statement credit for the year	(1,973)
At 31 March 2013	26,385
Income statement credit for the year	(3,878)
At 31 March 2014	22,507

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 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
Income statement credit for the year	(471)	(3,407)	(3,878)
At 31 March 2014	3,609	18,898	22,507

The group and company have £3,798,131 (2013: £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 £759,626 (2013: £873,570) 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 £18,401,000 (2013: £21,733,000). 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 £3,129,000 (2013: £3,861,000).



Notes to the financial statements for the year ended 31 March 2014

16 Government grant

Group	£'000
At 1 April 2012	7,774
Amortised during the year	(288)
At 31 March 2013	7,486
Amortised during the year	(288)
At 31 March 2014	7,198

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 (2013: £288,000) and the non-current portion is £6,910,000 (2013: £7,198,000).

17 Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'00	2013 £'000
Trade payables	16	30	8	6
Amounts owed to related parties	566	348	139	279
Other tax and social security	1,022	620	-	-
Other payables	128	17	-	-
Accruals and deferred income	244	328	4	3
	1,976	1,343	151	288

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

18 Commitments

Operating lease commitments

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	2014 £'000	2013 £'000
Not later than one year	14	13
After one year but not more than five years	57	51
After five years	458	425
	529	489



Notes to the financial statements for the year ended 31 March 2014

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:

Group	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Parent undertakings – current assets	50	50
Fellow subsidiary undertakings – current assets	784	185
Parent undertakings – current liabilities	(31)	-
Fellow subsidiary undertakings – current liabilities	(535)	(348)

Group	Nature of transaction	Value of transaction	
		2014 £'000	2013 £'000
Parent undertakings	Charges payable	(298)	(249)
Fellow subsidiary undertakings	Group relief surrendered/(claimed)	795	(274)
Fellow subsidiary undertakings	Charges payable	(739)	(979)

Company	Amount owed (to)/from related party	
	2014 £'000	2013 £'000
Subsidiary undertaking – current assets	20,645	17,688
Fellow subsidiary undertaking – current liabilities	(139)	(279)
Parent undertaking – current assets	50	50
Fellow subsidiary undertakings – current assets	784	185

Company	Nature of transaction	Value of transaction	
		2014 £'000	2013 £'000
Fellow subsidiary undertakings	Group relief surrendered	795	673
Subsidiary undertaking	Group relief surrendered	644	-
Subsidiary undertaking	Interest receivable	6,343	6,957



Notes to the financial statements for the year ended 31 March 2014

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 receivables
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Trade and other payables	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 2014 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	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	954	-	-	-	-	-	954
	4,869	3,995	4,073	4,155	4,239	167,688	189,019

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 2014 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	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	151	-	-	-	-	-	151
	4,066	3,995	4,073	4,155	4,239	167,688	188,216

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



Notes to the financial statements for the year ended 31 March 2014

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.



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