2016 ANNUAL REPORT AND ACCOUNTS

mutualenergy

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

mutualenergy

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Contents

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Regina Finn, Chairman

2015/16 has been a busy year for Mutual group with significant milestones achieved in both the electricity and the gas businesses.

Moyle Interconnector's North cable, which had been out of operation since 2012 due to problems with the insulation on the low voltage cables, returned to full operation at the end of January 2016. Significant progress has also been made towards replacing the low voltage element of the South cable and the remaining work has been scheduled to align with a National Grid outage over summer 2016. At the same time, we continued to contribute to the implementation of an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland, making sure the interests of Northern Ireland consumers are protected and the full value of the Moyle Interconnector is recognised. The I-SEM is due to be implemented in October 2017.

Having successfully won the competition to bring gas to the west of Northern Ireland, the year saw rapid progress on this project which we are undertaking with our partners SGN. Planning has been granted for the Maydown Pressure Reduction Station, works have commenced, and gas is expected to be available in Strabane in October 2016. The timeline for the high pressure pipeline remains extremely challenging with works due to commence in 2017, subject to the required consents.

Major milestones in the implementation of new EU gas regulations were achieved in October 2015, including the introduction of several new products, the use of an auction platform to auction capacity, development of the Northern Ireland Trading Point to facilitate gas trading within NI and a significant rewrite of the Northern Ireland Network codes. The commercial IT system was successfully upgraded to facilitate this. Further work continues to develop a single gas system operator for Northern Ireland, as required by the Northern Ireland Utility Regulator, and to deliver the remaining work streams driven by the EU Regulations.

The strategy of the Moyle Interconnector business is to ensure that cash is recovered to ensure full payment of the costs of the business as evenly as possible over the lifetime of the business, without building up excess cash when the interconnector reaches the end of its useful life. In line with our underlying strategy the board decided it did not need to fully recover the expenditure on the recent cables works through the tariff mechanisms. This means that the cash reserves in Moyle have reduced to pay for the project costs. The strategy of using built up reserves, combined with recent decreased auction prices, has led to a large impairment in the Moyle Interconnectors assets in the financial statements. The effect of this treatment, which is explained in note 9, is not dissimilar to writing off a large part of the work as a repair. The impairment is a non-cash adjustment and has no impact on the business' cash flows or viability. The Moyle business will continue to recover only the cash it needs to meet the long term needs of the business.

In a year that has posed many operational and commercial challenges I would like to pay tribute to the professionalism and dedication of the entire Mutual team, who have worked so well together to deliver on our vision and goals. I am grateful to my Board colleagues for their continued commitment and support, and to our members who play a unique and invaluable role in holding the business to account to ensure it delivers for Northern Ireland consumers.

Regina Finn

Regina Finn

23 June 2016

Our strategy and business model

Our purpose

To own and operate energy infrastructure in the long term interest of Northern Ireland energy consumers

Our strategy

1. Operate assets safely and cost effectively, outsourcing where appropiate
2. Deliver savings to all Northern Ireland consumers evenly over the life of the assets
3. Manage market changes to minimise risks to the NI consumer
4. Acquire stable energy infrastructure assets at low cost to the consumer

Our strategy and performance measures are discussed in more detail on pages 10 to 11

Our business model

What we do

Mutual Energy group owns and operates both gas and electricity assets and operates businesses providing services to the main company.

- Operation of assets See pages 12&17
- Cost savings See pages 14&18
- Market environment See pages 15&19
- Infrastructure acquisition See pages 19-20

How we do it

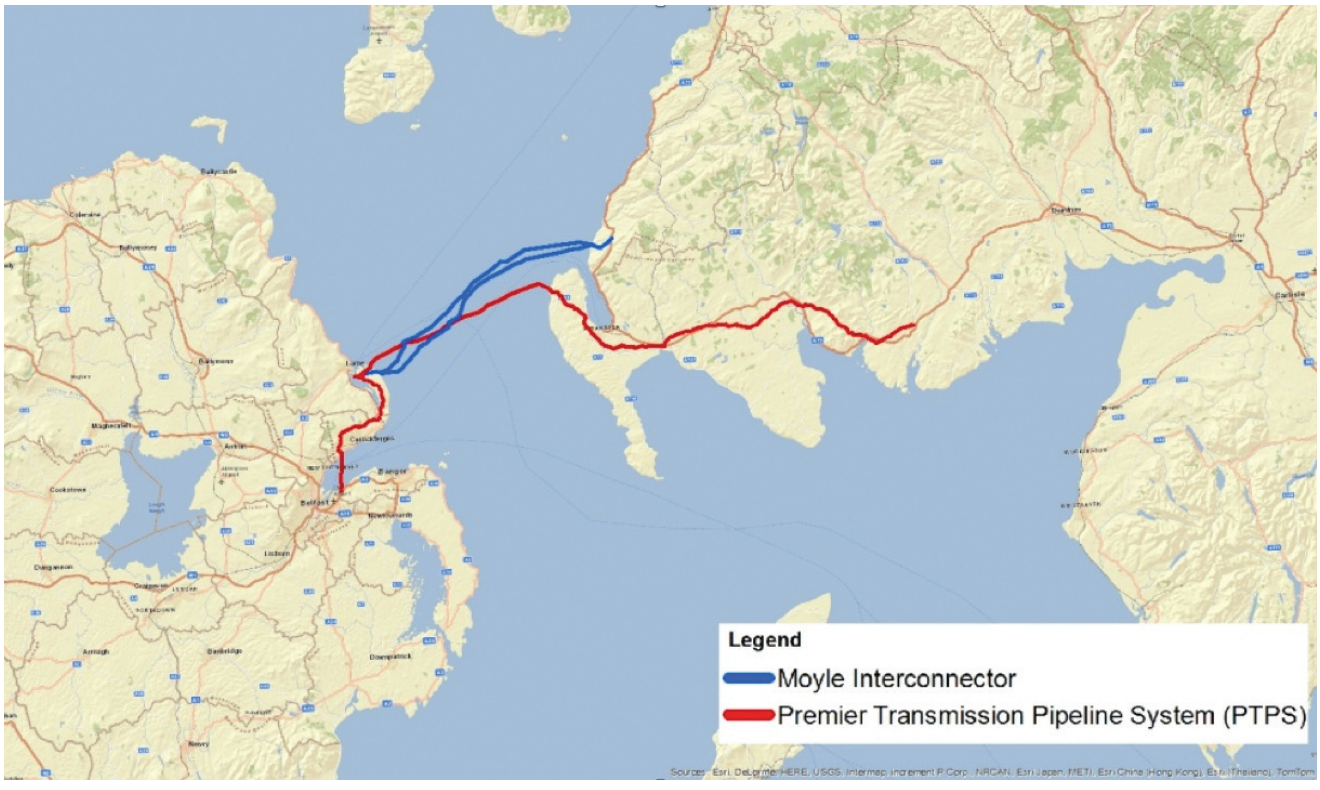
Mutual Energy operates using a mutual model to manage assets for the benefit of energy consumers in Northern Ireland.

- Business structure See pages 8-9
- Governance structure See pages 28-32
- Risk management See pages 24-25
- Executive remuneration See pages 33-44

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) operated by Premier Transmission Limited and Belfast Gas Transmission Limited respectively. These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them safely, reliably and efficiently.

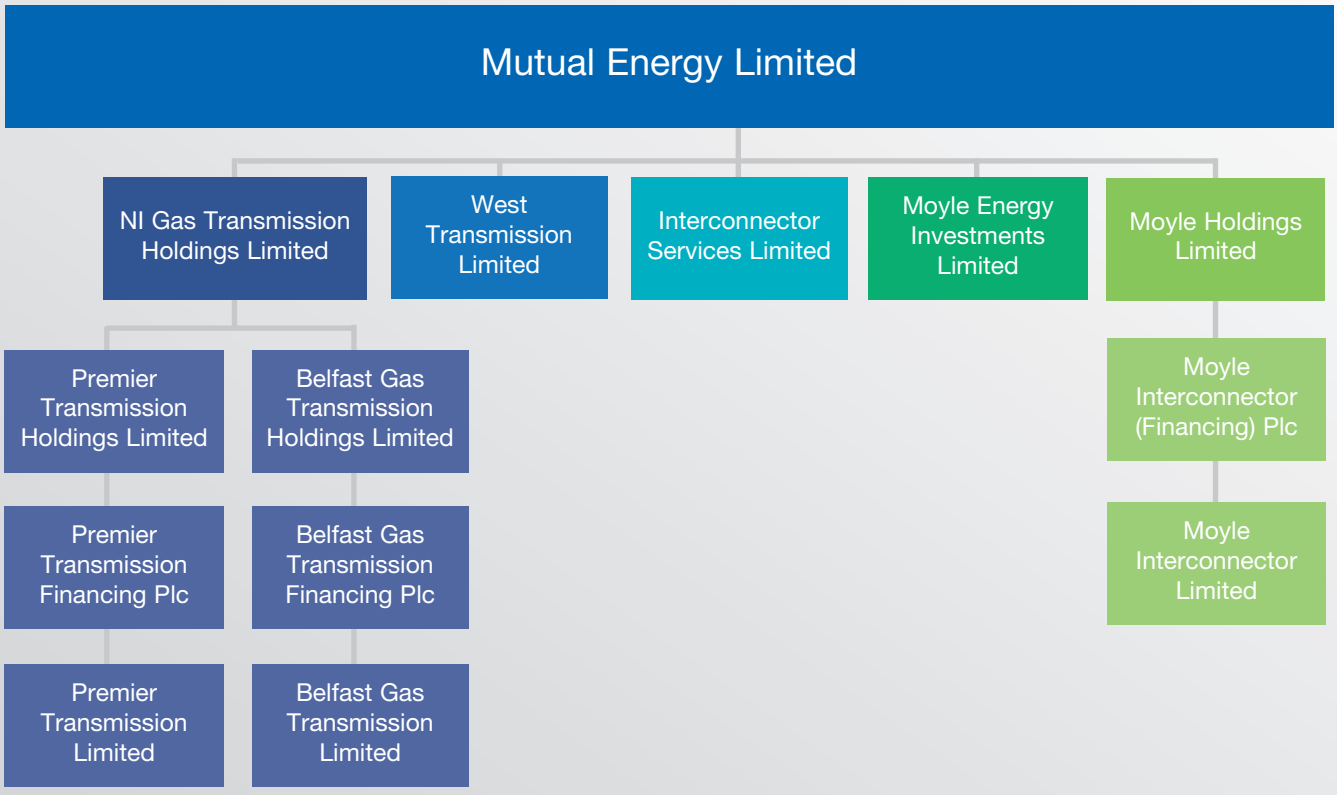
The group, through West Transmission Limited, is in the process of extending the Northern Ireland gas network to the western part of Northern Ireland. More detail on this is available in the infrastructure acquisition section on pages 19-20.



Mutual Energy's existing transmission assets.

Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model and our licence structures are attractive to long term stable investors, enabling the company to operate without equity and therefore allowing a much lower cost of capital than would otherwise be the case. Our bonds held by the group have obtained real interest rates of between 2.207% and 2.9376%. This compares with real interest rates of between 4.3% and 7.5% for other UK and Ireland gas and electricity transmission operators, resulting in significant annual 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:



As well as each main operating company and their respective financing and holding companies, the group includes 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 24. More information regarding our customers, stakeholders and staff can be found on page 21.

Strategic objectives

Our strategy is made up of four key elements:

OUR OBJECTIVE	HOW DO WE DELIVER?	HOW DO WE MEASURE SUCCESS?
Operate assets safely and cost effectively, outsourcing where appropriate	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. Further information on asset operation can be found on pages 12 and 17.	Our key success measures include: • Availability targets for our assets (KPI 1); • Operational savings against forecast (KPI 2); • Lost time incidents (KPI 3); • Detailed maintenance and contracting milestones which are monitored at contract meetings; and • Detailed monthly budgets which are monitored over a rolling five year horizon.
Deliver savings to all Northern Ireland consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. Cost smoothing is discussed in more detail on page 18.	Our key measures of success include: • Operational savings against forecast (KPI 2); • Cash reinvested to avoid charging consumers (KPI 4); and • Cash generated from operations (KPI 5).
Manage market changes to minimise risks to the NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other pressures do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing at EU stakeholder meetings, active participation in the work of the EU system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on pages 15 and 19.	Our measures of success include: • Avoidance of changes which would compromise the financing structures of the group; • Monitoring of individual projects against initial objectives and implementation plans with milestone dates; and • The number of code modifications issued (KPI 6).
Acquire stable energy infrastructure assets at low cost to the consumer	The group looks to acquire stable energy infrastructure assets which it can own and operate at lower cost than otherwise would be the case to benefit consumers. We achieve lower cost through a reduced cost of capital and operating efficiencies. Delivery involves: • the assessment of potential assets, both acquisition and new build, on an ongoing basis; • the development of working relationships with potential partners and developers; and • continued innovation in reviewing financing and licencing structures to ensure low cost to the consumer. This objective is discussed in more detail on pages 19-20.	• Success is measured with reference to the quality of the projects brought to the board as potential opportunities to develop; • The progress of individual projects is measured against project-specific milestones; • In acquiring assets the group will not overpay the going market rate; and • Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (KPI 7).

Key Performance Indicators ("KPIs")

Our KPIs are designed to reflect what is important to our stakeholders and we use them to assess the group's development against its strategy and financial objectives.

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
1. Availability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. Graphs showing availability can be found on pages 12 and 17.	**Availability** 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.
2. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 14.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on pages 12 and 17.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
4. Cash reinvested to avoid charging consumers Cash reinvested in the business to reduce the direct charge to consumers for the provision of the Moyle Interconnector asset. Cash reinvested to avoid charging consumers can be seen on page 18.	**Cash reinvested to avoid charging consumers** The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to reduce the charge to consumers.
5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on pages 14 and 18.	**Cash generated from operations** Cash generated in each of the businesses post tax.
6. Code modifications issued The number of code modifications issued are monitored as these are a measure of progress in implementing the changes required by EU legislation. Code modifications issued can be seen in the graph on page 16.	**Code modifications issued** Code modifications issued is the sum of the code modifications made to each of the Premier Transmission Limited (PTL) and Belfast Gas Transmission (BGTL) codes.
7. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as 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. Graphs showing these ratios can be found on pages 13 and 17.	**Annual Debt Service Cover Ratio** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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.

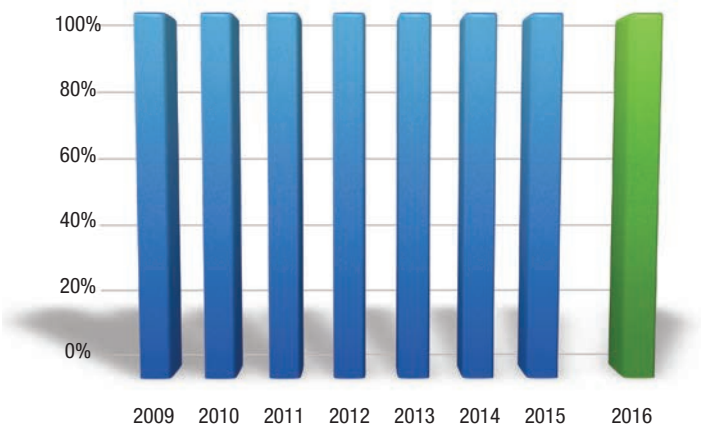
Gas business review

Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate

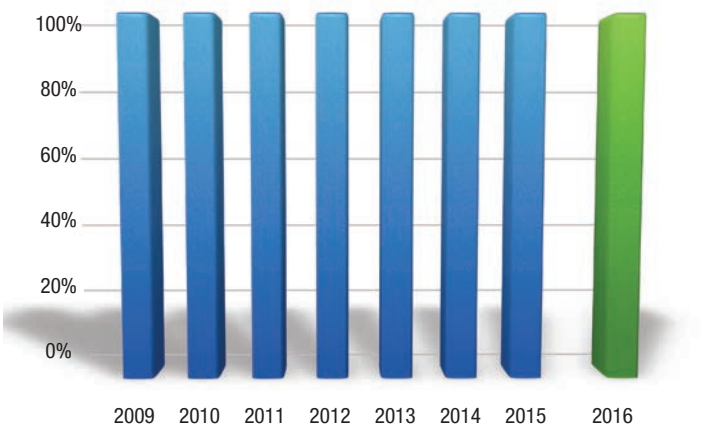
Operational performance

The gas businesses operated during the year with 100% availability (KPI 1) and no lost time incidents (KPI 3).

KPI 1: Premier Transmission availability



KPI 1: Belfast Gas Transmission availability



Premier Transmission incurred £3.8m costs in the year as a result of major works carried out to Gas Networks Ireland's upstream assets, a share of which is rechargeable to Premier Transmission under its Transportation Agreement. Upgrades to Premier Transmission's metering and billing system were also carried out in the year in order to facilitate compliance with new EU gas market arrangements, and engineering works were also carried out in line with site maintenance plans and statutory examination schedules.

Financial performance

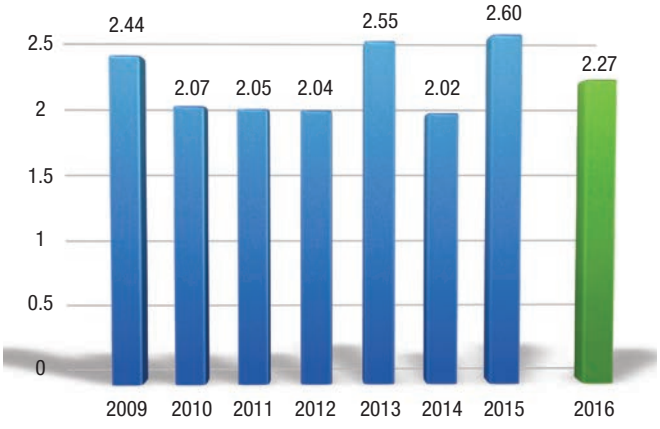
The combined gas business costs for the gas year ending on 30 September 2015 were £0.5m below the forecasts used for predicting tariffs (September 2014: £1.0m below) (KPI 2).

The businesses are cash generative and able to meet their debt service obligations, though because of the bond structures they 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. In terms of the Annual Debt Service Cover Ratio (ADSCR) both gas groups will tend to average towards 2.0. Over-performance by Premier Transmission above 2.0 in the early years, will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. Premier Transmission's 2015 ADSCR is higher than usual due to differences in the timing of tax payments. The ADSCRs for both companies can be seen in the following graphs.

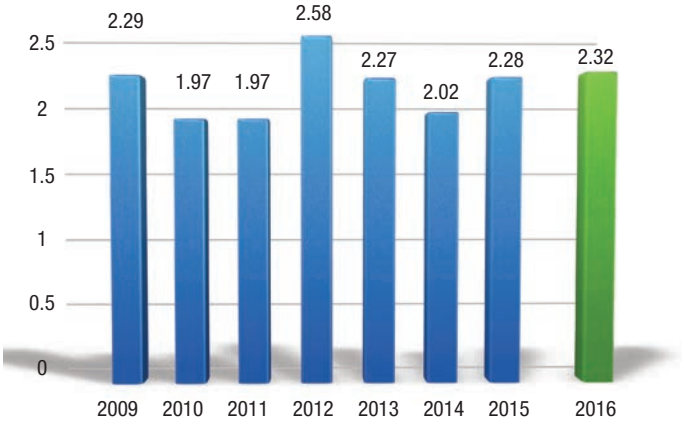
Future development

The Northern Ireland Gas Capacity Statement published by the Utility Regulator shows that, although gas demand is expected to remain relatively stable, over the next ten years the annual peak demand is expected to increase considerably, most notably with the increased use of gas generation on the no-wind days and the growth of the domestic gas sector. The report indicates that the Northern Ireland transmission network does not have sufficient capacity via SNIP to meet a severe winter peak day firm demand in 2016/17 and 2017/18 under minimum operating parameters and anticipates that capacity short fall measures or the use of the South-North pipeline would be required in such conditions. The changing needs of the power generation shippers, married with potential upstream pressure reductions (as highlighted in the annual Gaslink Winter Outlook), are likely to require investment in the NI gas transmission network over the next 10 years. Any reinforcement would require significant lead times and no specific projects are earmarked for development at present.

KPI 7: Premier Transmission ADSCR



KPI 7: Belfast Gas Transmission ADSCR



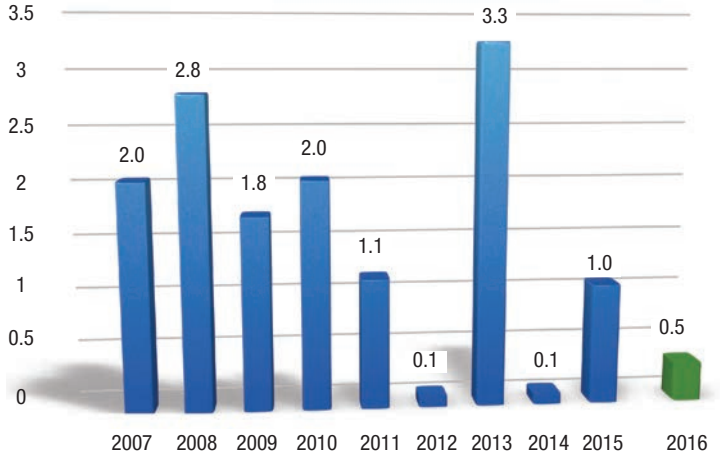
Paddy Larkin (pictured second from right) participating in a Gas to the West information evening hosted by the Ulster Unionist Party, Fivemiletown, March 2016.

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

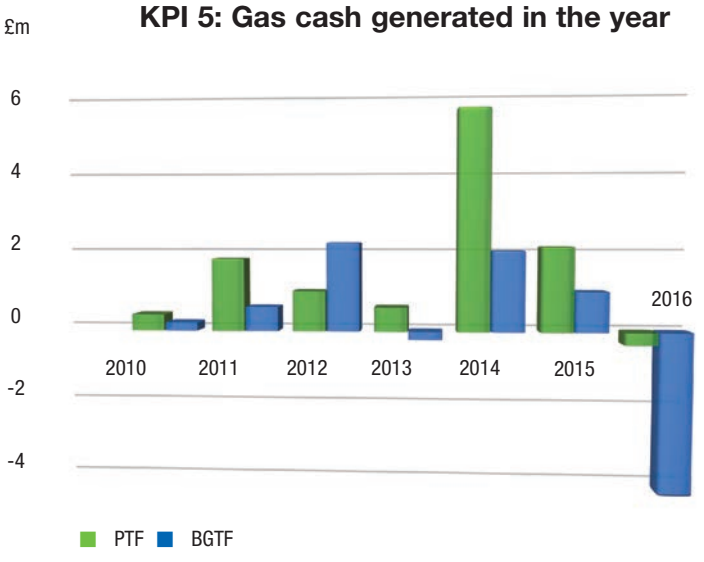
The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2014-15 gas year were 10% lower in real terms than in 2004-5, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following KPI.

KPI 2: Gas business operational savings vs forecast



KPI 5: Gas cash generated in the year



KPI 5 shows a cash outflow in 2015/16 which is the result of timing of payments in relation to tax from prior years. The graph shows the movement in the cash balance (including deposits with maturity of more than three months) from the previous year.

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

European energy regulation

European legislation continues to be the main driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a "Gas Target Model" to be implemented by our gas businesses. The first major deadline for implementation for the work streams was October 2015, with others following until 2017. As well as these major changes, the Northern Ireland Utility Regulator (NIAUR) determined that a single system operator for Northern Ireland should be put in place. This is not a requirement of the legislation itself.

The list below sets out some of the key changes made to the Northern Ireland gas market during the year in order to implement the EU regulation requirements:

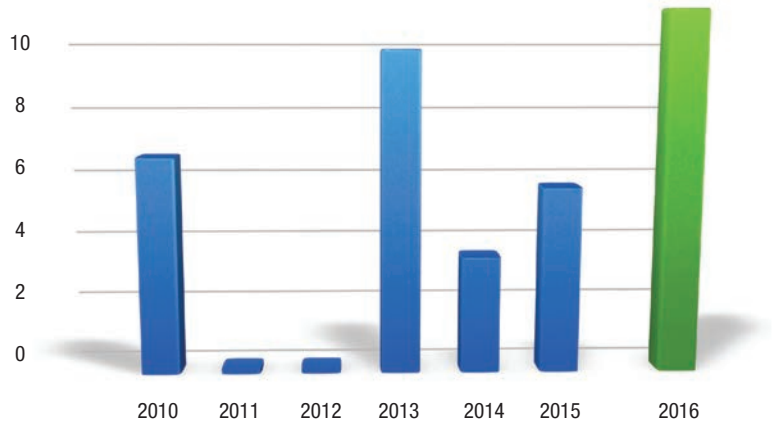
- The introduction of entry capacity products and nominations;
- New products offered including bundled products at Moffat – annual, quarterly, monthly, daily and within day;
- Entry capacity auctioned by the relevant Transmission System Operator (TSO) using the PRISMA auction platform;
- Charging split between entry and exit from the network;
- Transition to a new Gas Day (06:00 – 06:00 to 05:00 – 05:00);
- Development of the Northern Ireland Trading Point to facilitate gas trading within NI;
- De-designation of the Moffat Agent and the introduction of TSO to TSO nomination matching;
- New methods to allocate gas at the entry points into the network;
- Significant rewrite of the NI Network Codes; and
- Significant update of the Aligne IT System to facilitate the new processes, and automatic data exchange with EU wide systems, National Grid and Gas Networks Ireland.

Whilst all of the 2016 EU obligations have been met, future requirements will focus on the implementation of REMIT, an EU Regulation on Energy Market Integrity and Transparency, and modifications to the Capacity Allocation Mechanisms regulation concerning incremental capacity. In addition to the existing regulations, the Tariff Network Code is currently in development and its implementation will require further changes for the NI market. It should be expected that there will be further changes coming from the EU over the upcoming years as the work continues to deliver the Gas Target Model.

In addition to the changes required by the EU legislation, the decision by the NIAUR to require the creation of a single TSO for Northern Ireland will result in a number of changes, notably the development of a single network code, a single market facing body and a single IT system. This will change the market arrangements and means a considerable amount of work is needed in a short period. Work also has been progressing on the development of associated contractual agreements and licence changes.

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

KPI 6: Modifications made to gas network codes



Electricity business review

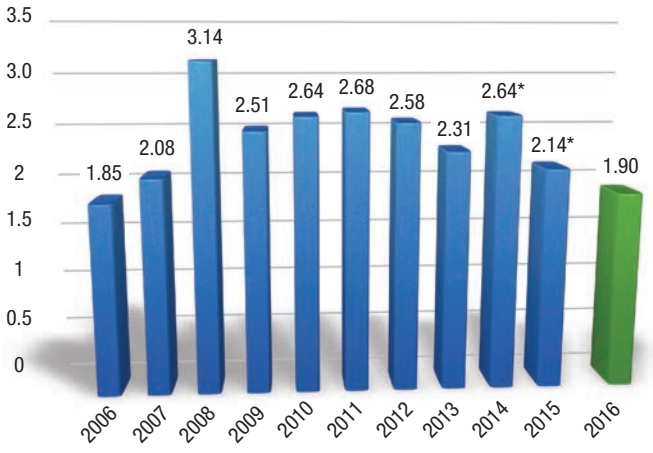
Moyle capacity is sold to electricity traders in annual, half-yearly, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use. Available capacity has been fully sold throughout the year. As a result of Electricity Market Reforms Moyle's auction prices have decreased significantly in the year. This is discussed in more detail on page 19.

The fault on the Moyle north cable reduced auction revenue by an estimated £4.0m (2014/15: £8.5m). In addition, the Moyle return conductor program incurred £42.6m (2014/15: £5.0m) of capital costs.

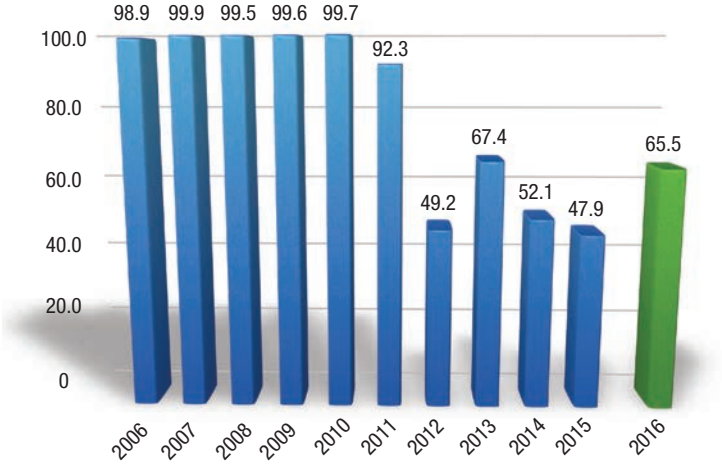
Moyle Interconnector's charging arrangement provides for all electricity suppliers (and thereby consumers) to be charged an annual use of system fee, known as the Collection Agency Income Requirement (CAIRt), to cover the costs of operating the interconnector. A CAIRt call of £24m was made for the 12 months to 30 September 2016 which covered approximately 48% of the costs forecast for the period as at the CAIRt request date. Page 18 provides more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

The directors consider that the performance of the Moyle group is shown by its earnings before interest, tax, depreciation, impairment, derecognition of assets, amortisation and cable fault related costs (adjusted EBITDA) of £28.8m (2015: £19.2m). The group made an operating loss of £34.9m (2015: profit of £7.6m). The ADSCR for the year reduced to 1.9 as a result of the significant expenditure on the Moyle return conductor which was partially funded through the use of cash reserves. Although considerably lower than our historic ratios this is still well above the 1.15 required by our financing documents.

KPI 7: Moyle ADSCR



KPI 1: Moyle Availability (%)



** The 2014 and 2015 ADSCR have been restated to remove the apportionment of the rebate account releases included in the prior year.*

Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate

Moyle Interconnector operated during the year with 65.5% availability (KPI 1) and no lost time incidents (KPI 3). The Moyle Interconnector has been operating at 250MW since its North cable experienced a subsea cable fault in June 2012. During the year work to replace the incident-prone subsea return conductors was undertaken, with the North cable being brought into operation in January 2016, restoring the cable to 500MW on a temporary basis. Further works to replace the South cable's subsea return conductor commenced at the end of March 2016, planned to align with an originally scheduled 6 month Scottish Power outage on the line supplying the Moyle Interconnector. Following restoration of the Scottish Power line in Autumn 2016 the new cable is to be tested and Moyle is to be restored to its full operating capacity.

During 2015/16 the Moyle Interconnector was completely unavailable for approximately 9 days, with 8 of these days required to facilitate the restoration of the North cable. Further outages will be required in 2016/17 to facilitate the Scottish Power works as noted above.

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

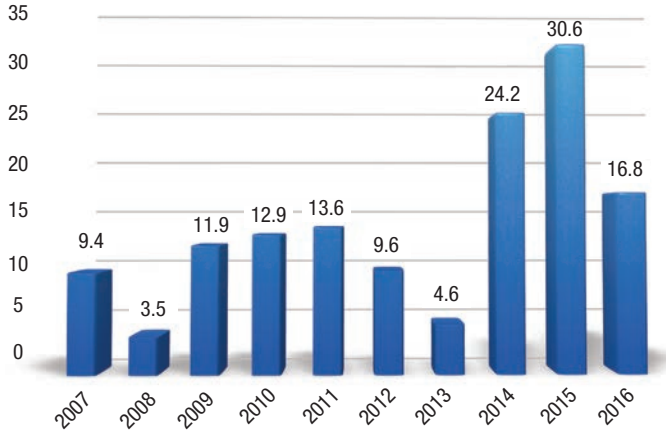
As noted previously, the interconnector business has the ability to waive use of system charges, rather than automatically charging these to supply companies and hence on to end customers. The alternative source of income for the Moyle business is the auction revenue it can gain by auctioning the access to the interconnector. To the extent that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. Over its 13 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 (CAIRt) process to avoid charging consumers. Whilst all initial modelling and expectations forecast auction revenue to be immaterial, the historic market conditions and active management of the auction opportunities resulted in this being a major source of income, to the extent that it was possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge. Auction revenues have reduced considerably as a result of the Electricity Market Reform (see page 19) and consequently it is anticipated that CAIRt calls will be required for the foreseeable future.

Investing to smooth costs

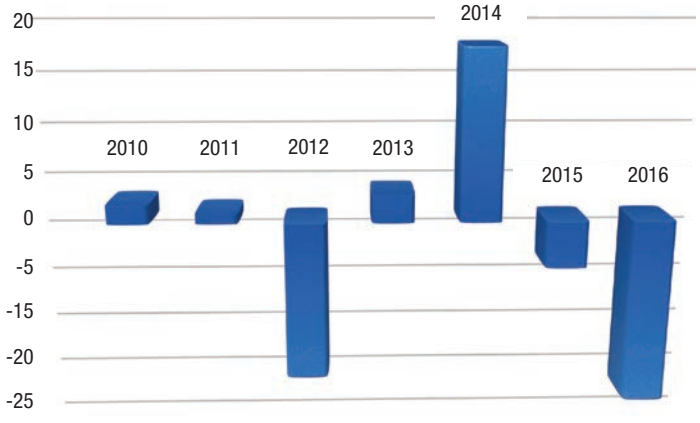
A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers. This approach enabled the Moyle business to absorb the cost of the sub-sea repairs in 2011/12 without passing the costs through into use of system tariffs. The use of reserves to fund a portion of the Moyle return conductor project has also reduced the impact of these works on electricity customers.

Cash generated in the businesses in recent years can be seen in the graph below. Within year cash is managed within the business and the subsidiary Moyle Energy Investments Ltd manages the longer term cash reserves of the Moyle business.

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



KPI 5: Moyle cash generated in the year (£m)



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

European legislation is also driving changes to the electricity market in Ireland. The "Electricity Target Model" developed does not align with the current all-island Single Electricity Market for Ireland (SEM), and as a result SEM will need to be replaced by the end of 2017. A project is in progress, led by the regulatory authorities, to implement an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland from October 2017, with the current structure being maintained until then. Moyle will continue its involvement in these developments to try and ensure a satisfactory outcome.

Major changes for interconnectors in the I-SEM include selling financial transmission rights rather than physical capacity, day ahead market coupling with GB, the introduction of a balancing market and allocation of capacity via a central European auction platform. A capacity market comprising of "centralized reliability options" is to be introduced and it is expected that interconnector owners will participate directly in this market. Further details are available at www.semcommittee.com.

Under the Electricity Market Reform, capacity payments have been introduced in Britain, with the general principle being that generators are paid for availability, particularly during 'system stress' events. While one would expect this to exert downward pressure on GB wholesale electricity prices it is uncertain how this might affect trading between the two markets, given the extent of change in the coming years. It has been decided that interconnectors will directly participate in this capacity market from 2015 (for 2020 delivery). This therefore may represent an additional revenue stream but will be subject to the rules applied and the efficient functioning of the interconnector and electricity markets in 2020. The revenue may be modest as the GB authorities appear to be keen to incentivise interconnection to markets with very different characteristics (and lower prices) such as Norway.

A second impact of the Electricity Market Reform experienced during the year was a reduction in import flows and auction revenue as the GB prices have risen relative to Ireland with the increase in the carbon tax floor. This tax increases the production price of electricity in GB but Northern Ireland electricity generators operating in the SEM are exempt. As a result, the GB to NI price differential has reduced, which has adversely affected the auction prices for interconnector capacity post April 2015 with the average price for auction import capacity falling from £5.92/MWh in 2014/15 to £2.80/MWh in 2015/16 and continuing this trend into 2016/17.

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

Gas to the West

Mutual Energy's subsidiary, West Transmission Limited (formerly Northern Ireland Energy Holdings Limited), was awarded a licence for gas transmission to the West of Northern Ireland in February 2015. West Transmission will own and operate the high pressure transmission pipeline to the West which will be constructed by SGN (the UK's second largest network company, operating across Scotland and southern England). SGN will own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas within the eight towns identified in the licence. A Planning Application has been granted for the first of these assets and construction on the Maydown Pressure Reduction Station and associated GNI(UK) connection to the North West pipeline are due to commence in the summer of this year. The first gas is expected to be available in Strabane in October 2016 with work on the high pressure transmission pipeline due to commence at Portadown in 2017, subject to obtaining necessary consents. This network extension has the prospect of bringing gas to 40,000 new customers in the West of Northern Ireland.

Mutual Energy is in a unique position to provide cost efficiency in the operation of this transmission 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 through the access to our IT systems, network control and operations and staff resources.

Gas storage

Mutual Energy continues to be 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) and a grant of €2.5m secured from the Connecting Europe Facility (CEF). In 2015 the project successfully completed the exploratory drill to a depth of circa 2km. Analysis of the results was favourable and supported previous seismic analysis. The project retained its status as a Project of Common Interest and has been provisionally selected for further CEF grant funding of up to €4.0m to facilitate pre construction engineering and design.

The main development partner is Infrastrata plc who have raised the residual funding for the drilling study via a share issue. Moyle Energy Investments continues to hold an option to exit the project should the risk profile of the project prove unsuitable.

Danny O'Malley, SGN Natural Gas and Paddy Larkin, Mutual Energy pictured during construction of the Maydown to Strabane section of the Gas to the West pipeline, November 2015.

Group Financial highlights

Cash flow and liquidity position

The majority of the finance costs 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.

Premier Transmission and Belfast Gas Transmission sub groups had a net cash outflow in the period, largely as a result of refunds of group relief received in previous periods. Moyle's cash levels decreased this year due to further use of cash reserves to absorb some of the costs of the Moyle return conductor project, reducing the amount passed through to the consumer. 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 £34.0m at year end (including cash on deposit classified as financial assets) and Belfast Gas Transmission held £9.2m. At 31 March 2016 Moyle held operating cash reserves of £31.7m. Total cash holdings by the group at year end amounted to £78.2m (2015: £102.4m).

Revenue, profitability and reserves

After accounting for debt service, the group made an after-tax loss of £28.6m (2015: £1.5m profit as restated). Adjusted EBITDA has increased from £34.5m in 2014/15 (as restated) to £44.0m.

Finance costs

Included within finance costs is £14.1m (2015: £15.9m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.1m (2015: £9.3m);
- £3.8m (2015: £5.4m) required to restate bond liability to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges £1.2m (2015: £1.2m).

The Group bonds are overseen by our financiers. Our key financiers are: 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.

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 another six customers registered for capacity with Moyle increasing the number of registered customers to 18. The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne. A total of 13 shippers are currently registered to use our system.

Partners and contractors

There has been no change to the major outsourced contractors in the year with the System Operator for Northern Ireland (SONI) overseeing the operation and administration of the Moyle Interconnector, Siemens plc undertaking the long term maintenance of the electricity convertor stations and SGN carrying out the routine maintenance, emergency response and monitoring our system from their gas control centre in London.

Staff

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

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

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 2016 is illustrated in the table below:

	Male	Female
Board	5	2
Senior management	9	3
All employees	19	11

Employee KPIs

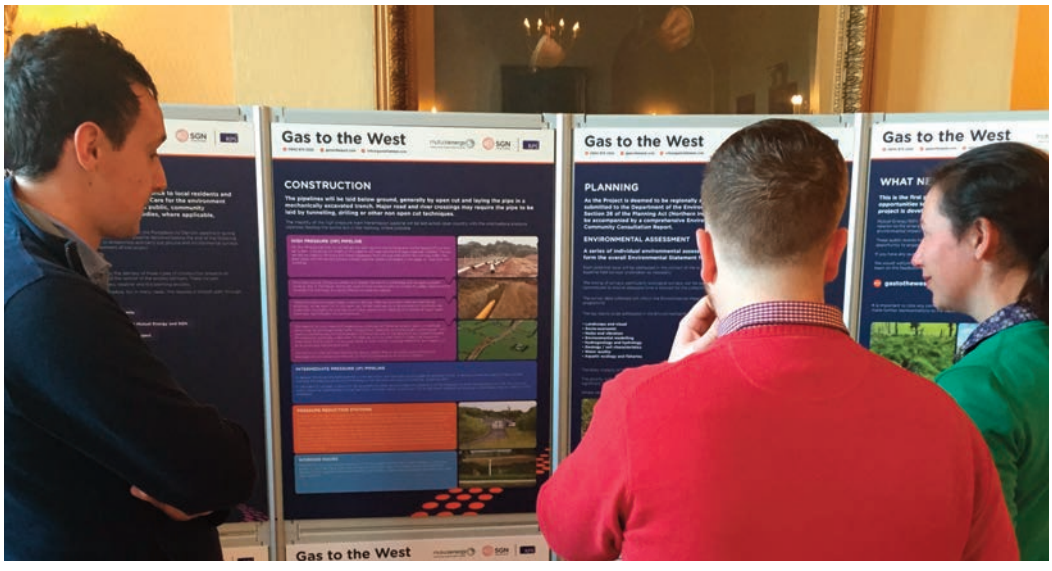
The group monitor a number of employee related KPIs, as noted below:

KPI	2016	2015
Training days per employee	3.2	3.7
Sickness absence days per employee	1.1	1.5
Personal Pension take up	96%	95%

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 pages 10 to 20.

The group also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. The group ensures robust Health & Safety systems are in place as discussed on page 25, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act 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.



Members of the public viewing the information at one of the PACC (Pre Application Community Consultation) events for Gas to the West.

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 & Safety), while the Audit Committee monitors all financial and other risks. In addition, the Moyle Project Committee manages the risks of the Moyle return conductor project and reports to the Board in this respect.

The risk register records key risks identified and how they are being managed and is reviewed regularly by the Board and the relevant Board committees. This process has been in place for the full year ended 31 March 2016 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.

Mutual Energy Finance Director Gerard McIlroy, Chairman Regina Finn and Chief Executive Paddy Larkin at the company's AGM, September 2015.

The principal risks of the group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2015
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, 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. The group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	→
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	↓
Inadequate financing, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents.	→
Liquidity risk could result in insufficient cash being available to meet the business' needs, 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 £28m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission. Banking counterparties are only used where they meet the criteria requirements of our financing documents. Liquidity risks from customers is minimised through requirements for security and protection measures built into the postalisation arrangements for the gas businesses. Business planning processes are in place to identify cash requirements in advance.	→
Business environment and market risk		
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. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 15 and 19.	→
Regulatory risk		
As the group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position.	The group's relationships with the Northern Ireland Authority for Utility Regulation (NIAUR) and Department for the Economy are managed at senior level through frequent meetings and correspondence in line with the group's communication strategy. The group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate.	→
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders 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 outsourcing as appropriate.	→
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	↓

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

Environment and safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas supply emergency exercises to ensure a robust response plan is in place and Premier Transmission Ltd and Northern Ireland Network Emergency Co-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 Offsite Gas Emergency Plan was tested as part of a major desktop exercise with all the appropriate responders in Dumfries and Galloway in September 2015. In addition an exercise with the Northern Ireland Fire and Rescue Service tested the response to two simulated casualty scenarios at Ballycronan More HVDC Converter Station.

The group has a comprehensive Health and Safety Management System (HSMS) which is based on HSE's HSG 65 'Successful Health and Safety Management' and the revised joint Institute of Directors / Health & Safety Executive guidance "Leading Health and Safety at Work". 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 which achieves a balance between the systems and behavioural aspects of management. It also treats Health and Safety management as an integral part of good management generally, rather than a stand-alone system.

In November 2015 the group was audited by the British Safety Council as part of their Five-Star Occupational Health and Safety Audit. We achieved an overall audit grading of 90.33% which equates to a 'Four Star' award.

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:

	Tonnes of CO_2e	
Emissions from:	**2016**	**2015**
Usage of gas in operations	1,762	1,303
Electricity consumption at convertor stations	1,279	1,090
Electricity, heat, steam and cooling purchased for own use	29	27
Total emissions	3,070	2,420
Emissions per GWh energy transmission	0.18	0.16

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
23 June 2016

The Mutual Energy Board

Regina Finn (49) Chairman

Regina Finn 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. She is also a Director of Lucerna Partners Limited, a UK based consultancy specialising in regulation, competition and consumer policy, and holds a non-executive position on the Board of the Channel Islands Competition Authority (CICRA). 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 establishment of the all-island energy market. She has also held positions as Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and Director of the Office of Utility Regulation in Guernsey in the Channel Islands which she set up to regulate the electricity, post and telecommunications sectors there.

Paddy Larkin (47) 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 (47) 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.

Clarke Black (62) Senior Independent Director

Clarke Black was Chief Executive of the Ulster Farmers' Union until his retirement in May 2015 and also served on several agri food related bodies which are closely involved in agriculture and food policy. He is a Fellow of the Royal Agricultural Societies and 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. Clarke is also an Independent Board Member on the Departmental Board of the Department of Justice.

Stephen Kirkpatrick (52)

Stephen Kirkpatrick joined the Mutual Energy Board in April 2010. He has chaired the Audit Committee since September 2010. Stephen is an Executive Director of Corbo Limited having previously been CEO from 2010-2015. Corbo is a large commercial property company. He is also a Non-Executive Director and Audit Committee Chair of Wireless Group plc (formerly UTV Media plc). Stephen is a fellow of the Institute of Chartered Accountants in Ireland. From 2009-2012 he was a member of the Institute's Governing Council, where he chaired the Finance Board. Stephen 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. His early career was focussed in corporate banking, holding a number of senior roles culminating in his appointment in 2002 as Managing Director Corporate and 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.

Kate Mingay (50)

Kate Mingay is Senior Adviser to Cambridge Economics Policy Associates (CEPA), where she provides corporate finance expertise to their economic and financial policy advisory business in the UK transport and other infrastructure sectors. She also acts as Strategic Adviser to a subsidiary of Hitachi on the financing for the first of their multibillion new build nuclear projects in the UK and has recently become Vice Chairman of Ansaldo STS, a listed Italian transportation company with a global presence in railway signalling and integrated transport systems. Previously, she was a Director at the UK Department for Transport for 10 years where she built and led a highly regarded in-house corporate and infrastructure finance team. She worked on complex new transport infrastructure projects: these included structuring and negotiating finance for the £5.4 billion UK Intercity Express Programme, the £2.1 billion sale of the High Speed 1 concession, as well as the £14.2 billion funding for Crossrail. In the aviation and rail sectors Kate was deeply involved in a wide range of regulation, investment and corporate finance issues. She began her career at UBS, and later Goldman Sachs, where she gained extensive financing transaction experience, particularly in the economically regulated sectors of water and electricity. She was a founding member of the HM Treasury's Major Projects Review Group, which gives independent assurance on the largest government projects.

Chris Murray (60)

Chris Murray is a member of the National Grid Leadership Team and Chief Executive Officer of Xoserve Limited. Xoserve provide data management services for the UK gas industry on behalf of all the major gas network transportation companies and provide one consistent service point for companies who use the networks to deliver gas to end users. He has over 38 years' experience in the energy industry and has held numerous operational directorates ranging from leadership of commercial areas to operation of both the national electricity and gas networks. Prior to his roles with National Grid, Chris was the founding CEO of Phoenix Natural Gas and before that worked for East Midlands Gas and British Gas. Chris is Chairman of National Grid Gas plc, National Grid Electricity plc and National Grid Gas Holdings Limited. He is the Special Adviser to the Board of the Energy and Utility Skills Council and Chairman of the Energy Generation and Supply Knowledge Transfer Network, a Fellow of the Energy Institute, Past President, Fellow and past Midlands Section Chairman of the Institution of Gas Engineers and Managers and a member of the Institute of Directors.

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 2016, 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 the UK Corporate Governance Code (September 2014) (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, 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. Board meetings are usually held 6 to 8 times per year, with 6 meetings being held in the 2015/16 year.

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 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.

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 throughout the year was 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

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	Moyle Project Committee
Regina Finn	6/6	-	2/2	-	-	-
Clarke Black	6/6	-	2/2	7/7	-	5/5
Stephen Kirkpatrick	6/6	-	-	7/7	-	-
Chris Murray	6/6	-	2/2	-	2/2	5/5
Kate Mingay	6/6	-	-	7/7	-	-
Paddy Larkin	6/6	-	-	-	2/2	5/5
Gerard McIlroy	6/6	-	-	-	-	5/5

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. Details are set out below:

Audit Committee

The Audit Committee comprised Stephen Kirkpatrick (Committee Chair), Clarke Black and Kate Mingay. Stephen Kirkpatrick is a Chartered Accountant and is considered by the Board to have recent and relevant financial experience. Meetings were also attended, by invitation, by the executive directors of the group, the external auditors, tax advisors, other advisors and other finance employees as considered necessary.

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 Clarke Black throughout the year, with Chris Murray and Regina Finn also on the committee. 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.

Risk Committee

The Risk Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive, along with other engineering and operations employees. 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.

Moyle Project Committee

Moyle Project Committee was set up in March 2015 to oversee the Moyle low voltage return conductor project. The Committee is chaired by Chris Murray, non-executive director, and also comprises Clarke Black, Paddy Larkin and Gerard McIlroy.

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

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 Strategic 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.

Long term viability

The ultimate viability of the group is subject to the protections which exist under its electricity and gas transmission licences, which allow for full recovery of costs, including finance costs. The directors have therefore focused their assessment of the group's prospects on whether there is a risk that it will have to call upon these protections more than is forecast in the ex-ante setting of tariffs, resulting in a delay in the recovery of entitled revenue.

The directors have assessed the prospects of the group over a five-year period to March 2021, taking account of the group's current position and the potential impact of the principal risks documented in the Strategic report. The most relevant of the principal risks in this regard was determined to be the operational risk associated with the major works on the Moyle Interconnector. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over this period. The plan includes detailed financial budgets and cashflow projections, and additional sensitivity and scenario analysis including plausible severe scenarios. The forecast cash generated over the five-year period is adequate to meet the group's anticipated liabilities as they fall due, including the scheduled partial repayment of bond capital and interest.

As shown in the group accounts, the group has net liabilities resulting from losses in previous years. These losses and net liabilities arose as a result of i) the mis-match that arises in the accounting for the group's inflation swaps - as explained in the directors' report; and ii) the structure of the Belfast Gas Transmission Financing plc group which incurs significant non-cash costs in respect of indexation on outstanding bond liabilities which are only recovered by the group, under its licence agreement, when the cash is required to meet the bond liability payments. Belfast Gas is expected to continue to be loss making for potentially 15 years. The group, however, is forecast to remain cash positive over that 15-year period.

Going concern

The directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose. This conclusion is based on a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities, as well as consideration of the group's capital adequacy.

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 three members retired from the company. Four new members were appointed in the year, following a recruitment exercise.

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

Mutual Energy Members during 2015/16	
Declan Billington (appointed 08/01/16)	Stephen Kirkpatrick
Clarke Black	Robert McConnell
Margaret Butler	Brendan Milligan
Bill Cherry (retired 4/09/2015)	Kate Mingay
John Cherry	Nevin Molyneaux
Robin Davey	Chris Murray
Joe Doherty	Colin Oxton
Stephen Ellis (appointed 08/01/2016)	Conor Quinn
Regina Finn	Robert Richmond
Brian Fitzpatrick	Ben Robinson
Andrew Frew	Gavin Thompson
Trevor Greene	Patrick Thompson (appointed 08/01/16)
Wesley Henderson	Gerry Walsh
Chris Horner	Peter Warry
Gillian Hughes	Noel Williams
Alan Jeffers (retired 28/08/2015)	Mark Wishart (appointed 08/01/16)
Geraldine Kelly (retired 11/02/2016)	

Directors' Remuneration Report

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

Clarke Black
Chairman
Remuneration
Committee

The Chairman's annual statement

I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2016. The group's senior leadership team possess significant knowledge and experience of the business, as well as the markets in which the business operates. In order to reward and retain these critical skilled individuals the group's senior management remuneration structure includes performance related pay, the majority of which is deferred in order to incentivise longer term performance in line with business critical projects, and the remainder of which relates to in-year performance based on operational targets. The group operates a fair and measured approach to remuneration, which we believe is aligned with the interests of NI consumers and have received positive feedback from our members in this respect.

The Directors' remuneration report 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 34 to 39 and was approved by the members at the 2014 AGM. This policy is effective for 3 years from 1 October 2014, unless otherwise amended and approved by a further binding vote. The annual report on remuneration can be found on pages 40 to 44.

Clarke Black

23 June 2016

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

Introduction

This report summarises the activities of the remuneration committee for the period to 31 March 2016. 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. 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 was approved by a binding vote at the 2014 Annual General Meeting and applies for three years from 1 October 2014, subject to any future changes approved by the members. 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, Company Secretary and senior staff;
- to determine the nature and scale of performance arrangements that encourage enhanced performance and reward the Executive Directors in a fair and responsible manner for their contributions to the success of the group whilst reviewing and having regard to remuneration trends across the company or group;
- to review and set the group's remuneration of the Executive Directors including determining targets for performance related pay;
- to determine the policy for, and scope of, pension arrangements for each executive director and other senior designated employees;
- to benchmark the remuneration of the Executive Directors and the Company Secretary against remuneration of similar persons in similarly sized companies, as required;
- to make recommendations to the Board, for it to put to the AGM for their approval in general meeting, in relation to the remuneration of the Executive Directors; and
- to agree the policy for authorising claims for expenses from the directors.

Remuneration Policy

The Remuneration Policy set out in this report, was approved at the 2014 AGM, and came into effect on 1 October 2014. The policy will be reapproved at the 2017 AGM, unless earlier revisions are made.

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: - 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.
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 based on 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: • 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 this 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 of operation of the policy, 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.	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 (e.g. 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.

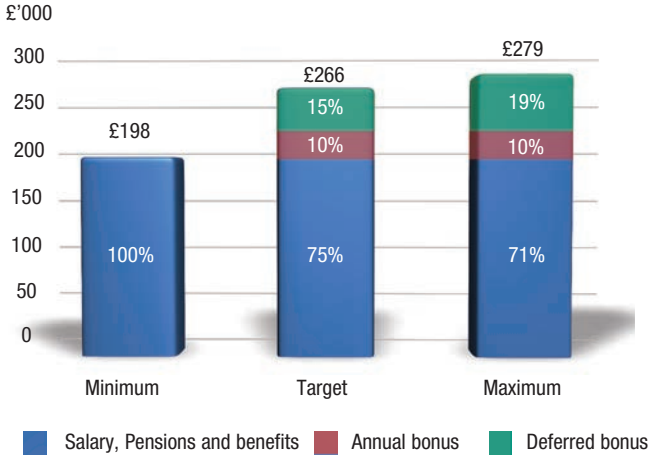
The Remuneration Committee reserves the right to make any remuneration for loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

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% at the time of policy setting.

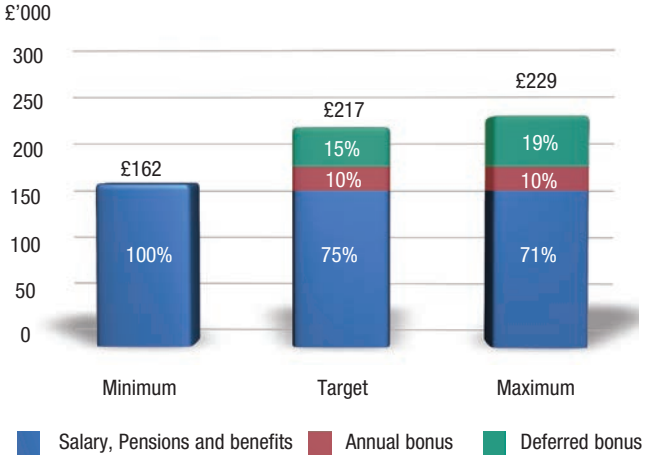
Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2016/17 under three different performance levels is shown below:

Total remuneration potential:
Chief Executive Officer Paddy Larkin



Total remuneration potential:
Finance Director Gerard McIlroy



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.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2016;
- benefits – amount received by each Executive Director in the 2015/16 financial year; and
- pension – amount received by each Executive Director in the 2015/16 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.

Policy for non-executive directors

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 2015/16 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.

The Non-Executive Directors' are appointed for an initial three-year term and normally serve two terms or in exceptions 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.

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 onwards 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. Members views will be sought going forward, at a minimum, in line with the 3 year policy approval cycle.

Mutual Energy Board (l-r): Gerard McIlroy, 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 2015/16 and 2014/15 is made up as follows:

Directors' remuneration as a single figure (2015/16)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay[6]	Pension[1]	Total for 2015/16
Executive directors						
Paddy Larkin[3]	169	1	25	45	25	265
Gerard McIlroy[4]	137	1	21	38	21	218
Non-executive directors						
Clarke Black	34	-	-	-	-	34
Regina Finn	77	-	-	-	-	77
Stephen Kirkpatrick	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Total	519	2	46	83	46	696

Directors' remuneration as a single figure (2014/15)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension[1]	Total for 2014/15
Executive directors						
Paddy Larkin[3]	167	1	20	46	25	259
Gerard McIlroy[4]	136	1	17	40	21	215
Non-executive directors						
Clarke Black	34	-	-	-	-	34
Regina Finn	77	-	-	-	-	77
Stephen Kirkpatrick	34	-	-	-	-	34
Kate Mingay[5]	31	-	-	-	-	31
Chris Murray[5]	31	-	-	-	-	31
Total	510	2	37	86	46	681

1 Figures in the table are shown before the effect of salary sacrifices, where applicable.

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

3 In the year Paddy Larkin elected to exchange £17,688 of his salary (2015: £19,400) 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 £2,441 in the year (2015: £2,677).

4 Gerard McIlroy elected to exchange £32,908 of his salary (2015: £Nil) for company paid pension contributions in the year. £4,541 NIC savings were credited to his pension account in the year (2015: £Nil).

5 Appointed as Director on 1 May 2014.

6 During the year payments in relation to the deferred bonus were made for the first time since the introduction of the deferred bonus element to the directors' remuneration.

Determination of 2015/16 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2015/16. 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.

	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%	12.0%	12.5%	12.0%	11%	10.0%	8%	7.0%
Financial performance	4.5%	4.0%	4.5%	4.0%	16%	13.0%	14%	11.5%
Regulatory/market performance	-	-	-	-	6%	5.5%	11%	10.0%
	17.0%	16.0%	17.0%	16.0%	33%	28.5%	33%	28.5%

Payments to past directors

No payments were made to past directors in the period. 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. A payment of £10,868.50 was made to him in January 2015 in respect of these services and relating expenses incurred. A payment of £3,569.99 was also made in May 2014 in relation to expenses incurred during his period of directorship.

Payments for loss of office

There were no payments for loss of office made in the year (2015: £Nil).

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

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%	-
2010/11	197	92%	-
2011/12	189	86%	-
2012/13	203	81%	-
2013/14	257	85%	-
2014/15	260	76%	-
2015/16	265	92%	88%

* 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.
** During the year payments in relation to the deferred bonus were made for the first time since the introduction of the deferred bonus element to the directors' remuneration in 2013. The percentage shown represents the amount paid as a percentage of the maximum possible payment.

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 2015/16 and 2014/15.

	Percentage increase in remuneration in 2015/16 compared with remuneration in 2014/15	
	CEO	Group's employees as a whole*
Salary and fees	1.2%	2.8%
All taxable benefits	9.9%	18.1%
Annual performance-related pay	24.3%	16.6%
Total	3.7%	4.3%

* Reflects the average change in pay for employees (excluding non-executive directors) employed throughout both the year ended 31 March 2015 and the year ended 31 March 2016.

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. The group does not pay dividends as there are no shareholders.

	2015/16	2014/15	Change
	£'000	£'000	
Total employee costs	2,154	1,915	12%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	(12,900)	22,075	(158%)

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 2016/17

The directors' salaries and fees for the 2016/17 year are as follows:

	2016/17	2015/16	Change
	£'000	£'000	
Chief Executive	172	169	1.70%
Financial Director	140	137	1.70%
Chairman	77	77	0.00%
Non-executive directors	34	34	0.00%

The annual performance-related pay for 2016/17 will operate on the same basis as for 2015/16 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 & business resilience	9.0%	9.0%	19.0%	19.0%
Financial performance	6.5%	6.5%	7.0%	7.0%
Regulatory/market performance	1.5%	1.5%	7.0%	7.0%
Total	**17.0%**	**17.0%**	**33.0%**	**33.0%**

The particulars of the performance targets relating to 2016/17 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 Clarke Black, Chris Murray and Regina Finn. 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. No advice or services were provided to the committee in respect of their consideration of executive director remuneration structure.

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.

The following table sets out actual voting at the last general meeting in which the remuneration report and the remuneration policy were approved:

	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
Remuneration report (2015 AGM)	21	100%	-	0%	-	-
Remuneration policy (2014 AGM)	19	100%	-	0%	-	-

Approval

This report was approved by the board of directors on 23 June 2016 and signed on its behalf by:

Clarke Black

23 June 2016

Regina Finn, Chairman, presenting to the Mutual Energy AGM, September 2015.

Risk Committee Report

The Risk Committee is a Committee established by the Board of Directors of Mutual Energy Ltd 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 Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive, Stephen Hemphill, Group Operations Manager and Roy Coulter, Health and Safety Manager.

Activities in 2015/16

The Committee met on two occasions during the year ended 31 March 2016 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 return conductor project. Attendance was as listed in the Corporate Governance Statement.

During the year the Committee:

- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Provided oversight and review of amendments to the 2016 Health and Safety Policy Statement and 2016 Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2015/16 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed Site Safety and Work Inspections;
- Reviewed the Environmental Policy;
- Reviewed the initial findings of the 2015 British Safety Council audit;
- 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;
- Produced risk registers for the Moyle low voltage return conductor project;
- Reviewed the inspection regime for the Belfast Gas Transmission Pipeline and its suitability for online inspection and considered the case for an additional valve at Middle Division Off-take (MDO);
- Reviewed the proposal for cyber risk on the IT systems; and
- Reviewed the Risk Committee Effectiveness Questionnaire.

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

Chris Murray
Chairman
Risk Committee

Stephen Kirkpatrick
Chairman
Audit Committee

Audit Committee Report

The committee had a particularly busy year this year and held several additional meetings in order to discuss accounting issues arising, including the accounting treatment of the repair of the Moyle Interconnector and the impairment of Moyle Interconnector. These issues are discussed in more detail in this report and the resulting adjustments reflect accounting treatment only rather than having a direct impact on cash.

During the year Moyle Interconnector (Financing) plc also produced its first half-yearly financial report in line with the requirements of the UK Listing Authority Disclosure and Transparency Rules. Prior to this, transitional provisions exempted Moyle from this reporting requirement. None of the other companies in the group are required to publish interim statements under these rules.

The committee again reviewed in detail other key judgements and accounting issues in relation to the financial statements, as well as reviewing several policies and policy compliance.

Stephen Kirkpatrick

23 June 2016

The Audit Committee was in place throughout the year ended 31 March 2016 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

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 and Kate Mingay. 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 seven times in the year ended 31 March 2016 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out hereafter, 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 Committee's work. The Committee discharges this responsibility in two stages. Firstly, as part of the audit tender process, the Committee investigates the approach of the firm, the quality of the staff and expected level of effort, comparing these to the rival firms who put forward a proposal. Then, throughout the period of appointment, the Committee reviews the audit planning documentation for each audit, ensuring its consistency with the initial proposal and its ongoing suitability.

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.

The audit engagement will be tendered during 2016/17 and the committee intends to award audit and tax services to separate advisors so as to ensure maximum independence of the auditors.

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:
  - at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
  - without management present so that any matters can be raised in confidence;
- monitoring of the statutory audit of the annual financial statements;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the re-appointment of the external auditor; pre-approving all non-audit work carried out by the external auditors above a de-minimis level of £5,000, taking into account any relevant ethical guidance on the matter. In the year total costs of £52,000 were incurred in respect of non-audit services, in relation to routine tax compliance, and research & 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 existing 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:

Accounting treatment in relation to the costs of the repair of the Moyle Interconnector

The repair of the Moyle Interconnector had been expensed to the statement of comprehensive income in the prior year, however, during the year it was agreed with PwC that these costs should be capitalised. Accordingly, a prior year adjustment of £5m was made in these financial statements to capitalise costs incurred in the year ending 31 March 2015 in respect of this project, with a consequential prior year adjustment to recognise an additional tax charge of £1m as a result of this capitalisation. Under component accounting the book value of the replaced part must be de-recognised and, accordingly, the existing parts of the cable which provided the low voltage return functionality were de-recognised during the year, upon isolation from the remainder of the existing cable.

Assessment of asset impairment and subsequent grant release

The accounting policy in respect of impairment is set out on page 70. 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 license arrangements.

During the year the committee considered impairment in respect of the Moyle Interconnector following 1) the significant reduction in auction prices achieved following increases in the carbon tax floor price in GB, and 2) the decision taken to fund a portion of the return conductor project costs from reserves, thereby foregoing the right to receive income in respect of these costs. An impairment review was carried out by management for the cash-generating unit (which includes the Moyle Interconnector, its control system and its licence) in order to determine whether any impairment exists. As there is no active market for the Interconnector and no fair value was available, the recoverable amount was calculated based on the Interconnector's value in use. The key assumptions of the impairment workings were considered by the audit committee with a particular focus on the discount rate used for the calculation, as this has a significant impact on the impairment charge. External advice was sought from an independent economic consultant in relation to the correct discount rate to be applied and this was taken into consideration by the committee in determining the final discount rate of 3.8%. The recoverable amount was determined to be £69,327,000, resulting in an impairment charge of £87,048,000 which has been pro-rated over the entire cash generating unit.

A government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment and the income has been treated as deferred income in the financial statements. Following the impairment review discussed above the deferred government grant income was released to the statement of comprehensive income, in line with IAS20, in order to ensure the same impact on the statement of comprehensive income as would have been achieved if the grant has been netted with the property, plant and equipment at the outset.

The impairment charge (net of government grant release) has been included within impairment losses in the Statement of Comprehensive Income.

Useful lives of assets

A review of the useful economic life of the interconnector was performed at 31 March 2016. The useful economic life of the Interconnector was revised down from 40 years to 30 years. This is supported by the original design life of 30 years. The remaining useful life at 1 April 2015 was revised down from 27 years to 17 years. The change in useful economic life has been recognised prospectively in line with IAS 8 and would have resulted in an additional charge of £1,850,000 within operating costs in the statement of comprehensive income in the year, were it not for the impact of the impairment and derecognition in the year.

Valuation of the Platina Fund

Moyle Energy Investments Limited holds investments in the Platina renewable energy fund, PEN III, (formerly known as European Renewable Energy Fund Limited Partnership). An impairment review was carried out at 31 March 2016 as a result of the identification of

triggers for impairment which included low wholesale electricity prices and adverse movements in Euro exchange rates from inception. Impairment calculations were performed and the valuation of the fund was determined to be £8,897,000 compared to the book value of £11,076,000. The resulting impairment of £2,179,000 was charged to the statement of comprehensive income in the year.

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. 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.

Other key judgements and policies are included in note 1 on page 76.

The other financial reporting matters which the Committee considered included:

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

Internal controls and risk management systems

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

- reviewing the effectiveness of the group's internal controls and risk management systems 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: staff leaving, anti-bribery policy, procurement, staff remuneration, specialist contracts, staff education and training, use of contractors, fraud detection and response;
- reviewing and approving policies including, whistleblowing, environmental policy and procurement; and
- reviewing cyber-attack resilience.

Members

Declan Billington

Declan Billington is CEO of leading animal feed manufacturer, Thompsons. He is a member of the Agri-Food Strategy Board and also represents Northern Ireland on the board of the leading UK based agricultural lobbying body, the Agricultural Industries Confederation. As well as an extensive track record in the agri-food sector, he also sits on the Ministerial Energy and Manufacturing Advisory Group. He has specialist experience in environmental regulation, leading NIFDA delegation meetings with the Northern Ireland Environment Agency (NIEA) which resulted in a prosperity agreement with the Agency, and has recently taken up the position of Chair at NIFDA and will hold this post for a two year period. Declan has previously held a number of prominent industry positions including Chair of CBI Northern Ireland, Chair of the Economic Development Forum's Skills sub group, and Chair of the Northern Ireland Grain Trade Association.

Margaret Butler

Margaret Butler is a retail banker with multinational experience and a career spanning 45 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 Cherry

John Cherry is an external investigator for a major financial institution and was also 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 Davey has spent a lifetime in industry and energy studies. After graduating from Queen's University, he spent ten years in production management in the food industry in England, Scotland, the Republic of Ireland and Northern Ireland. He then took up a lectureship in Food Technology and Science in the Upper Bann Institute of Further and Higher Education. In this

Members' Day, Ballycronan More, May 2016.

position he identified a need for energy management training and on becoming a member in the Energy Institute he developed and directed City and Guilds courses in this diverse field. As the demand for higher level courses developed, he helped to develop and lead the Energy Institute's advanced open learning course TEMOL (Training in Energy Management through Open Leaming). He carried out numerous energy surveys throughout the UK as an accredited energy manager with the Carbon Trust, more recently as a lead assessor he has completed many energy audits for the ESOS programme. He is a Chartered Scientist, a Chartered Energy Manager, Fellow of the Energy Institute and a past chairman of the Energy Institute Northern Ireland

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).

Stephen Ellis

Stephen Ellis has over 28 years' experience across all sectors of the oil and gas industry, with particular expertise in Liquefied Natural Gas (LNG), gas transmission pipelines and commercial operations. He has held a number of senior positions with BG Group, and has recently established his own energy consultancy, Carbon Consulting, supporting and advising a number of energy projects in the UK, Canada and the US. He has held a number of Board and General Management positions in BG Group's incorporated and joint venture companies including; Director and GM for Premier Transmission, (the operator of the Scotland to Northern Ireland transmission pipeline), Commercial Director for Phoenix Natural Gas, Board Director for Atlantic LNG and Commercial Director for Atlantic LNG in Trinidad. Stephen has an MBA from Bath University and an Honours Degree in Economics from Queen's University.

Members' Day, Ballycronan More, May 2016.

Brian Fitzpatrick

Brian Fitzpatrick is the Managing Director of Isambard Associates Limited. Previous to starting his own company Brian was the Buildings & Facilities Manager for the Central Bank of Ireland and led the FM design input to enable their new headquarters to achieve BREEAM Outstanding. He is a Chartered Engineer and has worked in Ireland for global organisations including: B/E Aerospace , Xerox Corporation, Medtronic AVE, A&L Goodbody Solicitors and internationally for AECOM (formerly Worley Consultants) in Auckland, New Zealand and B&C PTY Ltd, Sydney Australia.

Andy Frew

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

Trevor Greene

Trevor Greene worked for the Northern Ireland Housing Executive before his retirement in 2012. 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 and 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 Ballynure Angling Club.

John Cherry and Clarke Black at the Mutual Energy AGM, September 2015.

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 is a Council Member and Non-Executive Director of the Advertising Standards Authority (ASA) and an Independent Assessor with the Commissioner for Public Appointments for Northern Ireland. He is also an Education Speaker for Cats Protection, the national animal charity. He previously served as a Lay Representative for the Northern Ireland Medical and Dental Training Agency and was a Public Director with the Lagan Canal Trust.

Christopher Horner

Christopher Horner is a chartered civil engineer with over 20 years' experience in the industry. Following graduation from 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 and 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.

Robert McConnell

Robert McConnell is a Company Director with CCP Gransden Ltd, with particular responsibility for the Engineering and Manufacturing division which specialises in manufacturing with advanced composites and thermoplastics. Robert is also the current Technical Committee Chairman for the Northern Ireland Advanced Engineering Competence Centre. Robert is a member of the Institute of Directors and has recently achieved his Certificate (Cert.IoD) and Diploma (Dip.IoD) in Company Direction. Robert is registered as a Chartered Engineer with the Institute of Materials, Minerals and Mining; and is working towards Chartered Director Status with the Institute of Directors. Robert originally qualified with a BEng (Hons) in Engineering Management, and later with an MSc in International Business, both from Ulster University.

Mutual Energy Chief Executive Paddy Larkin at the AGM, September 2015.

Brendan Milligan

Brendan Milligan qualified in London as a Chartered Accountant. Currently a Financial Controller with Glen Water Limited (a joint venture between Laing O'Rourke and Veolia Water delivering a PFI solution to Northern Ireland Water), much of his recent career has involved change management in complex organisations.

Nevin Molyneaux

Nevin Molyneaux is an Embedded Software Technical Specialist for Schrader Electronics Ltd, where his responsibilities are as a key contributor to the design and development of the company's range of application specific integrated circuits. Nevin is a Chartered Engineer with around 18 years of experience.

Colin Oxton

Colin Oxton has a B.Eng (Hons) in Systems and Control Engineering from the University of Sheffield. He holds the position of Lead Process Engineer and has worked in the gas industry for over 20 years on projects throughout the UK and Ireland. He has been a member of the Institute of Measurement and Control since 2008.

Conor Quinn

Conor Quinn is a Chartered Electrical Engineer. With a background in technology companies and funding for research and development he currently works at Queen's University Belfast in the role of Business Alliance Manager. He is responsible for developing collaborative projects with industrial partners accessing public sector support for innovation from regional, UK and EU sources where appropriate.

Members' Day, Ballycronan More, May 2016.

Robert Richmond

Robert Richmond is a retired dairy farmer and has a keen interest in the development of renewable energy. He has developed his own wind energy project in the last year.

Ben Robinson

Ben Robinson has a senior profile in the food and drink processing industry in Ireland and Europe with an extensive international, political, City network and profile. 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. Also leading a 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. Recently Ben has accepted a role chairing a Belfast community development initiative.

Gavin Thompson

Gavin Thompson has worked for Michelin Tyre plc since leaving school in 1982 and holds a Master's Degree in Electrical and Electronic Engineering from Queen's and is a Chartered Electrical Engineer. He is currently Energy Manager at the Ballymena factory, having held numerous technical roles during his career. He also co-ordinates energy matters for the three UK plants, and represents the UK on energy policy at the Michelin Group (worldwide) level. He is a Deacon in Ballymena Baptist Church where he also leads the Junior Boys Brigade and is part of the music ministry team.

Patrick Thompson

Patrick Thompson is the Operations Manager at the Energy Saving Trust in Northern Ireland. He has worked at the consumer end of the energy efficiency and utility sector since 2001 supporting householders to make informed choices about energy use and carbon emissions though direct advice and the delivery of energy efficiency programmes for government. He currently sits on the Fuel Poverty Coalition Steering Group and has previously sat on the former DSD fuel Poverty Advisory Group and Green New Deal Housing Group.

Members' Day, Ballycronan More, May 2016.

Gerry Walsh

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 Eireann (BGE). He filled a number of General Management and Strategic roles in BGE culminating in a seven year period as Chief Executive. He led the transformation of the state-owned business to become a highly successful all Ireland natural gas and electricity supplier and investor in electricity generation. He left BGE in 2007 to work in the private sector as a strategic business consultant, setting up Spruce Consulting Ltd.

Peter Warry

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. Peter was Chairman of Mutual Energy from 2008 to 2013.

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland for seven years (2004-2011), where his raison d'etre was to promote the benefits of energy efficiency and 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 was the Chair of the Northern Ireland Fuel Poverty Advisory Group with the remit to advise the Minister and the Interdepartmental Fuel Poverty Group on fuel poverty issues . He continues to maintain relationships with key Northern Ireland stakeholders such as government departments, PowerNI, Phoenix Natural Gas, Firmus Energy, Northern Ireland Housing Executive, housing associations, Oil Federation and local authorities. He is a former RAF Wing Commander and Carrickfergus Councillor and is currently the Head of Operations for the Alliance Party in East Antrim. Noel has been a member of Mutual Energy since 2008.

Mark Wishart

Mark Wishart works as an Asset Management Adviser for the Strategic Investment Board (NI Ltd). This role involves supporting each of the government departments in Northern Ireland in the development of their asset management strategies, plans and policies to ensure that public sector assets are efficiently and effectively managed. Mark had previously undertaken a review of key economic and social Infrastructure across the region which assessed stock, condition, operational costs, ownership models, capacity, exogenous drivers of changes and investment requirements to inform the development of the next iteration of the Executive’s Investment strategy for Northern Ireland. He is a member of the Institute of Asset Management and sits on the Cabinet Office’s Property Efficiency Steering Group.

Mutual Energy Limited

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

Annual report for the year ended

31 March 2016

Directors

Regina Finn	Chairman
Patrick Larkin	Executive director
Gerard McIlroy	Executive director
Clarke Black	Senior independent director
Stephen Kirkpatrick	Non-executive director
Kate Mingay	Non-executive director
Christopher Murray	Non-executive director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

Arthur Cox Northern Ireland
Victoria House
15-17 Gloucester Street
Belfast, BT1 4LS

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 2016

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2016.

General information on the company can be found on page 58 and within note 1 to the financial statements.

Results

The group's loss for the year is £28,557,000 (2015: £1,525,000 profit as restated).

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

Directors

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

Clarke Black

Regina Finn

Stephen Kirkpatrick

Patrick Larkin

Gerard McIlroy

Kate Mingay

Christopher Murray

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, 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.

Directors' report for the year ended 31 March 2016 (continued)

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.

By order of the Board

Gerard McIlroy
Company secretary
23 June 2016

Independent auditors' report to the members of Mutual Energy Limited

Report on the financial statements

Our opinion

In our opinion:

- Mutual Energy Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 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 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.

What we have audited

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the group and parent company balance sheets as at 31 March 2016;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended;
- the group and parent company statement of changes in equity 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law 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.

Opinion on other matters 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.
- the information given in the Corporate Governance Statement set out on pages 28 - 32 with respect to internal control and risk management systems and about share capital structures 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.

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

Director's 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.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. 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 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
8 July 2016

Group statement of comprehensive income for the year ended 31 March 2016

		2016			2015 (as restated)		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations		**68,097**	**-**	**68,097**	57,311	-	57,311
Operating costs	3	**(97,603)**	**-**	**(97,603)**	(41,430)	-	(41,430)
Earnings before interest, tax, depreciation, impairment, derecognition of assets, amortisation of intangible assets and cable fault related income/costs (adjusted "EBITDA")		**43,959**	**-**	**43,959**	34,541	-	34,541
Amortisation of intangible assets		**(5,550)**	**-**	**(5,550)**	(5,550)	-	(5,550)
Depreciation (net of amortisation of government grants)		**(7,644)**	**-**	**(7,644)**	(5,125)	-	(5,125)
Derecognition of assets		**(4,815)**	**-**	**(4,815)**	-	-	-
Impairment losses (net of government grant adjustment)	3	**(55,456)**	**-**	**(55,456)**	-	-	-
Exceptional item - cable fault related costs	4	**-**	**-**	**-**	(7,985)	-	(7,985)
Operating (loss)/profit		**(29,506)**	**-**	**(29,506)**	15,881	-	15,881
Finance income	6	**597**	**-**	**597**	612	-	612
Finance costs	6	**(14,258)**	**-**	**(14,258)**	(15,903)	-	(15,903)
Finance income - fair value adjustment on derivative financial instruments	6	**-**	**1,498**	**1,498**	-	938	938
Finance costs - net	6	**(13,661)**	**1,498**	**(12,163)**	(15,291)	938	(14,353)
(Loss)/profit before income tax		**(43,167)**	**1,498**	**(41,669)**	590	938	1,528
Income tax credit/(charge)	7	**14,187**	**(1,075)**	**13,112**	184	(187)	(3)
(Loss)/profit for the year attributable to the owners of the parent	17	**(28,980)**	**423**	**(28,557)**	774	751	1,525

The notes on pages 67 to 96 are an integral part of these consolidated financial statements.

Group and parent company balance sheet at 31 March 2016

		Group		Company	
	Note	**2016 £'000**	2015 (as restated) £'000	**2016 £'000**	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**162,319**	200,666	**40**	30
Intangible assets	10	**133,031**	157,610	**-**	-
Investments	11	**-**	-	**10,250**	10,250
Other investments	12	**8,897**	11,076	**-**	**-**
Deferred income tax assets	20	**7,513**	8,588	**56**	69
		311,760	377,940	**10,346**	10,349
Current assets					
Trade and other receivables	13	**15,150**	18,310	**3,337**	2,946
Financial assets	14	**13,511**	-	**-**	-
Cash and cash equivalents	15	**64,749**	102,422	**1,167**	940
		93,410	120,732	**4,504**	3,886
Total assets		**405,170**	498,672	**14,850**	14,235
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	16	**-**	-	**-**	-
Retained earnings	17	**(29,132)**	(575)	**(3,578)**	(3,174)
Total equity		**(29,132)**	(575)	**(3,578)**	(3,174)
Liabilities					
Non-current liabilities					
Borrowings	18	**291,081**	302,084	**17,721**	16,728
Provisions	19	**3,201**	3,091	**-**	-
Deferred income tax liabilities	20	**34,459**	47,314	**-**	-
Government grant	21	**30,958**	65,451	**-**	-
Derivative financial instruments	25	**41,441**	42,939	**-**	-
		401,140	460,879	**17,721**	16,728
Current liabilities					
Trade and other payables	22	**17,170**	17,512	**707**	677
Corporation tax payable		**885**	4,802	**-**	4
Borrowings	18	**13,723**	13,346	**-**	-
Government grant	21	**1,384**	2,708	**-**	-
		33,162	38,368	**707**	681
Total liabilities		**434,302**	499,247	**18,428**	17,409
Total equity and liabilities		**405,170**	498,672	**14,850**	14,235

The notes on pages 67 to 96 are an integral part of these financial statements.
The financial statements on pages 63 to 96 were authorised for issue by the Board of Directors on 23 June 2016 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 statement of changes in equity for the year ended 31 March 2016

Group	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 April 2014	-	(2,100)	(2,100)
Total comprehensive loss for the year	-	(2,438)	(2,438)
At 31 March 2015 (as previously reported)	-	(4,538)	(4,538)
Restatement (*)	-	3,963	3,963
At 31 March 2015 (as restated)	-	(575)	(575)
Total comprehensive loss for the year	-	(28,557)	(28,557)
At 31 March 2016	**-**	**(29,132)**	**(29,132)**

Company	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 April 2014	-	(2,952)	(2,592)
Total comprehensive loss for the year	-	(582)	(582)
At 31 March 2015	-	(3,174)	(3,174)
Total comprehensive loss for the year	-	(404)	(404)
At 31 March 2016	**-**	**(3,578)**	**(3,578)**

The notes on pages 67 to 96 are an integral part of these financial statements.

(*) The restatement reflects a prior year adjustment to capitalise £5,017,000 expenditure in relation to the Moyle return conductor works which had previously been treated as revenue expenditure. The subsequent tax impact of this was a tax charge of £1,054,000. This adjustment has no impact on the balance sheet or reserves at 1 April 2014.

Group and parent company cash flow statements for the year ended 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 (as restated) £'000	**2016 £'000**	2015 £'000
Cash flows from operating activities					
(Loss)/profit before income tax		**(41,669)**	1,528	**(428)**	(710)
Adjustments for:					
Finance costs – net		**12,163**	14,353	**991**	931
Depreciation and impairment of property, plant and equipment		**82,524**	7,833	**26**	38
Amortisation and release of government grants		**(35,817)**	(2,708)	**-**	-
Amortisation and impairment of intangible assets		**24,579**	5,550	**-**	-
Impairment of investment		**2,179**	-	**-**	**-**
Movement in trade and other receivables		**3,160**	(2,982)	**(391)**	(448)
Movement in trade and other payables		**(2,398)**	7,226	**375**	136
Income tax (paid)/received		**(2,585)**	(247)	**(312)**	87
Non-operating element of insurance proceeds		**-**	(4,000)	**-**	-
Net cash generated from operating activities		**42,136**	26,553	**261**	34
Cash flows from investing activities					
Interest received		**598**	420	**2**	3
Investment in financial asset		**(13,511)**	-	**-**	-
Purchase of property, plant and equipment		**(42,123)**	(9,086)	**(36)**	(21)
Purchase of other investment		**-**	188	**-**	-
Repayment of investment		**-**	-	**-**	-
Non-operating element of insurance proceeds		**-**	4,000	**-**	-
Net cash used in investing activities		**(55,036)**	(4,478)	**(34)**	(18)
Cash flows from financing activities					
Interest paid		**(9,567)**	(7,979)	**-**	-
Repayment of borrowings		**(15,206)**	(16,367)	**-**	-
Net cash used in financing activities		**(24,773)**	(24,346)	**-**	-
Movement in cash and cash equivalents		**(37,673)**	(2,271)	**227**	16
Cash and cash equivalents at the beginning of the year	15	**102,422**	104,693	**940**	924
Cash and cash equivalents at the end of the year	15	**64,749**	102,422	**1,167**	940

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

	Group		Company	
	2016 £'000	2015 (as restated) £'000	**2016 £'000**	2015 £'000
Net cash generated from operating activities before exceptional items	**42,716**	33,543	**261**	34
Cash flows in respect of exceptional items	**(580)**	(6,990)	**-**	-
Net cash generated from operating activities	**42,136**	26,553	**261**	34

The notes on pages 67 to 96 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2016

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 23 June 2016 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 76.

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 2016 and applicable to the group and the parent company

There were no standards, amendments and interpretations to published standards effective for the year ended 31 March 2016 that are relevant to the group and parent company's operations.

Standards, amendments and interpretations effective in the year to 31 March 2016 and not applicable to the group and the parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2016 but they are not relevant to the group and parent company's operations:

Amendment to IAS19 Employee benefits on defined benefit plans (1 July 2014)

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and parent company, but are applicable to the group and parent company

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 group and the parent company's financial statements in the period of initial application.

Amendment to IAS 1 Preparation of financial statements under the disclosure initiative (1 January 2016)

Amendment to IAS 7 Statement of cash flows under the disclosure initiative (1 January 2017) (*)

Amendment to IAS 12 on recognition of deferred tax for unrealised losses (1 January 2017) (*)

Amendment to IAS 16 and IAS 38 on identification of acceptable methods of depreciation and amortisation (1 January 2016)

Amendment to IAS 27 Separate financial statements (1 January 2016)

Notes to the financial statements for the year ended 31 March 2016

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

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and parent company, but are applicable to the group and parent company (continued)

Amendment to IFRS 10 and IAS 28 on sale or contributions of assets (1 January 2016) (*)

IFRS 9 Financial instruments (1 January 2018) (*)

Amendment to IFRS 9 on general hedge accounting (1 January 2018) (*)

Amendment to IFRS 11 Joint arrangements on acquisition of interest on a joint operation (1 January 2016)

IFRS 15 Revenue from contracts with customers (1 January 2018) (*)

Amendment to IFRS 15 Revenue from contracts with customers - clarifications (1 January 2018) (*)

IFRS 16 Leases (1 January 2019) (*)

* 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 2016. 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 amendment to IFRS 9 on general hedge accounting (1 January 2018) (not yet endorsed by EU), the company expects the reinstatement of hedge accounting treatment for the fixed borrowings and associated derivatives if the exposure draft treatment is adopted into the standard.

Notes to the financial statements for the year ended 31 March 2016

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

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 18 years for the Scotland Northern Ireland pipeline, 21 years for the Moyle Interconnector and 36 years for the Belfast Gas Transmission pipeline.

Notes to the financial statements for the year ended 31 March 2016

1 Accounting policies, financial risk management and 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	30 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.

Assets under construction are stated at historical cost less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value 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 entity and the cost of the item can be measured reliably. Assets under construction are not depreciated until commissioned.

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.

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 assets

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

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

Notes to the financial statements for the year ended 31 March 2016

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

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

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

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

The group enters into derivative financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the 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.

Notes to the financial statements for the year ended 31 March 2016

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

Impairment of financial assets

(a) Assets held at amortised cost

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

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

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

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

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

(b) Available-for-sale financial assets

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

Notes to the financial statements for the year ended 31 March 2016

1 Accounting policies, financial risk management and 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.

Notes to the financial statements for the year ended 31 March 2016

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

Government grants

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

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

The group contributes to individuals' personal pension schemes. Contributions are recognised in the statement of comprehensive income in the period in which they become payable.

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 factors

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.

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 £2,442,000.

Notes to the financial statements for the year ended 31 March 2016

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

Financial risk management (continued)

(a) Market risk (continued)

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 25.

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 paragraps.

Fair value estimation

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

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

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

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

Notes to the financial statements for the year ended 31 March 2016

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. During the year the useful economic life of the Interconnector was revised down from 40 years to 30 years. This is supported by the original design life of 30 years. The remaining useful life at 1 April 2015 was revised down from 27 years to 17 years. This reduction in useful life is supported by the faults on the Moyle Interconnector and reflects the design life of the asset as stated by the manufacturers. This change in useful life has been recognised prospectively in line with IAS 8.

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 24.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 25.5 years, depreciation would have decreased by £123,000 and if the remaining useful economic life had been assessed at 23.5 years, depreciation would have increased by £133,000.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 17 years at the beginning of the year. If the remaining useful economic life had been assessed at 18 years' depreciation would have decreased by £278,000 and if the remaining useful economic life had been assessed at 16 years' depreciation would have increased by £313,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 24 years at the beginning of the year. If the remaining useful economic life had been assessed at 25 years depreciation would have decreased by £50,000 and if the remaining useful economic life had been assessed at 23 years depreciation would have increased by £54,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 4.17%. The decommissioning provision has been discounted using a rate of 1.95%. 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%	**529**
Decrease in inflation factor by 1%	**(458)**
Increase in discount rate by 1%	**(463)**
Decrease in discount rate by 1%	**547**

(c) Insurance claim

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.

(d) Impairment reviews

IFRS requires management to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the group's impairment evaluation and hence results. The group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details of the key assumptions and sensitivity are provided in note 9.

Notes to the financial statements for the year ended 31 March 2016

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, impairment, derecognition of assets, amortisation and cable fault related 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 2016	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	34,622	26,390	7,085	-	68,097
Segment expenses	(5,853)	(16,308)	(2,716)	739	(24,138)
Segment results (Adjusted EBITDA)*	28,769	10,082	4,369	739	43,959
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(3,935)	(2,684)	(958)	(67)	(7,644)
Derecognition of assets	(4,815)	-	-	-	(4,815)
Impairment losses (net of government grant adjustment)	(53,277)	-	-	(2,179)	(55,456)
Finance income	1,325	206	53	(987)	597
Finance costs	(5,014)	(4,449)	(4,794)	(1)	(14,258)
Fair value adjustment on derivative financial instruments	-	1,498	-	-	1,498
(Loss)/profit before income tax	(38,608)	3,251	(3,817)	(2,495)	(41,669)
Income tax credit/(charge)	12,878	(1,029)	1,263	-	13,112
(Loss)/ profit for the year	(25,730)	2,222	(2,554)	(2,495)	(28,557)
Assets					
Segment assets	111,890	151,966	127,810	13,504	405,170

*Adjusted EBITDA is calculated as earnings before interest, tax, depreciation, impairment, derecognition of assets, amortisation and cable fault related costs (adjusted "EBITDA").

Notes to the financial statements for the year ended 31 March 2016

2 Segment information (continued)

Year ended 31 March 2015 (as restated)	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	24,652	25,676	6,982	1	57,311
Segment expenses	(5,409)	(14,894)	(2,764)	297	(22,770)
Segment results (Adjusted EBITDA)*	19,243	10,782	4,218	298	34,541
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,045)	(2,057)	(959)	(64)	(5,125)
Exceptional item – cable fault related costs	(7,985)	-	-	-	(7,985)
Finance income	1,267	217	55	(927)	612
Finance costs	(6,984)	(4,389)	(4,529)	(1)	(15,903)
Fair value adjustment on derivative financial instruments	-	938	-	-	938
Profit/(loss) before income tax	1,835	4,089	(3,702)	(694)	1,528
Income tax credit/(charge)	195	(574)	256	120	(3)
Profit/(loss) for the year	2,030	3,515	(3,446)	(574)	1,525
Assets					
Segment assets	190,113	157,607	135,754	15,198	498,672

*Adjusted EBITDA is calculated as earnings before interest, tax, depreciation, impairment, derecognition of assets, amortisation and cable fault related costs (adjusted "EBITDA").

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 £32,232,000 (2015: £32,658,000) 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 total revenues) are as follows:

	2016 £'000	2015 £'000
Customer A	**1,855**	2,632
Customer B	**1,087**	2,403
	2,942	5,035

* Included in segmental revenue is a CAIRt call of £23.4m (2015: £12.8m).

Notes to the financial statements for the year ended 31 March 2016

3 Expenses by nature – operating costs

Group	2016 £'000	2015 (as restated) £'000
Employee benefit expense (note 5)	**2,154**	1,915
Depreciation and amortisation	**15,240**	13,383
Derecognition of assets	**4,815**	-
Impairment losses (net of government grant adjustment) (*)	**55,456**	-
Amortisation of deferred government grants	**(2,046)**	(2,708)
Operating lease payments	**243**	245
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	**53**	45
Fees payable to the company's auditor in respect of taxation services	**52**	24
Fees payable to the company's auditor in respect of other services	**-**	17
Other expenses	**21,636**	20,524
Exceptional item – cable fault related costs (note 4)	**-**	7,985
Total operating costs	**97,603**	41,430

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

(*) As a consequence of the impairment of the Moyle Interconnector (£68,019,000 - note 9) and the licence (£19,029,000 - note 10) the remaining government grant (£33,771,000 - note 21) was released in line with IAS20. The net impact was a charge to the Statement of comprehensive income of £53,277,000. A further £2,179,000 impairment was charged to the statement of comprehensive income in respect of the impairment of the Platina renewable energy fund giving a net impairment charge of £55,456,000.

4 Exceptional item – cable fault related 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	2016 £'000	2015 (as restated) £'000
Exceptional item - cable fault related costs	**-**	7,985

Cable fault related costs

Cable fault related costs totaling £Nil (2015: £7,985,000 as restated) comprise the costs directly incurred and expensed directly to the group statement of comprehensive income. These costs address the 2012 subsea fault, including investigating potential repair solutions.

The tax impact of this exceptional item was a current tax credit of £Nil (2015: £1,677,000 as restated).

Notes to the financial statements for the year ended 31 March 2016

5 Employee benefit expense

Group	2016 £'000	2015 £'000
Wages and salaries	**1,750**	1,585
Social security costs	**212**	190
Pension costs	**192**	140
	2,154	1,915

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 28 (2015: 24). All staff perform asset management activities.

Directors' emoluments	2016 £'000	2015 £'000
Aggregate emoluments	**386**	409
Contributions paid to defined contribution pension scheme	**104**	68
	490	477

Pension scheme	Number	Number
Members of defined contribution pension scheme	**23**	19

Directors' emoluments represent the remuneration of the group's executive directors. The remaining directors of the group received £213,000 (2015: £207,000) 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 £218,000 (2015: £215,000) and the contributions paid to his defined contribution pension scheme were £45,000 (2015: £47,000).

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 2016

6 Finance income and costs

Group	2016 £'000	2015 £'000
Interest expense:		
Borrowings (including borrowing fees)	**14,148**	15,901
Movement of discount on decommissioning provision	**110**	2
Finance costs	**14,258**	15,903
Interest income:		
Short-term bank deposits	**(597)**	(612)
Fair value adjustment in respect of derivative financial statements (note 25)*	**(1,498)**	(938)
Finance income	**(2,095)**	(1,550)
Finance costs – net	**12,163**	14,353

*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)/charge

Group	2016 £'000	2015 (as restated) £'000
Current income tax:		
Current tax on loss/profit for the year	**1,207**	1,618
Adjustments in respect of previous periods	**(2,539)**	(70)
Total current income tax	**(1,332)**	1,548
Deferred income tax:		
Origination and reversal of temporary differences	**(13,156)**	(1,720)
Arising on derivative financial instruments	**1,075**	187
Adjustments in respect of previous periods	**301**	(12)
Total deferred income tax (note 20)	**(11,780)**	(1,545)
Income tax (credit)/charge	**(13,112)**	3

Notes to the financial statements for the year ended 31 March 2016

7 Income tax (credit)/charge (continued)

The income tax (credit)/charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are reconciled below:

Group	2016 £'000	2015 (as restated) £'000
(Loss)/profit before income tax	**(41,669)**	1,528
Tax calculated at the UK standard rate of corporation tax of 20% (2015: 21%)	**(8,334)**	321
Effects of:		
Expenses not deductible	**362**	-
Reduction in corporation tax rate on deferred tax assets/liabilities	**(2,983)**	77
Treatment of indexation of borrowings	**59**	(321)
Decommissioning provision	**22**	8
Adjustments in respect of previous periods	**(2,238)**	(82)
Income tax (credit)/charge	**(13,112)**	3

Future tax changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Accordingly the company's taxable profits are taxed at a rate of 20% during the year.

Further reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates.

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 £404,000 (2015: £582,000).

Notes to the financial statements for the year ended 31 March 2016

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	Gas Assets under construction £'000	Total £'000
Cost							
At 1 April 2014	147,064	128,654	3,938	157	487	-	280,300
Additions	-	-	-	-	1,698	306	2,004
Disposals	-	(755)	-	-	(251)	-	(1,006)
At 31 March 2015 (as previously reported	147,064	127,899	3,938	157	1,934	306	281,298
Restatement – Additions (*)	-	5,017	-	-	-	-	5,017
At 31 March 2015 (as restated)	147,064	132,916	3,938	157	1,934	306	286,315
Additions	-	42,579	-	-	1,462	136	44,177
Derecognition	-	(7,559)	-	-	-	-	(7,559)
At 31 March 2016	**147,064**	**167,936**	**3,938**	**157**	**3,396**	**442**	**322,933**
Accumulated depreciation							
At 1 April 2014	35,696	39,689	2,270	4	408	-	78,067
Provided during the year	4,389	3,180	189	11	64	-	7,833
Disposals	-	-	-	-	(251)	-	(251)
At 31 March 2015	40,085	42,869	2,459	15	221	-	85,649
Provided during the year	4,389	4,435	162	10	694	-	9,690
Derecognition	-	(2,744)	-	-	-	-	(2,744)
Impairment	-	67,301	718	-	-	-	68,019
At 31 March 2016	**44,474**	**111,861**	**3,339**	**25**	**915**	**-**	**160,614**
Net book amount							
At 31 March 2016	**102,590**	**56,075**	**599**	**132**	**2,481**	**442**	**162,319**
At 31 March 2015 (as restated)	106,979	90,047	1,479	142	1,713	306	200,666
At 31 March 2015 (as previously reported)	106,979	85,030	1,479	142	1,713	306	195,649
At 31 March 2014	111,368	88,965	1,668	153	79	-	202,233

(*) The restatement reflects the capitalisation of the costs of Moyle's low voltage return conductor.

Assets derecognised relate to the portion of the existing cable which is no longer in use.

Assets under construction are stated at historical cost less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value 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 entity and the cost of the item can be measured reliably. Assets under construction are not depreciated until commissioned.

Depreciation expense of £9,690,000 (2015: £7,833,000) has been fully charged to operating costs.

Notes to the financial statements for the year ended 31 March 2016

9 Property, plant and equipment (continued)

Borrowings are secured on all of the property, plant and equipment of the group. At 31 March 2016, commitments for the purchase of property, plant and equipment totalled £6,682,000.

Useful economic life

A review of the useful economic life of the interconnector was performed at 31 March 2016. The useful economic life of the Interconnector was revised down from 40 years to 30 years in line with the design life of the asset as stated by the manufacturers. The remaining useful life at 1 April 2015 was revised down from 27 years to 17 years. The change in useful economic life has been recognised prospectively in line with IAS 8 and results in an additional charge of £1,850,000 per year to the statement of comprehensive income, excluding the impact of any impairment adjustments. There was no change to the useful economic life of any other major class of depreciable asset.

Impairment

The group's accounting policy is to assess 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.

Costs of £47.6m to date have been capitalised in relation to the Moyle return conductor works. The strategy of the Moyle interconnector business is to ensure that cash is recovered to ensure full payment of the costs of running the business, including the repayments to the bond holders, as evenly as possible over the lifetime of the business without building up excess cash when the interconnector reaches the end of its useful life. In line with our underlying strategy the board decided it did not need to recover the large expenditure on the recent works through the tariff mechanisms. The effect of doing so means that the cash reserves in Moyle will reduce down towards normal operating levels. This reduction in cash, our intention to manage the cash flows in the business in line with the underlying strategy, and the recent fall in auction prices have led to a large impairment in the value of the asset in the financial statements. The main beneficiaries of the restoration of the Moyle Interconnector will be the shippers and ultimately the electricity consumers in Northern Ireland. The Moyle business will continue to recover only the cash it needs to meet the long term needs of the business.

At 31 March 2016 an impairment review was carried out for the cash-generating unit (which includes the Moyle Interconnector, its control system, and its licence) to determine the recoverable amount, and therefore if any impairment existed. As there is no active market for the Interconnector and no fair value was available, the recoverable amount was calculated based on the Interconnector's value in use.

Key assumptions used to determine the value in use of assets include:

- future auction prices and ancillary income, after taking into consideration asset availability – auction prices are assumed to remain at current levels throughout and ancillary income is expected to reduce with additional interconnection in the UK and Irish markets;
- Contributions from the Use of System charges payable to the Moyle Interconnector - the CAIRt calls are set to maintain cash reserves at normal operating levels;
- timing and quantum of future capital expenditure – completion of the return conductor project during 2016/17 and replacement of Moyle's control system before the end of Moyle's useful economic life; and
- the selection of discount rates to reflect the risks involved (see below).

The values assigned to each of these parameters reflect past experience and expected changes over the timeframe of the business plan. The group prepares and approves formal five-year management plans for its operations, which are used in the calculations. Revenue and costs are extrapolated until the end of the term of the group's debt (which is largely in line with the asset's useful economic life), with adjustments for anticipated material variances.

Notes to the financial statements for the year ended 31 March 2016

9 Property, plant and equipment (continued)

The discount rate used to discount the estimated future cash flows included in the value of use calculation is based on Moyle Interconnectors' estimated current weighted average cost of capital (WACC). This discount rate was calculated by reference to other market borrowing rates and adjusted for the differences in risks faced by the comparators compared with Moyle Interconnector, including country and currency risk.

The recoverable amount is sensitive to the noted assumptions, but most notably to the discount rate used. Where variations in revenue or costs arise the group has the ability under its licence to adjust the use of system charges to consumers (CAIRt call) and as such this dampens the effect of changes in these assumptions. A change of plus or minus 0.5% in the pre-tax discount rate would decrease or increase the recoverable amount by approximately £2,380,000.

The recoverable amount was determined to be £69,327,000 using a real pre-tax adjusted discount rate of 3.8%. This resulted in an impairment loss of £87,048,000 which has been pro-rated over the cash generating unit with £68,019,000 being allocated to property, plant and equipment and £19,029,000 to intangibles (licences) (note 10). The impairment charge of £53,277,000 (£87,048,000 less release of government grant of £33,771,000 (note 21)) has been included within impairment losses in the Statement of Comprehensive Income. A further £2,179,000 impairment in relation to the Platina renewable energy fund (note 12) has also been charged to the Statement of Comprehensive Income giving a net impairment charge of £55,456,000.

Company	Office and computer equipment £'000
Cost	
At 1 April 2014	130
Additions	21
At 31 March 2015	151
Additions	36
At 31 March 2016	**187**
Accumulated depreciation	
At 1 April 2014	83
Provided during the year	38
At 31 March 2015	121
Provided during the year	26
At 31 March 2016	**147**
Net book amount	
At 31 March 2016	**40**
At 31 March 2015	30
At 31 March 2014	47

Depreciation expense of £26,000 (2015: £38,000) 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 2016

10 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2014	-	45,810	45,810
Provided during the year	-	5,550	5,550
At 31 March 2015	-	51,360	51,360
Provided during the year	-	5,550	5,550
Impairment (note 9)	-	19,029	19,029
At 31 March 2016	**-**	**75,939**	**75,939**
Net book amount			
At 31 March 2016	**2,435**	**130,596**	**133,031**
At 31 March 2015	2,435	155,175	157,610
At 31 March 2014	2,435	160,725	163,160

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 35 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 18 years, 36 years and 21 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 (2015: £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 14 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement. The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The discount rate of 3.18% (2015: 3.00%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 14 years. The inflation rate assumption used by the group in these calculations of 4.04% (2015: 3.85%) has been obtained from Bank of England UK yield curves over a 14 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 2016

11 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**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%	Holding company
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
West Transmission Limited	Ordinary shares	100%	Operation of West Transmission pipeline

* held by a subsidiary undertaking

Notes to the financial statements for the year ended 31 March 2016

12 Other investments

Group	£'000
Cost	
At 1 April 2014	11,264
Repayment of capital	(188)
At 31 March 2015	11,076
Impairment	(2,179)
At 31 March 2016	**8,897**

Other investments represent the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III. 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.

The impact of low wholesale electricity prices on renewable energy, as well as the movement in Euro rates since inception indicated the potential existence of impairment in relation to the investment fund. The present value of estimated future cash flows was therefore calculated and discounted at a rate of 8%, based on the real returns of similar portfolios of assets. The present value was determined to be £8,897,000, resulting in an impairment of £2,179,000 which was recognised in the statement of comprehensive income.

13 Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade receivables	**920**	815	**-**	-
Prepayments and accrued income	**9,403**	11,308	**30**	51
Other receivables	**4,827**	6,187	**427**	79
Amounts owed by subsidiary undertakings	**-**	-	**2,880**	2,816
	15,150	18,310	**3,337**	2,946

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.

Amounts owed by subsidiary undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements for the year ended 31 March 2016

14 Financial assets

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash deposits	**13,511**	-	**-**	-

15 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash at bank and in hand	**64,749**	102,422	**1,167**	940

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 0.65%.

16 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.

Notes to the financial statements for the year ended 31 March 2016

17 Retained earnings

Group	£'000
At 1 April 2014	(2,100)
Total comprehensive loss for the year	(2,438)
At 31 March 2015 (as previously reported)	(4,538)
Restatement (*)	3,963
At 31 March 2015 (as restated)	(575)
Total comprehensive loss for the year	(28,557)
At 31 March 2016	**(29,132)**

Company	£'000
At 1 April 2014	(2,592)
Total comprehensive loss for the year	(582)
At 31 March 2015	(3,174)
Total comprehensive loss for the year	(404)
At 31 March 2016	**(3,578)**

Included in the retained earnings for the group is an amount of £1,874,000 (2015: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

(*) The restatement reflects a prior year adjustment to capitalise £5,017,000 expenditure in relation to the Moyle return conductor works which had previously been treated as revenue expenditure. The subsequent tax impact of this was a tax charge of £1,054,000. This adjustment has no impact on the balance sheet or reserves at 1 April 2014.

Notes to the financial statements for the year ended 31 March 2016

18 Borrowings

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Non-current				
5.2022% Guaranteed secured bond	**70,370**	73,993	**-**	-
2.9376% Index linked guaranteed secured bond	**94,976**	102,641	**-**	-
2.207% Index linked guaranteed secured bond	**125,735**	125,446	**-**	-
Amounts owed to group undertakings	**-**	-	**17,721**	16,728
Other borrowings	**-**	4	**-**	-
	291,081	302,084	**17,721**	16,728
Current				
5.2022% Guaranteed secured bond	**3,623**	3,415	**-**	-
2.9736% Index linked guaranteed secured bond	**8,724**	8,681	**-**	-
2.207% Index linked guaranteed secured bond	**1,376**	1,250	**-**	-
	13,723	13,346	**-**	-
Total borrowings	**304,804**	315,430	**17,721**	16,728

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 £120,413,000 (2015: £130,074,000), the 5.2022% bond has a fair value of £102,073,000 (2015: £108,829,000) and the 2.207% index linked bond has a fair value of £158,531,000 (2015: £158,685,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 0.84% (2015: 0.86%) for the 2.9376% index linked bond, a discount rate of 0.82% (2015: 0.84%) for the 5.2022% bond and a discount rate of 0.87% (2015: 0.89%) 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 2016

19 Provisions

Group	Decommissioning provision £'000
At 1 April 2014	3,089
Movement on discount during the year	2
At 31 March 2015	3,091
Movement of discount during the year	110
At 31 March 2016	**3,201**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 16 years, at the end of its useful economic life. This provision is expected to be utilised within 16 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 1.95% (2015: 2.27%) that reflects the maturity profile of the group's provisions.

20 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	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Deferred income tax assets	**7,513**	8,588	**56**	69
Deferred income tax liabilities	**(34,459)**	(47,314)	**-**	-
Deferred income tax (liabilities) / assets – net	**(26,946)**	(38,726)	**56**	69

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 2014	(40,271)	10
Income statement credit for the year	1,545	59
At 31 March 2015	(38,726)	69
Income statement credit/(charge) for the year	11,780	(13)
At 31 March 2016	**(26,946)**	**56**

Notes to the financial statements for the year ended 31 March 2016

20 Deferred income tax (continued)

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2014	(16,901)	(32,145)	8,775	(40,271)
Income statement credit/(charge)for the year	622	1,110	(187)	1,545
At 31 March 2015	(16,279)	(31,035)	8,588	(38,726)
Income statement credit/(charge) for the year	5,327	7,528	(1,075)	11,780
At 31 March 2016	**(10,952)**	**(23,507)**	**7,513**	**(26,946)**

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 £22,508,000 (2015: £29,925,000). 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 £9,995,000 (2015: £14,989,000).

21 Government grants

Group	£'000
At 1 April 2014	70,867
Amortised during the year	(2,708)
At 31 March 2015	68,159
Amortised during the year	(2,046)
Released as a result of impairment *	(33,771)
At 31 March 2016	**32,342**

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 £1,384,000 (2015: £2,708,000), and the non-current portion is £30,958,000 (2015: £65,451,000).

* Moyle Interconnector's government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment and has been treated as deferred income. Following an impairment review in the period, Moyle's property, plant and equipment has been impaired by £68,019,000, which is in excess of its remaining deferred government grant. The deferred government grant income has therefore been released to the statement of comprehensive income, in line with IAS20, in order to ensure the same impact on the statement of comprehensive income as would have been achieved if the grant has been netted with the property, plant and equipment at the outset.

Notes to the financial statements for the year ended 31 March 2016

22 Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**2,411**	4,167	**26**	60
Accruals and deferred income	**12,534**	9,935	**493**	532
Amounts owed to subsidiary undertakings	**-**	-	**-**	33
Other tax and social security	**1,312**	2,246	**188**	52
Other payables	**913**	1,164	**-**	-
	17,170	17,512	**707**	677

The fair value of trade and other payables is not materially different from their carrying value.
Amounts owed to subsidiary undertakings are unsecured, interest free and are repayable on demand.

23 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 4 months from year end, 19, 36 and 84 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	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Not later than one year	**182**	233	**37**	37
After one year but not more than five years	**805**	852	**21**	68
After more than five years	**9,634**	9,831	**-**	-
	10,621	10,916	**58**	105

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

Other financial commitments

Under the terms of the Platina Renewable Energy Fund, PEN III, the group is committed to providing additional funding of €0.6 million by the end 2016.

24 Related party transactions

The ultimate controlling party of the group are its members.

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

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

	Amount owed (to)/from related party	
Company	**2016 £'000**	2015 £'000
Subsidiary undertakings – current assets	**2,880**	2,816
Subsidiary undertakings – current liabilities	**-**	33
Subsidiary undertakings – non-current liabilities	**(17,721)**	(16,728)

Notes to the financial statements for the year ended 31 March 2016

24 Related party transactions (continued)

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	
		2016 £'000	2015 £'000
Subsidiary undertakings	Interest payable	**993**	935
Subsidiary undertakings	Group relief surrendered	**(33)**	(69)
Subsidiary undertakings	Charges receivable	**3,129**	2,974

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

Group	**2016 £'000**	2015 £'000
Short term employee benefits	**516**	530
Long term employee benefits	**83**	86
Post-employment benefits	**104**	68

25 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
Financial assets	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 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.

Notes to the financial statements for the year ended 31 March 2016

25 Financial instruments (continued)

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

Group	£'000
Liability at 1 April 2014	43,877
Fair value adjustment	(938)
Liability at 31 March 2015	42,939
Fair value adjustment	(1,498)
Liability at 31 March 2016	**41,441**

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

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

At 31 March 2016 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	**11,905**	**11,624**	**11,187**	**11,110**	**10,062**	**71,708**	**127,596**
5.2022% Bond and associated derivatives	**7,932**	**8,089**	**8,250**	**8,412**	**8,581**	**85,302**	**126,566**
2.207% Index linked bond	**4,174**	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,959**
Trade and other payables	**15,858**	**-**	**-**	**-**	**-**	**-**	**15,858**
	39,869	**23,970**	**23,780**	**23,951**	**23,161**	**320,248**	**454,979**

At 31 March 2015 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	12,102	11,785	11,507	11,074	10,997	80,945	138,410
5.2022% Bond and associated derivatives	7,698	7,852	8,007	8,167	8,328	92,939	132,991
2.207% Index linked bond	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	15,266	-	-	-	-	-	15,266
	39,106	23,756	23,715	23,527	23,696	339,087	472,887

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 (Financing) plc

Annual report for the year ended
31 March 2016

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
Victoria House
15-17 Gloucester Street
Belfast, BT1 4LS

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 2016

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2016.

General information on the company can be found on page 98 and within note 1 to the financial statements.

Results and dividends

The group's loss for the financial year is £25,730,000 (2015: £2,030,000 profit as restated). The directors do not recommend the payment of a dividend (2015: £nil).

Included in the profit and loss account is an exceptional item in respect of cable fault related costs totalling £Nil (2015: £7,985,000 as restated).

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

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 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.

By order of the Board

Gerard McIlroy
Company secretary
22 June 2016

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

Report on the financial statements

Our opinion

In our opinion:

- Moyle Interconnector Financing plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2016 and of the group's loss and the group's and the 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 company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the group and parent company balance sheets as at 31 March 2016;
- 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the 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.

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.

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements 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.

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

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 99, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
8 July 2016

Group statement of comprehensive income for the year ended 31 March 2016

	Note	2016 £'000	2015 (as restated) £'000
Revenue – continuing operations		**34,622**	24,652
Operating costs	2	**(69,541)**	(17,100)
Earnings before interest, tax, depreciation, amortisation of intangible assets and cable fault related costs (adjusted "EBITDA")		**28,769**	19,243
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(3,935)**	(2,045)
Derecognition of assets		**(4,815)**	-
Impairment losses (net of government grant adjustment)	8	**(53,277)**	-
Exceptional item - cable fault related costs	3	**-**	(7,985)
Operating (loss)/profit		**(34,919)**	7,552
Finance income	5	**1,325**	1,267
Finance costs	5	**(5,014)**	(6,984)
Finance costs - net	5	**(3,689)**	(5,717)
(Loss)/profit before income tax		**(38,608)**	1,835
Income tax credit	6	**12,878**	195
(Loss)/profit for the year attributable to the owners of the parent	15	**(25,730)**	2,030

The notes on pages 106 to 127 are an integral part of these consolidated financial statements.

Group and parent company balance sheet as at 31 March 2016

		Group		Company	
	Note	**2016 £'000**	2015 (as restated) £'000	**2016 £'000**	2015 (as restated) £'000
Assets					
Non-current assets					
Property, plant and equipment	8	**56,674**	91,526	**-**	-
Intangible assets	9	**15,855**	36,545	**-**	-
Investment in subsidiary undertaking	10	**-**	-	**20,950**	20,950
Trade and other receivables	11	**17,721**	17,652	**80,256**	86,794
		90,250	145,723	**101,206**	107,744
Current assets					
Trade and other receivables	12	**7,675**	12,193	**7,565**	7,879
Cash and cash equivalents	13	**31,722**	51,788	**50**	5
		39,397	63,981	**7,615**	7,884
Total assets		**129,647**	209,704	**108,821**	115,628
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	14	**50**	50	**50**	50
Retained earnings	15	**12,905**	38,635	**663**	558
Total equity		**12,955**	38,685	**713**	608
Liabilities					
Non-current liabilities					
Borrowings	16	**94,976**	102,641	**94,976**	102,641
Provisions	17	**3,201**	3,091	**-**	-
Deferred income tax liabilities	18	**3,147**	11,349	**-**	-
Government grant	19	**-**	33,109	**-**	-
		101,324	150,190	**94,976**	102,641
Current liabilities					
Trade and other payables	20	**6,017**	6,424	**4,202**	3,006
Corporation tax payable		**627**	4,400	**206**	692
Borrowings	16	**8,724**	8,681	**8,724**	8,681
Government grant	19	**-**	1,324	**-**	-
		15,368	20,829	**13,132**	12,379
Total liabilities		**116,692**	171,019	**108,108**	115,020
Total equity and liabilities		**129,647**	209,704	**108,821**	115,628

The notes on pages 106 to 127 are an integral part of these consolidated financial statements.

The group financial statements on pages 102 to 127 were authorised for issue by the Board of Directors on 23 June 2016 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Moyle Interconnector (Financing) plc

Registered number: NI045625

Group and parent company statement of changes in equity for the year ended 31 March 2016

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2014	50	36,605	36,655
Total comprehensive loss for the year	-	(1,933)	(1,933)
At 31 March 2015 (as previously reported)	50	34,672	34,722
Restatement (*)	-	3,963	3,963
At 31 March 2015 (as restated)	50	38,635	38,685
Total comprehensive loss for the year	-	(25,730)	(25,730)
At 31 March 2016	**50**	**12,905**	**12,955**

Company		£'000	£'000
At 1 April 2014	50	416	466
Total comprehensive income for the year	-	142	142
At 31 March 2015	50	558	608
Total comprehensive income for the year	-	105	105
At 31 March 2016	**50**	**663**	**713**

The notes on pages 106 to 127 are an integral part of these consolidated financial statements.

(*) The restatement reflects a prior year adjustment to capitalise £5,017,000 expenditure in relation to the replacement of the Moyle low voltage return conductor which had previously been treated as revenue expenditure. The subsequent tax impact of this was a tax charge of £1,054,000. This adjustment has no impact on the balance sheet or reserves at 1 April 2014.

Group and parent company cash flow statements for the year ended 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 (as restated) £'000	**2016 £'000**	2015 £'000
Cash flows from operating activities					
(Loss)/profit before income tax		**(38,608)**	1,835	**3**	(23)
Adjustments for:					
Finance costs – net		**3,689**	5,717	**4,803**	6,898
Insurance receipts		**-**	(4,000)	**-**	-
Depreciation and impairment of property, plant and equipment		**77,431**	3,353	**-**	-
Amortisation and release of government grant		**(34,433)**	(1,324)	**-**	-
Amortisation and impairment of intangible assets		**20,690**	1,661	**-**	-
Movement in trade and other receivables		**3,345**	4,900	**6,547**	5,076
Movement in trade and other payables		**(3,121)**	(2,490)	**(11,030)**	(11,901)
Income tax liabilities received/(paid)		**2,076**	132	**32**	(63)
Net cash generated from/(used in) operating activities		**31,069**	9,784	**355**	(13)
Cash flows from investing activities					
Interest received		**235**	248	**-**	-
Amounts received from related parties		**924**	-	**12,115**	12,588
Purchases of property, plant and equipments		**(39,868)**	(7,775)	**-**	-
Non-operating element of insurance proceeds		**-**	4,000	**-**	-
Net cash (used in)/generated from investing activities		**(38,709)**	(3,527)	**12,115**	12,588
Cash flows from financing activities					
Interest paid (including borrowing fees)		**(3,535)**	(3,778)	**(3,534)**	(3,778)
Repayment of borrowings		**(8,891)**	(8,817)	**(8,891)**	(8,817)
Net cash used in financing activities		**(12,426)**	(12,595)	**(12,425)**	(12,595)
Net (decrease)/increase in cash and cash equivalents		**(20,066)**	(6,338)	**45**	(20)
Cash and cash equivalents at the beginning of the year	13	**51,788**	58,126	**5**	25
Cash and cash equivalents at the end of the year	13	**31,722**	51,788	**50**	5

Effect of exceptional items on net cash generated from/(used in) operating activities:

	Group		Company	
	2016 £'000	2015 (as restated) £'000	**2016 £'000**	2015 £'000
Net cash generated from/(used in) operating activities before exceptional items	**31,649**	16,774	**355**	(13)
Cash flows in respect of exceptional items	**(580)**	(6,990)	**-**	-
Net cash generated from/(used in) operating activities	**31,069**	9,784	**355**	(13)

The notes on pages 106 to 127 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2016

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 23 June 2016 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 113.

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 2016 and applicable to the group and the parent company

There were no standards, amendments and interpretations to published standards effective for the year ended 31 March 2016 that are relevant to the group and parent company's operations.

Standards, amendments and interpretations effective in the year to 31 March 2016 and not applicable to the group or the parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2016 but they are not relevant to the group and parent company's operations:

Amendment to IAS19 Employee benefits on defined benefit plans (1 July 2014).

Notes to the financial statements for the year ended 31 March 2016

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

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and the parent company, but are applicable to the group and the parent company

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 group and parent company's financial statements in the period of initial application.

Amendment to IAS 1 Preparation of financial statements under the disclosure initiative (1 January 2016)

Amendment to IAS 7 Statement of cash flows under the disclosure initiative (1 January 2017) (*)

Amendment to IAS 12 on recognition of deferred tax for unrealised losses (1 January 2017) (*)

Amendment to IAS 16 and IAS 38 on identification of acceptable methods of depreciation and amortisation (1 January 2016)

Amendment to IAS 27 Separate financial statements (1 January 2016)

Amendment to IFRS 10 and IAS 28 on sale or contributions of assets (1 January 2016) (*)

IFRS 9 Financial instruments (1 January 2018) (*)

Amendment to IFRS 11 Joint arrangements on acquisition of interest on a joint operation (1 January 2016)

IFRS 15 Revenue from contracts with customers (1 January 2018) (*)

Amendment to IFRS 15 Revenue from contracts with customers - clarifications (1 January 2018) (*)

IFRS 16 Leases (1 January 2019) (*)

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2016

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 2016. 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 21 years.

Notes to the financial statements for the year ended 31 March 2016

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	30 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.

Investments

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

Impairment of non-financial assets

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

Classification of financial instruments

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

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

Notes to the financial statements for the year ended 31 March 2016

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 2016

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 2016

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Financial risk management

Financial risk factors

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

(a) *Market risk*

The group's interest rate risk arises from its long term borrowings. These borrowings are index linked to the Retail Price Index and expose the company to interest rate risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs, profit and equity during the year by £1,148,000.

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 2016

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

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 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. During the year the useful economic life of the Interconnector was revised down from 40 years to 30 years. The remaining useful life at 1 April 2015 was revised down from 27 years to 17 years. This reduction in useful life is supported by the faults on the Moyle Interconnector and reflects the design life of the asset as stated by the manufacturers. This change in useful life has been recognised prospectively in line with IAS 8.

The remaining useful economic life of the interconnector was determined as approximately 17 years at the beginning of the year. If the remaining useful economic life had been assessed at 18 years' depreciation would have decreased by £278,000 and if the remaining useful economic life had been assessed at 16 years' depreciation would have increased by £313,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 4.17%. The decommissioning provision has been discounted using a rate of 1.95%. 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%	**529**
Decrease in inflation factor by 1%	**(458)**
Increase in discount rate by 1%	**(463)**
Decrease in discount rate by 1%	**547**

(c) *Insurance claim*

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.

(d) *Impairment reviews*

IFRS requires management to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the group's impairment evaluation and hence results. The group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details of the key assumptions and sensitivity are provided in note 8.

Notes to the financial statements for the year ended 31 March 2016

2 Operating costs and other operating income

Group	2016 £'000	2015 (as restated) £'000
Employee benefit expense (note 4)	**423**	244
Depreciation and amortisation	**6,258**	5,030
Derecognition of assets	**4,815**	-
Impairment losses (net of government grant adjustment) (note 8)	**53,277**	-
Amortisation of deferred government grants (note 19)	**(662)**	(1,324)
Operating lease payments	**101**	101
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**23**	15
Fees payable to the company's auditor in respect of taxation services	**33**	-
Other expenses	**5,273**	5,049
Exceptional item – cable fault related costs (note 3)	**-**	7,985
Total operating costs	**69,541**	17,100

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

3 Exceptional item – cable fault related 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.

	2016 £'000	2015 (as restated) £'000
Exceptional item - cable fault related costs	**-**	7,985

Cable fault related costs

Cable fault related costs totaling £Nil (2015: £7,985,000 as restated) comprise the costs directly incurred and expensed directly to the group statement of comprehensive income. These costs address the 2012 subsea fault, including investigating potential repair solutions.

The tax impact of this exceptional item was a current tax credit of £Nil (2015: £1,677,000 as restated).

Notes to the financial statements for the year ended 31 March 2016

4 Employee benefit expense

Group	2016 £'000	2015 £'000
Wages and salaries	**379**	217
Social security costs	**44**	27
	423	244

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 4 (2015: 3). All staff perform asset management activities.

The company had no employees other than its directors (2015: 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	2016 £'00	2015 £'000
Interest expense:		
Borrowings (including borrowing fees)	**4,904**	6,982
Movement of discount on decommissioning provision (note 17)	**110**	2
Finance costs	**5,014**	6,984
Interest income:		
Short-term bank deposits	**(332)**	(332)
Amounts owed by related parties	**(993)**	(935)
Finance income	**(1,325)**	(1,267)
Finance costs – net	**3,689**	5,717

Notes to the financial statements for the year ended 31 March 2016

6 Income tax credit

Group	2016 £'000	2015 (as restated) £'000
Current income tax:		
Current tax on profits for the year	**559**	1,054
Adjustments in respect of prior periods	**(5,235)**	(1,173)
Total current income tax	**(4,676)**	(119)
Deferred income tax:		
Origination and reversal of temporary differences	**(8,595)**	(629)
Adjustments in respect of prior periods	**393**	553
Total deferred income tax (note 18)	**(8,202)**	(76)
Income tax credit	**(12,878)**	(195)

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 20% (2015: 21%). The differences are reconciled below:

	2016 £'000	2015 (as restated) £'000
(Loss)/profit before income tax	**(38,608)**	1,835
Tax calculated at the UK standard rate of corporation tax of 20% (2015: 21%)	**(7,722)**	385
Effects of:		
Expenses not deductible	**4**	9
Reduction in rate of corporation tax on deferred tax assets/liabilities	**(318)**	31
Adjustment in respect of previous periods	**(4,842)**	(620)
Income tax credit	**(12,878)**	(195)

Future tax changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Accordingly the company's taxable profits are taxed at a rate of 20% during the year.

Further reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates.

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 profit dealt with in the financial statements of the parent company is £105,000 (2015: £142,000).

Notes to the financial statements for the year ended 31 March 2016

8 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2014	128,654	3,938	16	132,608
Additions	(755)	-	(16)	(771)
At 31 March 2015 (as previously reported)	127,899	3,938	-	131,837
Restatement – Additions (*)	5,017	-	-	5,017
At 31 March 2015 (as restated)	132,916	3,938	-	136,854
Additions	42,579	-	-	42,579
Derecognition	(7,559)	-	-	(7,559)
At 31 March 2016	**167,936**	**3,938**	**-**	**171,874**
Accumulated depreciation				
At 1 April 2014	39,689	2,270	16	41,975
Provided during the year	3,180	189	-	3,369
Disposals	-	-	(16)	(16)
At 31 March 2015	42,869	2,459	-	45,328
Provided during the year	4,435	162	-	4,597
Derecognition	(2,744)	-	-	(2,744)
Impairment during the year	67,301	718	-	68,019
At 31 March 2016	**111,861**	**3,339**	**-**	**115,200**
Net book amount				
At 31 March 2016	**56,075**	**599**	**-**	**56,674**
At 31 March 2015 (as restated)	90,047	1,479	-	91,526
At 31 March 2015 (as previously reported)	85,030	1,479	-	86,509
At 31 March 2014	88,965	1,668	-	90,633

Depreciation expense of £4,597,000 (2015: £3,369,000) has been fully charged to operating costs. Borrowings are secured on all of the property, plant and equipment of the group.

At 31 March 2016, commitments for the purchase of property, plant and equipment totalled £6,682,000.

(*) The restatement reflects the capitalisation of the costs of Moyle's low voltage return conductor.

Additions relate to the works carried out to date in relation to Moyle Interconnector's subsea return conductor. Assets derecognised relate to the portion of the existing cable which is no longer in use.

Useful economic life

A review of the useful economic life of the interconnector was performed at 31 March 2016. The useful economic life of the Interconnector was revised down from 40 years to 30 years in line with the design life of the asset as stated by the manufacturers. The remaining useful life at 1 April 2015 was revised down from 27 years to 17 years. The change in useful economic life has been recognised prospectively in line with IAS 8 and results in an additional charge of £1,850,000 per year to the statement of comprehensive income, excluding the impact of any impairment adjustments. There was no change to the useful economic life of any other major class of depreciable asset.

Notes to the financial statements for the year ended 31 March 2016

8 Property, plant and equipment (continued)

Impairment

The group's accounting policy is to assess 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.

Costs of £47.6m to date have been capitalised in relation to the Moyle return conductor works. The strategy of the Moyle interconnector business is to ensure that cash is recovered to ensure full payment of the costs of running the business, including the repayments to the bond holders, as evenly as possible over the lifetime of the business without building up excess cash when the interconnector reaches the end of its useful life. In line with our underlying strategy the board decided it did not need to recover the large expenditure on the recent works through the tariff mechanisms. The effect of doing so means that the cash reserves in Moyle will reduce down towards normal operating levels. This reduction in cash, our intention to manage the cash flows in the business in line with the underlying strategy, and the recent fall in auction prices have led to a large impairment in the value of the asset in the financial statements. The main beneficiaries of the restoration of the Moyle Interconnector will be the shippers and ultimately the electricity consumers in Northern Ireland. The Moyle business will continue to recover only the cash it needs to meet the long term needs of the business.

At 31 March 2016 an impairment review was carried out for the cash-generating unit (which includes the Moyle Interconnector, its control system, and its licence) to determine the recoverable amount, and therefore if any impairment existed. As there is no active market for the Interconnector and no fair value was available, the recoverable amount was calculated based on the Interconnector's value in use.

Key assumptions used to determine the value in use of assets include:

- future auction prices and ancillary income, after taking into consideration asset availability – auction prices are assumed to remain at current levels throughout and ancillary income is expected to reduce with additional interconnection in the UK and Irish markets;
- contributions from the Use of System charges payable to the Moyle Interconnector - the CAIRt calls are set to maintain cash reserves at normal operating levels;
- timing and quantum of future capital expenditure – completion of the return conductor project during 2016/17 and replacement of Moyle's control system before the end of Moyle's useful economic life; and
- the selection of discount rates to reflect the risks involved (see below).

The values assigned to each of these parameters reflect past experience and expected changes over the timeframe of the business plan. The group prepares and approves formal five-year management plans for its operations, which are used in the calculations. Revenue and costs are extrapolated until the end of the term of the group's debt (which is largely in line with the asset's useful economic life), with adjustments for anticipated material variances.

The discount rate used to discount the estimated future cash flows included in the value of use calculation is based on Moyle Interconnectors' estimated current weighted average cost of capital (WACC). This discount rate was calculated by reference to other market borrowing rates and adjusted for the differences in risks faced by the comparators compared with Moyle Interconnector, including country and currency risk.

The recoverable amount is sensitive to the noted assumptions, but most notably to the discount rate used. Where variations in revenue or costs arise the group has the ability under its licence to adjust the use of system charges to consumers (CAIRt call) and as such this dampens the effect of changes in these assumptions. A change of plus or minus 0.5% in the pre-tax discount rate would decrease or increase the recoverable amount by approximately £2,380,000.

The recoverable amount was determined to be £69,327,000 using a real pre-tax adjusted discount rate of 3.8%. This resulted in an impairment loss of £87,048,000 which has been pro-rated over the cash generating unit with £68,019,000 being allocated to property, plant and equipment and £19,029,000 to intangibles (licences) (note 9). The impairment charge of £53,277,000 (£87,048,000 less release of government grant of £33,771,000 - note 19) has been included within impairment losses in the Statement of Comprehensive Income.

Notes to the financial statements for the year ended 31 March 2016

9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**56,477**
Accumulated amortisation	
At 1 April 2014	18,271
Provided during the year	1,661
At 31 March 2015	19,932
Provided during the year	1,661
Impairment during the year (note 8)	19,029
At 31 March 2016	**40,622**
Net book amount	
At 31 March 2016	**15,855**
At 31 March 2015	36,545
At 31 March 2014	38,206

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 35 years. The group has concluded that these assets have a remaining useful economic life of 21 years as at 31 March 2016. Amortisation expense of £1,661,000 (2015: £1,661,000) has been fully charged to operating costs.

10 Investment in subsidiary undertaking

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**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 2016

11 Trade and other receivables (non-current)

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Amounts owed by subsidiary undertaking	**-**	-	**87,678**	94,190
Amounts owed by related parties	**17,721**	17,652	**-**	-
	17,721	17,652	**87,678**	94,190
Amounts owed by subsidiary undertaking (current assets)	**-**	-	**(7,422)**	(7,396)
	17,721	17,652	**80,256**	86,794

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 £104,127,000 (2015: £112,659,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.84% (2015: 0.86%) that reflects the maturity profile of the company's loans and receivables.

Amounts owed by related parties are unsecured, are repayable on demand and carry interest at a rate of 4.75%. Amounts owed by subsidiary undertakings are unsecured, are repayable on demand and carry interest at a rate of 3.52%.

12 Trade and other receivables (current)

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Amounts owed by related parties	**36**	1,939	**7,422**	7,727
Prepayments and accrued income	**5,483**	6,317	**143**	150
Other receivables	**2,156**	3,937	**-**	2
	7,675	12,193	**7,565**	7,879

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.

Amounts owed by related parties are unsecured, interest free and are repayable on demand.

Notes to the financial statements for the year ended 31 March 2016

13 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash at bank and in hand	**31,722**	51,788	**50**	5

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 0.3%.

14 Ordinary shares

Group and company	**2016 £'000**	2015 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

15 Retained earnings

Group	**£'000**
At 1 April 2014	36,605
Total comprehensive loss for the year	(1,933)
At 31 March 2015 (as previously reported)	34,672
Restatement (*)	3,963
At 31 March 2015 (as restated)	38,635
Total comprehensive loss for the year	(25,730)
At 31 March 2016	**12,905**

Company	**£'000**
At 1 April 2014	416
Total comprehensive income for the year	142
At 31 March 2015	558
Total comprehensive income for the year	105
At 31 March 2016	**663**

(*) The restatement reflects a prior year adjustment to capitalise £5,017,000 expenditure in relation to the replacement of the Moyle return conductor which had previously been treated as revenue expenditure. The subsequent tax impact of this was a tax charge of £1,054,000. This adjustment has no impact on the balance sheet or reserves at 1 April 2014.

Notes to the financial statements for the year ended 31 March 2016

16 Borrowings

Group and company	2016 £'000	2015 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**94,976**	102,641
Current		
2.9376% Index linked guaranteed secured bond	**8,724**	8,681
Total borrowings	**103,700**	111,322

The 2.9376% guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC and are indexed linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.125% of the outstanding balance of the bond. The fair value of the bond is £120,413,000 (2015: £130,074,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.84% (2015: 0.86%) 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 23.

17 Provisions

Group	Decommissioning provision £'000
At 1 April 2014	3,089
Movement on discount during the year	2
At 31 March 2015	3,091
Movement on discount during the year	110
At 31 March 2016	**3,201**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 16 years, at the end of its useful economic life. This provision is expected to be utilised within 16 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 1.95% (2015: 2.27%) that reflects the maturity profile of the group's provision.

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.

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

Group	£'000
At 1 April 2014	11,425
Income statement credit for the year	(76)
At 31 March 2015	11,349
Income statement credit for the year	(8,202)
At 31 March 2016	**3,147**

Notes to the financial statements for the year ended 31 March 2016

18 Deferred income tax (continued)

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2014	3,784	7,641	11,425
Income statement charge/(credit) for the year	256	(332)	(76)
At 31 March 2015	4,040	7,309	11,349
Income statement credit for the year	(3,747)	(4,455)	(8,202)
At 31 March 2016	**293**	**2,854**	**3,147**

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 £2,555,000 (2015: £6,977,000). 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 £118,000 (2015: £3,708,000).

19 Government grant

Group	£'000
At 1 April 2014	35,757
Amortised during the year	(1,324)
At 31 March 2015	34,433
Amortised during the year	(662)
Released as a result of impairment (*)	(33,771)
At 31 March 2016	**-**

(*) The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment and has been treated as deferred income. Following an impairment review in the period the property, plant and equipment has been impaired by £68,019,000, which is in excess of the remaining deferred government grant. The remaining deferred government grant income of £33,771,000 has therefore been released to the statement of comprehensive income, in line with IAS20, in order to ensure the same impact on the statement of comprehensive income as would have been achieved if the grant has been netted with the property, plant and equipment at the outset. A further £19,029,000 impairment was allocated to the group's intangibles (licenses). The net impact of the impairment and grant release is a £53,277,000 charge to the statement of comprehensive income.

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 £Nil (2015: £1,324,000). The non-current portion is £Nil (2015: £33,109,000).

Notes to the financial statements for the year ended 31 March 2016

20 Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**1,290**	3,521	**-**	12
Amounts owed to related parties	**433**	160	**4,200**	2,990
Accruals and deferred income	**4,294**	2,683	**2**	4
Other payables	**-**	60	**-**	-
	6,017	6,424	**4,202**	3,006

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

Amounts owed by related parties are unsecured, interest free and are repayable on demand.

21 Commitments

Operating lease commitments

The group has entered into a commercial lease on land and this lease has a remaining lease term of 84 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	**2016 £'000**	2015 £'000
Not later than one year	**50**	101
After one year but not more than five years	**404**	404
After more than five years	**8,076**	8,177
	8,530	8,682

Notes to the financial statements for the year ended 31 March 2016

22 Related party transactions

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

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

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

	Amount owed (to)/from related party	
Group	**2016 £'000**	2015 £'000
Parent undertakings – non-current assets	**17,721**	16,728
Fellow subsidiary undertakings – non-current assets	**-**	924
Fellow subsidiary undertakings – current assets	**12**	1,755
Parent undertakings – current assets	**24**	184
Parent undertakings – current liabilities	**(356)**	(151)
Fellow subsidiary undertakings – current liabilities	**(77)**	(9)

		Value of transaction	
Group	**Nature of transaction**	**2016 £'000**	2015 £'000
Parent undertakings	Group relief surrendered	**-**	184
Parent undertakings	Charges payable	**(1,556)**	(1,241)
Parent undertakings	Interest receivable	**993**	935
Fellow subsidiary undertakings	Group relief surrendered	**-**	988
Fellow subsidiary undertakings	Survey and security costs payable	**(71)**	(102)

	Amount owed (to)/from related party	
Company	**2016 £'000**	2015 £'000
Subsidiary undertakings – current liabilities	**(4,200)**	(2,990)
Subsidiary undertakings – non-current assets	**80,256**	86,794
Subsidiary undertakings – current assets	**7,422**	7,396
Fellow subsidiary undertakings – current assets	**-**	331

		Value of transaction	
Company	**Nature of transaction**	**2016 £'000**	2015 £'000
Fellow subsidiary undertakings	Group relief surrendered	**-**	166
Subsidiary undertaking	Interest receivable	**4,810**	6,891

Notes to the financial statements for the year ended 31 March 2016

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 2016 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	**11,905**	**11,624**	**11,187**	**11,110**	**10,062**	**71,708**	**127,596**
Trade and other payables	**6,017**	**-**	**-**	**-**	**-**	**-**	**6,017**
	17,922	**11,624**	**11,187**	**11,110**	**10,062**	**71,708**	**133,613**

At 31 March 2015 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	12,102	11,785	11,507	11,074	10,997	80,945	138,410
Trade and other payables	6,424	-	-	-	-	-	6,424
	18,526	11,785	11,507	11,074	10,997	80,945	144,834

At 31 March 2016 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	**11,905**	**11,624**	**11,187**	**11,110**	**10,062**	**71,708**	**127,596**
Trade and other payables	**4,202**	**-**	**-**	**-**	**-**	**-**	**4,202**
	16,107	**11,624**	**11,187**	**11,110**	**10,062**	**71,708**	**131,798**

At 31 March 2015 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	12,102	11,785	11,507	11,074	10,997	80,945	138,410
Trade and other payables	3,006	-	-	-	-	-	3,006
	15,108	11,785	11,507	11,074	10,997	80,945	141,416

Notes to the financial statements for the year ended 31 March 2016

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.

Moyle Interconnector site, Islandmagee.

premier TRANSMISSION

Premier Transmission Financing plc

Annual report for the year ended
31 March 2016

Directors and advisors

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
Victoria House
15-17 Gloucester Street
Belfast, BT1 4LS

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: NI053751

Directors' report for the year ended 31 March 2016

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2016. General information on the company can be found on page 130 and within note 1 to the financial statements.

Results and dividends

The group's profit for the year is £2,222,000 (2015: £3,515,000). The directors do not recommend the payment of a dividend (2015: £nil).

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

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

Directors' report for the year ended 31 March 2016 (continued)

Statement of directors' responsibilities (continued)

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.

By order of the Board

Gerard McIlroy
Company secretary
23 June 2016

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

Report on the financial statements

Our opinion

In our opinion:

- Premier Transmission Financing Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 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 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.

What we have audited

Premier Transmission Financing plc's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2016;
- the group and parent company balance sheets as at 31 March 2016;
- 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.

Opinions on other matters 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.

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 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 pages 131-132, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

This report, including the opinions, has been prepared for and only for the parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
8 July 2016

Group statement of comprehensive income for the year ended 31 March 2016

		2016			2015		
	Note	**Results before movements in the fair value of derivatives £'000**	**Fair value movement in derivatives £'000**	**Total £'000**	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations		**26,390**	**-**	**26,390**	25,676	-	25,676
Operating costs	2	**(20,394)**	**-**	**(20,394)**	(18,353)	-	(18,353)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**10,082**	**-**	**10,082**	10,782	-	10,782
Amortisation of intangible assets		**(1,402)**	**-**	**(1,402)**	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		**(2,684)**	**-**	**(2,684)**	(2,057)	-	(2,057)
Operating profit		**5,996**	**-**	**5,996**	7,323	-	7,323
Finance income	4	**206**	**-**	**206**	217	-	217
Finance costs	4	**(4,449)**	**-**	**(4,449)**	(4,389)	-	(4,389)
Finance income - for fair value adjustment on derivative financial instruments	4	**-**	**1,498**	**1,498**	-	938	938
Finance (costs)/income – net	4	**(4,243)**	**1,498**	**(2,745)**	(4,172)	938	(3,234)
Profit before income tax		**1,753**	**1,498**	**3,251**	3,151	938	4,089
Income tax credit/(charge)	5	**46**	**(1,075)**	**(1,029)**	(387)	(187)	(574)
Profit for the year attributable to the owners of the parent	16	**1,799**	**423**	**2,222**	2,764	751	3,515

The notes on pages 138 to 158 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 2016

		Group		Company	
		2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**76,447**	78,877	**-**	-
Intangible assets	8	**27,658**	29,060	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**51,307**	51,307
Other investments	10	**2**	2	**-**	-
Trade and other receivables	11	**-**	-	**53,841**	53,296
Deferred income tax assets	18	**7,513**	8,588	**7,513**	8,588
		111,620	116,527	**112,661**	113,191
Current assets					
Trade and other receivables	12	**6,377**	6,767	**17**	67
Financial assets	13	**13,511**	-	**-**	-
Cash and cash equivalents	14	**20,481**	34,340	**1,056**	3,172
		40,369	41,107	**1,073**	3,239
Total assets		**151,989**	157,634	**113,734**	116,430
Equity and liabilities					
Equity and attributable to the owners of the parent					
Ordinary shares	15	**13**	13	**13**	13
Retained earnings	16	**(11,068)**	(13,290)	**(22,330)**	(21,233)
Total equity		**(11,055)**	(13,277)	**(22,317)**	(21,220)
Liabilities					
Non-current liabilities					
Borrowings	17	**70,370**	73,997	**70,370**	73,993
Deferred income tax liabilities	18	**12,370**	14,350	**-**	-
Government grant	19	**24,624**	25,720	**-**	-
Derivative financial statements	23	**41,441**	42,939	**41,441**	42,939
		148,805	157,006	**111,811**	116,932
Current liabilities					
Trade and other payables	20	**9,262**	8,996	**20,617**	17,303
Corporation tax payable		**258**	398	**-**	-
Borrowings	17	**3,623**	3,415	**3,623**	3,415
Government grant	19	**1,096**	1,096	**-**	-
		14,239	13,905	**24,240**	20,718
Total liabilities		**163,044**	170,911	**136,051**	137,650
Total equity and liabilities		**151,989**	157,634	**113,734**	116,430

The notes on pages 138 to 158 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 135 to 158 were authorised for issue by the Board of Directors on 23 June 2016 and were signed on its behalf by:

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

Premier Transmission Financing plc Registered number: NI053751

Group and parent company cash flow statements as at 31 March 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£'000**	£'000	**£'000**	£'000
Cash flows from operating activities					
Profit/(loss) before income tax		**3,251**	4,089	**(297)**	1
Adjustments for:					
Finance costs – net		**2,745**	3,234	**4,310**	4,272
Depreciation of property, plant and equipment		**3,780**	3,153	**-**	-
Amortisation of government grants		**(1,096)**	(1,096)	**-**	-
Amortisation of intangible assets		**1,402**	1,402	**-**	-
Movement in trade and other receivables		**390**	(1,759)	**(506)**	(1,324)
Movement in trade and other payables		**2,186**	1,767	**(3,496)**	(3,060)
Income tax paid		**(3,342)**	(126)	**-**	-
Net cash generated from/(used in) operating activities		**9,316**	10,664	**11**	(111)
Cash flows from investing activities					
Interest received		**206**	217	**3**	10
Investment in financial assets		**(13,511)**	-	**-**	-
Amounts received from related parties		**-**	-	**5,598**	7,774
Purchase of property, plant and equipment		**(2,006)**	(925)	**-**	-
Net cash (used in)/generated from investing activities		**(15,311)**	(708)	**5,601**	7,784
Cash flows from financing activities					
Interest paid		**(2,814)**	(2,875)	**(2,678)**	(2,768)
Repayment of borrowing		**(5,050)**	(4,732)	**(5,050)**	(4,732)
Net cash used in financing activities		**(7,864)**	(7,607)	**(7,728)**	(7,500)
Movement in cash and cash equivalents		**(13,859)**	2,349	**(2,116)**	173
Cash and cash equivalents at the beginning of the year	14	**34,340**	31,991	**3,172**	2,999
Cash and cash equivalents at the end of the year	14	**20,481**	34,340	**1,056**	3,172

The notes on pages 138 to 158 are an integral part of these consolidated financial statements

Notes to the financial statements for the year ended 31 March 2016

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 23 June 2016 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 145.

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 2016 and that are relevant to the group and parent company

There were no standards, amendments and interpretations to published standards effective for the year ended 31 March 2016 that are relevant to the group and parent company's operations.

Notes to the financial statements for the year ended 31 March 2016

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

Standards, amendments and interpretations effective in the year to 31 March 2016 and not applicable to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2016 but they are not relevant to the group and parent company's operations:

Amendment to IAS19 Employee benefits on defined benefit plans (1 July 2014)

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and parent company, but are applicable to the group and parent company.

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 group and parent company's financial statements in the period of initial application.

Amendment to IAS 1 Preparation of financial statements under the disclosure initiative (1 January 2016)

Amendment to IAS 7 Statement of cash flows under the disclosure initiative (1 January 2017) (*)

Amendment to IAS 12 on recognition of deferred tax for unrealised losses (1 January 2017) (*)

Amendment to IAS 16 and IAS 38 on identification of acceptable methods of depreciation and amortisation (1 January 2016)

Amendment to IAS 27 Separate financial statements (1 January 2016)

Amendment to IFRS 10 and IAS 28 on sale or contributions of assets (1 January 2016) (*)

IFRS 9 Financial instruments (1 January 2018) (*)

Amendment to IFRS 9 on general hedge accounting (1 January 2018) (*)

Amendment to IFRS 11 Joint arrangements on acquisition of interest on a joint operation (1 January 2016)

IFRS 15 Revenue from contracts with customers (1 January 2018) (*)

Amendment to IFRS 15 Revenue from contracts with customers - clarifications (1 January 2018) (*)

IFRS 16 Leases (1 January 2019) (*)

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2016

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 2016. 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 amendment to IFRS 9 on general hedge accounting (1 January 2018) (not yet endorsed by EU), the group 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 2016

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 18 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 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.

Notes to the financial statements for the year ended 31 March 2016

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

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.

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.

(c) Financial assets

Financial assets includes deposits with banks which have original maturities of more than three months.

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.

Notes to the financial statements for the year ended 31 March 2016

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 2016

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 23.

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).

Notes to the financial statements for the year ended 31 March 2016

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

Fair value estimation (continued)

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

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

Critical accounting estimates and judgements

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

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

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 24.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 25.5 years, depreciation would have decreased by £123,000 and if the remaining useful economic life had been assessed at 23.5 years, depreciation would have increased by £133,000.

Notes to the financial statements for the year ended 31 March 2016

2 Expenses by nature – operating costs

Group	2016 £'000	2015 £'000
Employee benefit expenses (note 3)	**357**	298
Depreciation and amortisation	**5,182**	4,555
Amortisation of deferred government grant	**(1,096)**	(1,096)
Operating lease payments	**81**	79
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	**14**	18
Other expenses	**15,856**	14,499
Total operating costs	**20,394**	18,353

Other expenses include grid control costs, engineering works, IT system costs, rates, insurance, licence fees, administrative costs and costs payable to Gas Networks Ireland (UK) for access to the SWOS pipeline.

3 Employee benefit expense

Group	2016 £'000	2015 £'000
Wages and salaries	**321**	268
Social security costs	**36**	30
	357	298

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 7 (2015: 6). All staff perform asset management activities.

The company had no employees other than its directors (2015: 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 2016

4 Finance income and costs

Group	2016 £'000	2015 £'000
Interest expense:		
Borrowings (including borrowing fees)	**4,313**	4,282
Short-term bank deposits	**136**	107
Finance costs	**4,449**	4,389
Interest income:		
Short-term bank deposits	**(206)**	(217)
Fair value adjustment in respect of financial instruments (note 22)	**(1,498)**	(938)
Finance income	**(1,704)**	(1,155)
Finance costs – net	**2,745**	3,234

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 charge

Group	2016 £'000	2015 £'000
Current income tax:		
Current tax on profit for the year	**649**	564
Group relief claimed	**340**	292
Adjustments in respect of previous periods	**945**	303
Total current income tax	**1,934**	1,159
Deferred income tax:		
Origination and reversal of temporary difference	**(1,895)**	(491)
Arising on derivative financial instruments	**1,075**	187
Adjustments in respect of previous periods	**(85)**	(281)
Total deferred income tax (note 18)	**(905)**	(585)
Income tax charge	**1,029**	574

Notes to the financial statements for the year ended 31 March 2016

5 Income tax charge (continued)

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 20% (2015: 21%). The differences are reconciled below:

	2016 £'000	2015 £'000
Profit before income tax	**3,251**	4,089
Tax calculated at the UK standard rate of corporation tax of 20% (2015: 21%)	**650**	859
Effects of:		
Reduction in rate of corporation tax on deferred tax assets and liabilities	**(540)**	14
Treatment of indexation of borrowings	**59**	(321)
Adjustments in respect of previous periods	**860**	22
Income tax charge	**1,029**	574

Future tax changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Accordingly the company's taxable profits are taxed at a rate of 20% during the year.

Further reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates.

6 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 £1,097,000 (2015: profit of £1,134,000).

Notes to the financial statements for the year ended 31 March 2016

7 Property, plant and equipment

Group	Pipeline £'000	Property, plant and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 April 2014	108,584	77	238	108,899
Additions	-	-	1,618	1,618
Disposals	-	-	(235)	(235)
At 31 March 2015	108,584	77	1,621	110,282
Additions	-	-	1,350	1,350
At 31 March 2016	**108,584**	**77**	**2,971**	**111,632**
Accumulated depreciation				
At 1 April 2014	28,248	1	238	28,487
Provided during the year	3,148	5	-	3,153
Disposals	-	-	(235)	(235)
31 March 2015	31,396	6	3	31,405
Provided during the year	3,148	5	627	3,780
At 31 March 2016	**34,544**	11	**630**	**35,185**
Net book amount				
At 31 March 2016	**74,040**	**66**	**2,341**	**76,447**
At 31 March 2015	77,188	71	1,618	78,877
At 31 March 2014	80,336	76	-	80,412

Depreciation expense of £3,780,000 (2015: £3,153,000) 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 2016

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**2,435**	**40,645**	**43,080**
Accumulated amortisation			
At 1 April 2014	-	12,618	12,618
Provided during the year	-	1,402	1,402
31 March 2015	-	14,020	14,020
Provided during the year	-	1,402	1,402
At 31 March 2016	-	**15,422**	**15,422**
Net book amount			
At 31 March 2016	**2,435**	**25,223**	**27,658**
At 31 March 2015	2,435	26,625	29,060
At 31 March 2014	2,435	28,027	30,462

Amortisation expenses of £1,402,000 (2015: £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 of 18 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 14 years, which matches the remaining duration of the group's bond. The key assumptions, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The discount rate of 3.18% (2015: 3.00%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 14 years. The inflation rate assumption used by the group in these calculations of 4.04% (2015: 3.85%) has been obtained from Bank of England yield curves over a 14 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 2016

9 Investment in subsidiary undertakings

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**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 1 April 2014	-
Additions	2
At 31 March 2015 and **at 31 March 2016**	**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	2016 £'000	2015 £'000
Amounts owed by related parties	**53,841**	53,296

The amounts owed by related parties relate to a 2.953% index linked (linked to the Retail Price Index) unsecured loan to the company's subsidiary undertaking. These amounts are receivable in full on 31 March 2030.

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 £68,993,000 (2015: £69,145,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.82% (2015: 0.84%) that reflects the maturity profile of the company's loans and receivables.

Notes to the financial statements for the year ended 31 March 2016

12 Trade and other receivables (current)

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade receivables	**737**	590	**-**	-
Amounts owed by related parties	**23**	27	**-**	10
Prepayments and accrued income	**3,617**	4,139	**17**	46
Other receivables	**2,000**	2,011	**-**	11
	6,377	6,767	**17**	67

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.

Amounts owed by related parties are unsecured, interest free, and are repayable on demand.

13 Financial assets

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash deposits	**13,511**	-	**-**	-

14 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash at bank and in hand	**20,481**	34,340	**1,056**	3,172

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 0.65%.

15 Ordinary shares

Group and Company	**2016 £'000**	2015 £'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 2016

16 Retained earnings

Group	£'000
At 1 April 2014	(16,805)
Total comprehensive income for the year	3,515
At 31 March 2015	(13,290)
Total comprehensive income for the year	2,222
At 31 March 2016	**(11,068)**

Company	£'000
At 1 April 2014	(22,367)
Total comprehensive income for the year	1,134
At 31 March 2015	(21,233)
Total comprehensive loss for the year	(1,097)
At 31 March 2016	**(22,330)**

Included in the retained earnings for the group is an amount of £1,874,000 (2015: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

17 Borrowings

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Non current				
5.2022% Guaranteed secured bond	**70,370**	73,993	**70,370**	73,993
Other borrowings	**-**	4	**-**	-
	70,370	73,997	**70,370**	73,993
Current				
5.2022% Guaranteed secured bond	**3,623**	3,415	**3,623**	3,415
	73,993	77,412	**73,993**	77,408

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 £102,073,000 (2015: £108,829,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.82% (2015: 0.84%) 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.

Notes to the financial statements for the year ended 31 March 2016

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		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Deferred income tax assets	**7,513**	8,588	**7,513**	8,588
Deferred income tax liabilities	**(12,370)**	(14,350)	**-**	-
Deferred income tax (liabilities)/assets - net	**(4,857)**	(5,762)	**7,513**	8,588

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

	Group £'000	**Company £'000**
At 1 April 2014	(6,347)	8,775
Income statement credit/(charge) for the year	585	(187)
At 31 March 2015	(5,762)	8,588
Income statement credit/(charge) for the year	905	(1,075)
At 31 March 2016	**(4,857)**	**7,513**

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 2014	(9,517)	(5,605)	8,775	(6,347)
Income statement credit/(charge) for the year	492	280	(187)	585
At 31 March 2015	(9,025)	(5,325)	8,588	(5,762)
Income statement credit/(charge) for the year	1,195	785	(1,075)	905
At 31 March 2016	**(7,830)**	**(4,540)**	**7,513**	**(4,857)**

Company	**Derivative financial instruments £'000**
At 1 April 2014	8,775
Income statement charge for the year	(187)
At 31 March 2015	8,588
Income statement charge for the year	(1,075)
At 31 March 2016	**7,513**

Notes to the financial statements for the year ended 31 March 2016

18 Deferred income tax (continued)

It is not possible to determine the portion of the deferred tax asset arising from the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £4,288,000 (2015: £5,045,000). 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 £7,312,000 (2015: £8,308,000).

19 Government grant

Group	£'000
At 1 April 2014	27,912
Amortised during the year	(1,096)
At 31 March 2015	26,816
Amortised during the year	(1,096)
At 31 March 2016	**25,720**

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 (2015: £1,096,000) and the non-current portion is £24,624,000 (2015: £25,720,000).

20 Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**66**	577	**-**	7
Amounts owed to related parties	**924**	1,132	**19,694**	16,373
Accruals and deferred income	**6,750**	5,235	**8**	3
Other tax and social security	**607**	941	**-**	-
Other payables	**915**	1,111	**915**	920
	9,262	8,996	**20,617**	17,303

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

Amounts owed to related parties are unsecured, interest free, and are repayable on demand.

Notes to the financial statements for the year ended 31 March 2016

21 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 19 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	2016 £'000	2015 £'000
Not later than one year	**81**	81
After one year but not more than five years	**323**	323
After more than five years	**1,128**	1,210
	1,532	1,614

22 Related party transactions

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

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

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

	Amount owed (to)/from related party	
Group	2016 £'000	2015 £'000
Parent undertakings – current liabilities	**(383)**	(363)
Fellow subsidiary undertaking – current liabilities	**(541)**	(769)
Fellow subsidiary undertaking – current assets	**23**	27

	Nature of Transaction	Value of transaction	
Group		2016 £'000	2015 £'000
Parent undertakings	Charges payable	**(1,048)**	(1,031)
Fellow subsidiary undertaking	Charges payable	**(1,050)**	(1,442)
Parent undertakings	Group relief claimed	**(165)**	(252)
Fellow subsidiary undertakingassets	Group relief claimed	**(1,525)**	(414)

	Amount owed (to)/from related party	
Company	2016 £'000	2015 £'000
Fellow subsidiary undertaking – current assets	**-**	10
Subsidiary undertakings – non-current assets	**53,841**	53,296
Subsidiary undertaking – current liabilities	**(19,694)**	(16,373)

Notes to the financial statements for the year ended 31 March 2016

22 Related party transactions (continued)

Company	Nature of transaction	Value of transaction 2016 £'000	2015 £'000
Subsidiary undertaking	Group relief (claimed)/surrendered	**(170)**	382
Subsidiary undertaking	Interest receivable	**4,074**	4,331
Fellow subsidiary undertaking	Group relief claimed	**(995)**	-

23 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 (excluding prepayments)	Loans and receivables
Financial assets	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 (excluding taxes and deferred income)	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 2014	43,877
Fair value adjustment	(938)
Liability at 31 March 2015	42,939
Fair value adjustment	(1,498)
Liability at 31 March 2016	**41,441**

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 2016

23 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 2016 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	**7,932**	**8,089**	**8,250**	**8,412**	**8,581**	**85,302**	**126,566**
Trade and other payables	**8,655**	**-**	**-**	**-**	**-**	**-**	**8,655**
	16,587	**8,089**	**8,250**	**8,412**	**8,581**	**85,302**	**135,221**

At 31 March 2015 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	7,698	7,852	8,007	8,167	8,328	92,939	132,991
Trade and other payables	8,055	-	-	-	-	-	8,055
	15,753	7,852	8,007	8,167	8,328	92,939	141,046

At 31 March 2016 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	**7,932**	**8,089**	**8,250**	**8,412**	**8,581**	**85,302**	**126,566**
Trade and other payables	**20,617**	**-**	**-**	**-**	**-**	**-**	**20,617**
	28,549	**8,089**	**8,250**	**8,412**	**8,581**	**85,302**	**147,183**

At 31 March 2015 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	7,698	7,852	8,007	8,167	8,328	92,939	132,991
Trade and other payables	17,303	-	-	-	-	-	17,303
	25,001	7,852	8,007	8,167	8,328	92,939	150,294

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.

24 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

Belfast Gas Transmission Financing plc

Annual report
for the year ended 31 March 2016

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
Victoria House
15-17 Gloucester Street
Belfast, BT1 4LS

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 2016

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2016.

General information on the company can be found on page 160 and within note 1 to the financial statements.

Results and dividends

The group's loss for the year is £2,554,000 (2015: £3,446,000). The directors do not recommend the payment of a dividend (2015: £nil).

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

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.

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.

Directors' report for the year ended 31 March 2016 (continued)

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.

By order of the Board

Gerard McIlroy
Company secretary
23 June 2016

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

Report on the financial statements

Our opinion

In our opinion:

- Belfast Gas Transmission Financing plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 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 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.

What we have audited

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the group and parent company balance sheets as at 31 March 2016;
- 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the 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.

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.

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 pages 161-162, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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.

What an audit of financial statements involves

We conducted our audit in accordance with 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
8 July 2016

Group statement of comprehensive income for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue – continuing operations		**7,085**	6,982
Operating costs	2	**(6,161)**	(6,210)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**4,369**	4,218
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(958)**	(959)
Operating profit		**924**	772
Finance income	4	**53**	55
Finance costs	4	**(4,794)**	(4,529)
Finance costs - net	4	**(4,741)**	(4,474)
Loss before income tax		**(3,817)**	(3,702)
Income tax credit	5	**1,263**	256
Loss for the year attributable to the owners of the parent	13	**(2,554)**	(3,446)

The notes on pages 168 to 185 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 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**28,616**	29,862	**-**	-
Intangible assets	8	**89,519**	92,006	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
		118,135	121,868	**112,384**	112,384
Current assets					
Trade and other receivables	10	**1,106**	1,449	**22,634**	23,865
Cash and cash equivalents	11	**9,208**	12,899	**15**	1
		10,314	14,348	**22,649**	23,866
Total assets		**128,449**	136,216	**135,033**	136,250
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	**50**	50	**50**	50
Retained earnings	13	**(25,628)**	(23,074)	**7,867**	8,520
Total equity		**(25,578)**	(23,024)	**7,917**	8,570
Liabilities					
Non-current liabilities					
Borrowings	14	**125,735**	125,446	**125,735**	125,446
Deferred income tax liabilities	15	**19,008**	21,694	**-**	-
Government grant	16	**6,334**	6,622	**-**	-
		151,077	153,762	**125,735**	125,446
Current liabilities					
Trade and other payables	17	**1,286**	3,940	**5**	984
Borrowings	14	**1,376**	1,250	**1,376**	1,250
Government grant	16	**288**	288	**-**	-
		2,950	5,478	**1,381**	2,234
Total liabilities		**154,027**	159,240	**127,116**	127,680
Total equity and liabilities		**128,449**	136,216	**135,033**	136,250

The notes on pages 168 to 185 are an integral part of these consolidated financial statements.

The group financial statements on pages 165 to 185 were authorised for issue by the Board of Directors on 23 June 2016 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Belfast Gas Transmission Financing plc

Registered No. NI067348

Group and parent company cash flow statements for the year ended 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash flows from operating activities					
Loss before income tax		**(3,817)**	(3,702)	**-**	-
Adjustments for:					
Finance costs/(income) - net		**4,741**	4,474	**(14)**	(13)
Depreciation of property, plant and equipment		**1,246**	1,247	**-**	-
Amortisation of government grant		**(288)**	(288)	**-**	-
Amortisation of intangible assets		**2,487**	2,487	**-**	-
Movement in trade and other receivables		**419**	(511)	**(25)**	(1,370)
Movement in trade and other payables		**(1,673)**	1,125	**1**	(8)
Income tax (paid)/received		**(2,533)**	644	**(548)**	644
Net cash generated from/(used in) operating activities		**582**	5,476	**(586)**	(747)
Cash flows from investing activities					
Interest received		**53**	55	**-**	4
Amounts received from related parties		**-**	-	**4,926**	4,191
Net cash generated from investing activities		**53**	55	**4,926**	4,195
Cash flows from financing activities					
Interest paid		**(3,060)**	(3,106)	**(3,060)**	(3,053)
Repayment of borrowings		**(1,266)**	(1,145)	**(1,266)**	(1,145)
Net cash used in financing activities		**(4,326)**	(4,251)	**(4,326)**	(4,198)
Movement in cash and cash equivalents		**(3,691)**	1,280	**14**	(750)
Cash and cash equivalents at the beginning of the year	11	**12,899**	11,619	**1**	751
Cash and cash equivalents at the end of the year	11	**9,208**	12,899	**15**	1

The notes on pages 168 to 185 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2016

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 23 June 2016 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 174.

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.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2016 and applicable to the group and the parent company

There were no standards, amendments and interpretations to published standards effective for the year ended 31 March 2016 that are relevant to the group and parent company's operations.

Standards, amendments and interpretations effective in the year to 31 March 2016 and not applicable to the group and the parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2016 but they are not relevant to the group and parent company's operations:

Amendment to IAS19 Employee benefits on defined benefit plans (1 July 2014)

Notes to the financial statements for the year ended 31 March 2016

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

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and the parent company, but are applicable to the group and the parent company

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 group and parent company's financial statements in the period of initial application.

Amendment to IAS 1 Preparation of financial statements under the disclosure initiative (1 January 2016)

Amendment to IAS 7 Statement of cash flows under the disclosure initiative (1 January 2017) (*)

Amendment to IAS 12 on recognition of deferred tax for unrealised losses (1 January 2017) (*)

Amendment to IAS 16 and IAS 38 on identification of acceptable methods of depreciation and amortisation (1 January 2016)

Amendment to IAS 27 Separate financial statements (1 January 2016)

Amendment to IFRS 10 and IAS 28 on sale or contributions of assets (1 January 2016) (*)

IFRS 9 Financial instruments (1 January 2018) (*)

Amendment to IFRS 11 Joint arrangements on acquisition of interest on a joint operation (1 January 2016)

IFRS 15 Revenue from contracts with customers (1 January 2018) (*)

Amendment to IFRS 15 Revenue from contracts with customers - clarifications (1 January 2018) (*)

IFRS 16 Leases (1 January 2019) (*)

* Not yet endorsed by the EU.

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 2016. 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.

Notes to the financial statements for the year ended 31 March 2016

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

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised over the period for which capacity is provided, using a straight line basis over the term of the agreement. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The remaining estimated useful lives of the licences are 36 years.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs.

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

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

Pipeline	31 years
Plant and machinery	15 years

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

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

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

Investments

Investments are recorded at cost less provision for impairment.

Impairment of non-financial assets

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

Notes to the financial statements for the year ended 31 March 2016

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

Classification of financial assets

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.

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.

Notes to the financial statements for the year ended 31 March 2016

1 Accounting policies, financial risk management and 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.

Notes to the financial statements for the year ended 31 March 2016

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

Government grants

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

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

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

Operating lease commitments

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

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 £1,294,000.

Under the terms of its licence agreement the group receives sufficient revenue to settle its operating costs and its repayments of borrowings. Accordingly the group does not need to actively manage its exposure to interest rate risk.

(b) Credit risk

The group has limited exposure to credit risk as its customers are high profile gas suppliers, who are reliant on the use of the group's transmission assets. Given the nature of the industry in which the group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

Notes to the financial statements for the year ended 31 March 2016

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

Financial risk management (continued)

(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 24 years at the beginning of the year. If the remaining useful economic life had been assessed at 25 years depreciation would have decreased by £50,000 and if the remaining useful economic life had been assessed at 23 years depreciation would have increased by £54,000.

Notes to the financial statements for the year ended 31 March 2016

2 Expenses by nature – operating costs

Group	2016 £'000	2015 £'000
Depreciation and amortisation	**3,733**	3,734
Amortisation of deferred government grant	**(288)**	(288)
Operating lease payments	**14**	14
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**11**	10
Other expenses	**2,691**	2,740
Total operating costs	**6,161**	6,210

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 (2015: none). The group's directors were not remunerated for their services to the group (2015: £nil) but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between services as a director of the group and services as a director of other group companies.

4 Finance income and costs

Group	2016 £'000	2015 £'000
Interest expense:		
Short term bank deposits	**53**	53
Borrowing (including borrowing fees)	**4,741**	4,476
Finance costs	**4,794**	4,529
Interest income:		
Short-term bank deposits	**(53)**	(55)
Finance income	**(53)**	(55)
Finance costs - net	**4,741**	4,474

Notes to the financial statements for the year ended 31 March 2016

5 Income tax credit

Group	2016 £'000	2015 £'000
Current income tax:		
Group relief surrendered	**(190)**	(188)
Adjustments in respect of previous periods	**1,613**	745
Total current income tax	**1,423**	557
Deferred income tax:		
Origination and reversal of temporary differences	**(2,686)**	(561)
Adjustments in respect of previous periods	**-**	(252)
Total deferred income tax (note 15)	**(2,686)**	(813)
Income tax credit	**(1,263)**	(256)

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 20% (2015: 21%). The differences are reconciled below:

	2016 £'000	2015 £'000
Loss before income tax	**(3,817)**	(3,702)
Tax calculated at the UK standard rate of corporation tax of 20% (2015: 21%)	**(763)**	(777)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	**(2,113)**	28
Adjustments in respect of previous periods	**1,613**	493
Income tax credit	**(1,263)**	(256)

Future tax changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Accordingly the company's taxable profits are taxed at a rate of 20% during the year.

Further reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates.

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 loss dealt with in the financial statements of the parent company is £653,000 (2015: £401,000 profit).

Notes to the financial statements for the year ended 31 March 2016

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**38,480**	**80**	**38,560**
Accumulated depreciation			
At 1 April 2014	7,448	3	7,451
Provided during the year	1,241	6	1,247
At 31 March 2015	8,689	9	8,698
Provided during the year	1,241	5	1,246
At 31 March 2016	**9,930**	**14**	**9,944**
Net book amount			
At 31 March 2016	**28,550**	**66**	**28,616**
At 31 March 2015	29,791	71	29,862
At 31 March 2014	31,032	77	31,109

Depreciation expense of £1,246,000 (2015: £1,247,000) 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 2016

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**109,413**
Accumulated amortisation	
At 1 April 2014	14,920
Provided during the year	2,487
At 31 March 2015	17,407
Provided during the year	2,487
At 31 March 2016	**19,894**
Net book amount	
At 31 March 2016	**89,519**
At 31 March 2015	92,006
At 31 March 2014	94,493

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 2016, of 36 years.

Amortisation expense of £2,487,000 (2015: £2,487,000) has been fully charged to operating costs.

9 Investment in subsidiary undertaking

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**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 2016

10 Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade receivables	**198**	254	**-**	-
Amounts owed by related parties	**639**	462	**22,520**	23,743
Prepayments and accrued income	**269**	733	**114**	122
	1,106	1,449	**22,634**	23,865

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.

Amounts owed by related parties are unsecured and repayable on demand. Included within amounts owed by related parties is an amount of £21,881,000 which carries interest at a rate of 2.207%. All other amounts owed to related parties are interest free.

11 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash at bank and in hand	**9,208**	12,899	**15**	1

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	**2016 £'000**	2015 £'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 2016

13 Retained earnings

Group	£'000
At 1 April 2014	(19,628)
Total comprehensive loss for the year	(3,446)
At 31 March 2015	(23,074)
Total comprehensive loss for the year	(2,554)
At 31 March 2016	**(25,628)**

Company	£'000
At 1 April 2014	8,119
Total comprehensive income for the year	401
At 31 March 2015	8,520
Total comprehensive loss for the year	(653)
At 31 March 2016	**7,867**

14 Borrowings

Group and company	2016 £'000	2015 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**125,735**	125,446
Current		
2.207% Index linked guaranteed secured bond	**1,376**	1,250
Total borrowings	**127,111**	126,696

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 £158,531,000 (2015: £158,685,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.87% (2015: 0.89%) 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 2016

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2014	22,507
Income statement credit for the year	(813)
At 31 March 2015	21,694
Income statement credit for the year	(2,686)
At 31 March 2016	**19,008**

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 2014	3,609	18,898	22,507
Income statement credit for the year	(316)	(497)	(813)
At 31 March 2015	3,293	18,401	21,694
Income statement credit for the year	(398)	(2,288)	(2,686)
At 31 March 2016	**2,895**	**16,113**	**19,008**

The group and company have £11,027,166 (2015: £5,711,310) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £1,984,890 (2015: £1,142,262) 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 £15,665,000 (2015: £17,903,000). 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 £2,834,000 (2015: £1,773,000).

Notes to the financial statements for the year ended 31 March 2016

16 Government grant

Group	£'000
At 1 April 2014	7,198
Amortised during the year	(288)
At 31 March 2015	6,910
Amortised during the year	(288)
At 31 March 2016	**6,622**

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 (2015: £288,000) and the non-current portion is £6,334,000 (2015: £6,622,000).

17 Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'00**	2015 £'000
Trade payables	**24**	6	**-**	-
Amounts owed to related parties	**447**	2,417	**-**	980
Other tax and social security	**522**	1,248	**-**	-
Other payables	**5**	5	**-**	-
Accruals and deferred income	**288**	264	**5**	4
	1,286	3,940	**5**	984

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

Amounts owed to related parties are unsecured, interest free and are repayable on demand.

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	**2016 £'000**	2015 £'000
Not later than one year	**14**	14
After one year but not more than five years	**57**	57
After five years	**430**	444
	501	515

Notes to the financial statements for the year ended 31 March 2016

19 Related party transactions

The ultimate controlling parties of the group are the members of Mutual Energy Limited.

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

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

	Amount owed (to)/from related party	
Group	**2016 £'000**	2015 £'000
Parent undertakings – current assets	**50**	50
Fellow subsidiary undertakings – current assets	**589**	412
Parent undertakings – current liabilities	**(60)**	(18)
Fellow subsidiary undertakings – current liabilities	**(387)**	(2,399)

		Value of transaction	
Group	**Nature of transaction**	**2016 £'000**	2015 £'000
Parent undertakings	Charges payable	**(280)**	(257)
Fellow subsidiary undertakings	Group relief claimed	**(1,423)**	(557)
Fellow subsidiary undertakings	Charges payable	**(1,228)**	(1,503)

	Amount owed (to)/from related party	
Company	**2016 £'000**	2015 £'000
Subsidiary undertaking – current assets	**21,881**	23,281
Fellow subsidiary undertaking – current liabilities	**-**	(980)
Parent undertaking – current assets	**50**	50
Fellow subsidiary undertakings – current assets	**589**	412

		Value of transaction	
Company	**Nature of transaction**	**2016 £'000**	2015 £'000
Fellow subsidiary undertakings	Group relief claimed	**(1,405)**	(557)
Subsidiary undertaking	Group relief surrendered	**752**	959
Subsidiary undertaking	Interest receivable	**4,755**	4,485

Notes to the financial statements for the year ended 31 March 2016

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 2016 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	**4,174**	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,959**
Trade and other payables	**764**	**-**	**-**	**-**	**-**	**-**	**764**
	4,938	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**185,723**

At 31 March 2015 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	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	2,692	-	-	-	-	-	2,692
	6,732	4,119	4,201	4,286	4,371	165,203	188,912

At 31 March 2016 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	**4,174**	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,959**
Trade and other payables	**5**	**-**	**-**	**-**	**-**	**-**	**5**
	4,179	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,964**

At 31 March 2015 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	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	984	-	-	-	-	-	984
	5,024	4,119	4,201	4,286	4,371	165,203	187,204

Notes to the financial statements for the year ended 31 March 2016

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.